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Case study

ABN AMRO's impact statements:

A case study on making societal value visible

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1 Abstract

Many companies talk about their social and environmental contributions, but very few make them visible. This is typically attributed to lack of methods and data. But ABN AMRO has taken the bold step to produce insightful impact statements, including an Integrated P&L, which show that it can be done. This case study analyses how ABN AMRO got to produce its Impact Report, what is in there, and what its impact could be. The main obstacles seem to be mindsets rather than data and methods.

2 Introduction

Companies are under increasing pressure to show their societal contributions, and many have become vocal on the topic. However, the vast majority of reporting has remained in the realm of anecdotes and data that happens to be available. Very few have set targets on their societal contribution. Even fewer have tried to quantify their societal contribution. Notable exceptions are Holcim, Puma/Kering, Safaricom, and SGS. In March 2019, ABN AMRO published its 2018 impact report. Impact reports have been published before, but this one is revolutionary in that it includes an integrated profit & loss statement (henceforth, IP&L) and four derivative impact statements. In 36 pages, the bank quantifies its impact, going well beyond story-telling and reporting some metrics. Admittedly, this is just a starting point – as ABN AMRO CEO Kees van Dijkhuizen acknowledges in the introduction of the report. The real implications for decision making still need to follow. Still, this is a concrete and inspiring example. In recognition of its achievements, ABN AMRO won the 'most innovative annual report' award at the Transparantiebenchmark, specifically for the Impact Report It is also very promising that the bank intends to publish impact statements every year, and to make them better each time. This means we are on the road to reporting full societal value as argued for by Wilton (2019) and Schoenmaker and Schramade (2019a,b). This is important since we need societal value to become visible and managed for. Table 1 illustrates the role of impact statements in making societal value visible.

TABLE 1: LINKING INTERNAL DATA, REPORTING AND MARKET ASSESSMENTS

Type of value creatiion	External / market view	Externally comunicated by corporations	Internal corporate analysis
Financial	Stock price based on aggregate estimates of market participants	Financial statements & commentary	Financial planning & analysis, capital budgeting process, ect.
Societal	Analysis of positive and negative impact / externalities	Impact statements & commentary	Deeper analysis behind impact statements, including true prices and attribution of impact

Source: Author

The problem is that the bottom line of the table is typically much less developed than its financial equivalent. To get environmental and social value properly integrated in financial markets, impact statements can be an important driver.

This article investigates how ABN AMRO's impact statements have come about; what's in them; what can be improved; and what we can learn from them.

We find that building impact statements appears to be a very powerful and insightful exercise for companies to do. The technical challenges seem to be less daunting than typically perceived, but attributing impact remains a major challenge. The main obstacles however, seem to be mindsets rather than data and methods.

This article is set up as follows: the next two sections explore the literature on value creation, impact reporting and frameworks for impact reporting. Section four then considers the context at ABN AMRO that led it to publishing impact statements. Subsequently, the contents of the report are discussed in section five. Section six investigates the impact of the Impact Report, partly based on discussions we had with people involved in producing the report. Section seven concludes.

3 Impact and societal value

When managing for long term value creation, it is crucial to also have non-financial performance measurement, and to account for externalities (Schoenmaker and Schramade, 2019). Both traditional financial reporting and current CSR reporting are insufficient for that. This is a problem for both the reporting companies themselves and for their stakeholders, including investors. As Table 1 illustrated, the problem is that the bottom part of the table is much less developed than its financial equivalent. Impact statements can play an important role in getting environmental and social value properly integrated in financial markets. In fact, financial reporting already struggles to make financial value visible, in particular in intangibles (Lev, 2000). For example, Bonacchi et al. (2015) show that customer value is significant but not accounted for. This is something that impact reporting can do.

Strong impact reporting could benefit all parties involved. First, it can help the company obtain better information that allows for better decision making. Second, it would provide stakeholders (including investors) with better information on the value that is being created (or destroyed) for them. In fact, such data would support legitimacy and marketing claims and could be a key part of a sustainable resource strategy with key stakeholders that benefits both stakeholders and the company (Nicholls, 2018). Third, in aggregation it would help to get a more comprehensive view on value creation for society at large. This could go in tandem with a development towards more meaningful national accounts that go beyond GDP (see Hoekstra [2019] for how this could work).

