Management accounting of the future
From profit maximization to value optimization

UNSD Scoping Workshop on the SEEA & Business Accounting
New York, October 16th & 17th, 2019
Ionut-Neculai Pester
Today’s business environment
Instabilities jeopardize economic growth

Trade conflicts
Human Rights
Social tensions
Distribution of wealth
Forced migration
Limited natural resources
Deforestation
Air pollution
Extreme weather events
Waste
Water pollution

value balancing alliance
Future business environment

What story to tell our children?

“Yes, the planet got destroyed, but for a beautiful moment in time we created a lot of value for shareholders.”
The sweet spot for business
Satisfying basic needs in the planetary boundaries

Kate Raworth, 2012
**Impact measurement and valuation**

Assess the total value created by business

- **Yardstick:** How do business activities affect the well-being of people?
- **Metric:** Monetary unit for pre-financial and financial aspects
- **Impact:** Taking the wider effect on society into account

**Traditional reporting**

Input: What resources have been used for a production process?

Output: How many CO₂ₑ have been emitted?

Impact: How has it affected climate change?

Outcome: How has it affected the well-being of people?

**Value of impacts**

How high are the costs to society?

**Assess**

a. The total benefits created for society
b. The enterprise value
First business examples

Extending financial disclosure frames

Value-to-Society (results available since 2013)

Full supply chain
- Net Income
- Amortization
- Taxes
- Wages & benefits
- Human capital
- Health & safety
- Air emissions
- GHG
- Land use
- Waste
- Water consumption
- Water emissions

Value (in billion €) from BASF procurement

Own operations

Customer industries
- Direct customers in industries supplied by BASF

€60 bn economic
€70 bn social
- €30 bn environmental
Current company approaches

Comparability for broad uptake missing

FES impact valuation

Double Bottom Line

Total Impact

Connectivity

Value-to-Society

Integrated Profit & Loss

Common model missing

- Scope
- Data sources
- Measurement tools
- Valuation coefficients
- Disclosure format
The future of disclosure

Report your total value creation

TODAY

Financial statement

In 2025

Financial statement plus human, social & natural capital statement

In 2030

Integrated value balanced statement

Company uptake
Join forces for transformation

Develop a model to empower decision makers to create and protect long-term value

Association (e.V.)*, founded June 2019

STANDARDIZATION
Common method to assess and monetize total value created

EXTERNAL DISCLOSURE
Design disclosure frame similar to financial statements

SCALABILITY
Make the outcome publicly available for broad uptake via the OECD

INTERNAL BUSINESS STEERING
Pilot the model for multi-capital decision-making and steering

Principles
SIMPLE       COMPREHENSIVE
TRANSFERABLE SCALABLE

* VW/Porsche joined mid September
Global collaboration for a better future
Changing the enabling environment for good growth

Association (e.V.)*

Alliance

Advisory board*
- European Commission
- wbcSD
- Natural Capital Coalition
- H.B.
- Impact Management Project
- UH
- Accountancy Europe

Supporters*
- The World Bank
- World Economic Forum
- ENV
- LMU
- Integrated Reporting
- Social & Human Capital Coalition
- Integrated Reporting
- Social & Human Capital Coalition

Policy advisor*

Pro-bono consultants*
- OECD
- Deloitte
- KPMG
- EY
- PwC

* Not members of association
“Now more than ever we need to rethink the role of business in society and take a new perspective on value creation.”

Saori Dubourg, BASF

“Every day, we face growing economic, technological and social challenges so it is essential to anticipate how these will impact us.”

Berthold Fürst, Deutsche Bank

“We believe standardization is required in order to drive broader adoption and will ultimately serve stakeholders.”

Lee Hyoung Hee, SK

“The value balancing alliance represents a unique opportunity to contribute to the future of accounting and to provide investors and the general public a comprehensive and comparable overview.”

Andreas Kurali, Philip Morris

“Businesses need to incorporate both economic value and social value into their strategy to create virtuous cycle in the value chain.”

Patrice Matchaba, Novartis

“Businesses need to incorporate both economic value and social value into their strategy to create virtuous cycle in the value chain.”

Jens Diebold, LafargeHolcim

“We want to help ensure that smart integration of Impact Measurement and Valuation will ultimately become standard practice.”

Luka Mucic, SAP
VBA perspective regarding NCA
New expectations of businesses to deliver ‘good growth’

Costs to society (externalities)
- Environmental decline
- Consumer activism
- Resource scarcity
- Community unrest
- Regulation
- Societal costs are ‘internalized’ over time

Costs to business

Total cost

Time

Today
value balancing alliance

value balancing alliance expectations

<table>
<thead>
<tr>
<th>Asian Development Bank</th>
<th>Encore</th>
<th>EPA.gov</th>
<th>Escher</th>
<th>Eurostat</th>
<th>Exiobase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Water Tool</td>
<td>Globio</td>
<td>GRI Database</td>
<td>GTAP</td>
<td>Local Water Tool</td>
<td>Notre Dame Global Adaptation Index</td>
</tr>
<tr>
<td>OECD</td>
<td>Recipe</td>
<td>TEEBA</td>
<td>WIOD</td>
<td>World Databank</td>
<td></td>
</tr>
</tbody>
</table>

Gaps/limitations
- availability
- frequency
- accuracy vs granularity
- pricing

IN NEED OF COMMON:
- Definitions and standards
- Objectives (i.e., SDG's)
- Meaningful data
- Joint effort (national statistics and business)
Thank you

value
balancing
alliance

Ionut-Neculai Pester
ionut.pester@value-balancing.com
+49 170 437 78 05