Route2

Value2Society™

Why?

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Background: Efforts by the corporate & investor communities to weave 'sustainability' into their business & investment strategies are largely ineffective. The associated 'sustainability reports', which reflect these efforts, demonstrate little understanding of the relationship between an organisation's societal impact & its financial performance. Without establishing, understanding and strengthening this link, it's impossible to design strategies & incentives that deliver long term value.

Many of these 'sustainability reports' adhere to reporting standards[1]. Indeed, the fulfilment of these standards is often the cornerstone of a sustainability agenda. Although these standards continue to create a level of impact disclosure convergence, it remains difficult to compare impact performance (over time & across activities) & understand how impact performance relates to the fundamental resilience of business models.

Route2's **Value2**Society™ (V2S) product suite, underpinned by a proprietary **Total Capital Accounting** (TCA) framework, is twenty years in development & designed to address the deficiencies of current sustainability agendas & the associated reporting. Core attributes across the V2S product range include: comprehensive impact quantification, across all sustainability dimensions and throughout the value chain; translation of impact into value terms to aid impact comparison & shape priorities; infusion of novel data to improve impact estimates (where data is lacking) & interactive reporting formats that distil insights.

Organisation's use the V2S product suite for multiple purposes. For many V2S enables development of sustainability agenda that's tightly linked to business strategy. This typically involves five steps.

Step 1: Map Business Activities – the creation of a comprehensive map of business activities across the full value chain.

Step 2: Measure Impact - All business activities, directly & indirectly, depend on the benefits derived from six types of capital stock: **natural, human, intellectual, social, manufactured & financial**. For an activity to be 'sustainable' the six capital stocks must be maintained &, preferably, enhanced. Therefore, over the long term, the inflows must outweigh and outpace the outflows. To track the inflows & outflows across the six types of capital stocks, we use a broad consistent set of measurable impact indicators.

Step 3: Translate Impact Into Economic Costs & Benefits (the V2S 'Position Statement') - A position statement translates theory & data into tangible output, providing an organisation with a current, comprehensive, comparative & interactive understanding of the wider impacts resulting from their activities. Each impact indicator has a specific & consistent economic valuation method grounded in a robust and clear set of assumptions.

Step 4: Quantify Value At Stake - Next, a business needs to understand which of these positive & negative impacts might become 'internalised', i.e., become real financial costs or real revenue opportunities. For example, the introduction of a carbon tax would transform the societal (climate) impacts of greenhouse gas emissions into a new financial cost. Using scenario analysis to estimate the proportion of external costs & benefits likely to be internalised over 2-, 5-, and 10-year time frames, an augmentation of the traditional financial statements can be constructed. These augmented statements reveal a new picture of financial performance, highlighting strengths and fragilities of the current strategy & business model.

Step 5: Define an Integrated Strategy & Sustainability Agenda – Using the quantified **Value At Stake**, an integrated strategy & sustainability agenda can be defined, focused on the biggest needle movers. With a clear understanding of the stakeholder impact and the implications on financial performance, companies are better able to make decisions about resource trade-offs within and across a set of initiatives. Adjusting the strategic resource allocation approach in this way will result in a different and better set of priorities for the business.

In summary, by better understanding the relationship between societal impact (or 'stakeholder value') and financial performance (or 'shareholder value') in the context of a company's operations, leaders can shape more robust, and appropriately resourced sustainability agendas. Once these agendas are progressed (via an appropriate approach for any institutional change), a company is well on the path to becoming a more valued & valuable company. This cannot be achieved through sole fulfilment of any reporting standard.

Over the next 12 months Route2's V2S products will become platform based facilitating: data collection; data integration; full value chain analytics; interactive reporting (that aligns to standards); & stakeholder engagement.

[1] Global reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC), Carbon Disclosure Project (CDP) and Climate Disclosure Standards Board (CDSB)