The role of investors is important, as they allocate capital. Currently, that is done in a way that is too much oriented on short-term profit maximization, since investors are stuck in efficient market thinking which essentially reduces investments to a few metrics with little regard for long term value creation (Schoenmaker and Schramade, 2019b). Sardy and Lewin (2016) and Wilton (2019) argue for impact to be added as an additional dimension in the financial decision making framework – next to (financial) risk and (financial) return. However, that requires impact to be measured in a way that is as structured as the financial risk and return dimensions. This in turn, means that impact needs to go into databases that are widely used by investors – including quant models.

Achieving strong impact reporting is not trivial though. Challenges include poor company incentives, behavioural issues, and the measurement itself. Private equity and the public sector have been grappling with impact measurement for a long time, and no clear framework has emerged.

On measurement, Nicholls (2018) argues that social accounting is even more challenging than traditional financial accounting, since it differs in terms of two key materiality issues: the uncertain nature of its material data; and the empowering process by which materiality is established. In sum, it is very hard to measure or report the impact, let alone an impact return (which not only requires the impact to be known, but also the base 'capital' against which it is measured). And while impact measurement is important, it should not become a quest for perfect measurement. Ebrahim and Rangan (2014) argue that the more important challenge is in fact alignment, i.e. to design metrics and measurement systems that support the achievement of well-defined goals.

Another issue is that one could actually distinguish two types of impact measurement[1]:

1. the **absolute effect** on stakeholders: what does the company do that affects stakeholders in what way? This is what ABN AMRO seems to measure; and
2. the **marginal effect** on stakeholders: what does the company do and achieve for (or against) the interests of stakeholders versus others? What difference does an intervention make?

The latter is the approach that NGOs typically take and one expert criticized ABN AMRO for not doing this (yet):

> *"The other banks also lend to SMEs, so what's special about what ABN AMRO does? The problem with this approach it suggests that more is better, which is not necessarily the case."*

In defence of ABN AMRO, it should be said that they are working on the marginal type as well. In fact, both types are complementary in assessing performance and decision making. After all, when measuring the marginal effect only, you don't get a full picture of externalities and value creation.

Even if measurement can be done (and it can be), it does not necessarily happen. Company incentives are an issue as long as impact reporting is voluntary rather than mandatory and audited. After all, most companies (especially the ones that have something to hide) prefer to report the positives only. They also prefer to minimize the risks of litigation and reputational damage. On top of that, there are the organizational biases within and outside of companies, such as the status quo bias: the preference to keep on doing things the way they have always been done. Why rock the boat if it does not appear to be sinking?

In this article, we will analyse the ABN AMRO impact report itself and dive into the questions it raises. For this, we interviewed people involved in the process of producing the report, as well as other experts. But first, let's have a look at the frameworks for impact and societal value creation that have been developed over the last decade.

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[1] See this article (in Dutch) by Nicolette Loonen: https://www.linkedin.com/pulse/impact-thats-question-nicolette-loonen/

4 Application and frameworks for impact and societal value creation

Several initiatives have been employed by industry to get impact measurement working and standardized. In 2014, True Price, together with EY, Pwc and Deloitte published “The business case for true pricing”. That same year, KPMG (2014) published its True Value methodology. Another recent initiative is the Value Balancing alliance, founded by BASF in 2018. In the remainder we will focus on True Price and its spin-off Impact Institute, since ABN AMRO chose to partner with them. Moreover, it is the best documented methodology: the WBCSD only provides a direction, not a methodology; KPMG’s True Value is similar to True Price but more private; and the Value Balancing alliance is recent, does not provide a framework, and lacks credibility as it admitted tobacco producer PMI as a prominent member[2].

True Price and Impact Institute

True Price was founded in 2012 by Michel Scholte, who is an entrepreneur and sociologist, and Adrián De Groot Ruiz, who was then an assistant professor of finance at Radboud University Nijmegen. Being part of the World Connectors thinktank, they realized that solving externalities would mean solving most of the mismatch between private and societal value creation. However, they also realized that the concept of externalities is, first of all, too abstract for most people; and secondly, hard to calculate. So, they started True Price with the mission to make externalities measurable and understandable. True Price became a social enterprise in 2015, and in 2018 Impact Institute was founded to split the two missions: putting a true price on every product (True Price); and giving every company an impact statement (Impact Institute). Henceforth, we will use ‘Impact Institute' to refer to both True Price and Impact Institute.

Framework for Impact Statements

As Impact Institute worked with clients, they continued to develop their methods along the way. In 2019, this development culminated in the beta version of the Framework for Impact Statements (FIS). They regard FIS as their first contribution towards a widely accepted standard for making impact statements. In FIS and in practice, they try to answer questions like: how do you steer an organization on impact? And how do you communicate this impact to shareholders, stakeholders, the market? Recurring issues are technical complexity, process complexity, and monetization. External recognition of Impact Institute includes being awarded first

[2] As a tobacco company, PMI has strong incentives to misrepresent its very large negative externalities.

prize in ISAR (International Standards of Accounting and Reporting) Honours by UNCTAD[3].

Technical/data complexity

Constructing impact statements entails serious data challenges. As the FIS (2019) puts it on page 8: "Effective impact statements boil down hundreds of non-financial indicators into a small set of measurable goals, enabling organisations to make trade-offs between the many ways they affect society, between the interests of various stakeholders, and between short- and long-term action. At the same time, effective impact statements provide sufficient information for organisations and their stakeholders to set their own priorities with respect to impact." As such the impact statements should be the basis for measurable organisational objectives, as illustrated in Table 2.

It is the goal of FIS (2019) to provide a set of minimum requirements to which all impact statements should adhere. The goal of managing for long-term value creation corresponds with Schoenmaker and Schramade's (2019a) corporate objective of managing for integrated value. The integrated value is the sum of the financial value, the social value and the environmental value:

$$IV = FV + SV^p + EV^p$$

The superscript stands for the privately discounted value of the social and environmental impacts. In managing for integrated value, one should be mindful of the components, i.e. not maximise the sum by blindly netting the parts.

TABLE 2: ORGANISATIONAL OBJECTIVES AND THE CORRESPONDING IMPACT STATEMENT

Organisation objectives	Corresponding impact statements
Manage for long-term value creation	1. Integrated P&L
Create net value for each of its stakeholders, including clients, employees, governments and communities	2. Value creation statement
Create short-term and long-term value for its investors (shareholders and otherwise)	3. Investor value creation statement
Do no harm by respecting the rights of its stakeholders and avoid imposing external costs	4. External costs statements
Contribute to sustainable development in line with the SDGs	5. SDG baseline statement

Source: ABN AMRO impact report and author's interpretation

[3] https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2221

Process complexity and the organisation's impact journey
The complexity of the data engenders process complexity for the organisation. FIS (2019, page 9):

> *"An organisation typically has to undergo a phased process in order to ultimately be able to manage its impact in a manner that fits its purpose and goals. This process is referred to as the impact journey and can take several years. An impact journey typically starts with small-scale internal reporting, then evolves to a state in which thinking about impact is central in the organisation."*

Monetization
A controversial issue is to what extent impacts can or should be monetized. Some would argue that society has already become too financialized (e.g., Mazzucato, 2018), and that monetization would only worsen that. Others would argue that monetization (at least of the biggest impacts) is crucial in reversing that financialization of society: by making values visible in value, important non-financial value is taken into account into decision making. Hitherto, the financial sector is mostly blind to such value, as Schoenmaker and Schramade (2019a,b) argue. FIS (2019) is more of the latter position and cautiously phrases it like this on page 11:

> *"All elements of impact statements are quantified and expressed in a single common unit, optionally alongside the customary units. It is suggested but not required that the common unit is monetary. This makes all elements in impact statements directly comparable to each other. In addition, impact statements are comparable over time and between organisations."*

What is missing in the framework?
FIS (2019) offers an impressive framework, but it does not include an integrated balance sheet. That means that no return on capital calculation is possible – unlike in traditional financial analysis. This does limit the comparability between companies. Alternatives would be to calculate the impact per unit of invested capital, per unit of labour, etc. But then still the question remains: is this good enough? Do you perform well enough? After all, a company might create positive societal value, but still less than its potential; or its societal value creation might be negative, but at its potential and much better than peers. But in both cases, one wouldn't know since there is no proper benchmark for what is good enough. However, there are good reasons that FIS does not include an integrated balance sheet yet. For example, a problem with an integrated balance sheet is that stocks can be more difficult to assess than flows. Moreover, making an integrated balance sheet requires attributing assets to the company that the company does not own, like people, land, societal trust, etc.

5 How ABN AMRO got to publish an impact report

In context: ABN AMRO's recent history and management
ABN AMRO is one of the largest Dutch banks with a history going back two centuries. In 2007, the bank was taken over by a syndicate of three banks. These banks got into trouble during the great financial crisis and ABN AMRO was subsequently nationalized. The state appointed former finance minister Gerrit Zalm as CEO of ABN AMRO. His main task was to get the bank back to normal financial performance. But he also set in motion the first steps to turn ABN AMRO into a sustainable bank. Zalm succeeded in making the bank successful again and brought the bank back to the stock exchange with an IPO in 2015. The bank was soon, and still is, regarded as a high quality bank versus its EU peers, with high ROE (11%), and strong scores on other typical bank ratios as well. Kees van Dijkhuizen became ABN AMRO's CFO in 2013 and he succeeded Zalm as CEO in January 2017. In the 1990s, Van Dijkhuizen was a high ranking civil servant at the Dutch ministry of finance. This is where he got interested and involved in sustainability and non-financial reporting. Moreover, he was inspired by the Club of Rome and its Limits to Growth report. Then as a CFO at ABN AMRO (before becoming CEO) he worked hard on his passion for transparent reporting. As a CEO he continued on this path, supported by CFO Clifford, which among others resulted in the 2018 Impact Report.

The Dutch context might have played a role as well. DNB, the Dutch central bank, has been vocal in recommending Dutch financial institutions to better report on their social and ecological challenges. And the Dutch financial sector has concluded several treaties and initiatives on operating more sustainably.

Why did it happen at ABN AMRO?
People involved in the process modestly claim it was partly coincidence that ABN AMRO got to publish a thorough impact report, but the kind of coincidence that follows from being prepared. Of course, having the support of CEO Kees van Dijkhuizen definitely helped. But the scene was set much earlier, as ABN AMRO and Impact Institute started working together already in 2012 – a year before Van Dijkuizen joined ABN AMRO as its CFO.

Due to their cooperation, Impact Institute got familiar with many departments at ABN AMRO, which in the process got familiar with impact measurement. For example, the mortgages department did an informal IP&L in 2015 about the 2014 book year. And they also did pilots on people development, cacao trade finance, and the diamonds industry.

This also helped the sustainability reporting department to further build a lot of expertise and internal credibility. They took the initiative to drive this further and further, thanks to intrapreneurs like Richard Kooloos and Tjeerd Krumpelman. There was no top-down decision that ABN AMRO needed to have an impact report, but along the way it became clear that it would be very good to have one. This evolved organically. The bank had the implicit question of how to steer on societal value creation – it was typically not formulated in that way, but it was felt in dilemmas and in issues popping up. People within the bank recognized society's critical view of banks. So, they had to go beyond profit, but if not profit, then what?

Of course, profitability remained a necessity as well. In fact, ABN AMRO's high level of profitability helped in making it possible: once you get headwinds, the old reflexes show up, and people focus on short term issues. For example, banks with money laundering scandals tend to put such projects on hold.

How does the impact report fit in ABN AMRO's overall reporting?
ABN AMRO takes a 'core & more' approach to reporting. This means that the bank considers it Integrated Annual Review (its annual report) as its 'core' report, while other reports, such as the Impact Report and the Human Rights Report belong to the 'more' part that complements the Integrated Annual Review. The 'more' reports are also summarized in the core report, and ABN AMRO intends to integrate more into the 'core' report.

The Impact Report is meant to be published each year, as a 'more' report, providing at least the same level of granularity as the inaugural version – but with the ambition to get better. And ideally, more of its content will seep into the 'core' report.

The original idea was not to produce an impact report, but to improve integrated reporting by adding impact, to calculate and argue societal value creation. It was an extension of the measure-report-steer discussion that had been going on for years. Along the way, this generated many great insights, but it also raised questions (for whom is this interesting?) and pushback (should this really go in?). In late 2018, it was decided to produce separate impact statements with full disclosure, and to put the highlight in the integrated report as well.

How did they do it and how hard was it to do this?
The process of getting it done is partly described in the Impact Report on page 30, where it is pointed out that from 2014 to 2018, ABN AMRO and Impact Institute carried out four different impact assessments with varying scopes. In 2018, it was decided to compile a bank-wide Integrated P&L. The governance side of the process is emphasized as well:

- Compilation of the impact statements & report was overseen by a steering board comprising members of ABN AMRO's strategy team and ABN AMRO sustainability team;
- An advisory expert group was installed, with experts from Risk Management, Strategy and Finance departments;

- Business line representatives were consulted for feedback at the start of the project; for data collection during the project; and to review draft results.
- In all, more than 100 people were involved.

Timeline

It took them just six months, but that was after years of cooperation and pilots with Impact Institute. Still, it was quite a leap, because it was done at much bigger scale than the pilots done previously, involving the entire bank and over 100 people helping out. It is also quite a commitment, since it is a big publication and one to be repeated as well. Yet, it would have been much harder if they had started from square one. “When doing this for the first time, you’ll need to address questions like: what is absolute impact? What is marginal impact? You have to take the time for such a process, you need to build the capacity and the credibility to do it.”. But even with the experience of the pilots, it was not a done deal yet: “Most people at the bank weren’t eager to produce an impact report. No other bank did it, so why should they do it? Well, for some, that was exactly the reason to do it, and they prevailed.”

People challenge

They needed a lot of data from all parts of the bank, and for those people to actually provide the data, the team had to make clear to them why, so they had to do a lot of explaining. It also required trust. Therefore, they promised the business lines that nothing would go out without their permission, and they followed all the proper governance mechanisms within ABN AMRO that also apply to regular financial reporting disclosures. “It’s important to realize that impact involves a different kind of data uncertainty than finance and accounting people are used to. And compared to other functions within the bank, the reporting people are more exposed to the outside world.” Reporting at ABN AMRO is now ahead of steering, while the expectation is typically the other way around, but it is hard to do it differently. Technically it was not that hard to do: the methods were in place. But the challenge was to get people to see it, to develop awareness.

6 In the report

6.1 Structure of the report

The report counts 36 pages and is dividend in four sections (see Table 3 below), of which the impact statements are the most important ones – the other sections are basically setting the stage for the impact statements. The structure is from simple to complex in that they start with the highlights and then dive deeper into the components. The introduction by CEO Kees van Dijkhuizen emphasizes the goal of creating long term value for stakeholders, and what kind of information is needed for that. The rest logically follows from that, with the actual impact statements as the core.

TABLE 3: SECTIONS IN ABN AMRO'S IMPACT REPORT

Section	#pages	Main content
Introduction & table of contents	8	- CEO letter, explaining the why of this report - Information to manage long-term value creation for stakeholders - Preview of results
Our impact	12	- Context of the impact report - Summaries of 5 types of impact statements
Impact statements	6	1. Integrated P&L; and its 4 derivative statements 2. Value creation statement 3. Investor value creation statement 4. External costs statement 5. Sustainable development goals baseline statement
Disclosures	10	- Framework and methods - Scope and boundaries - Definitions - List of impact items

This is the core

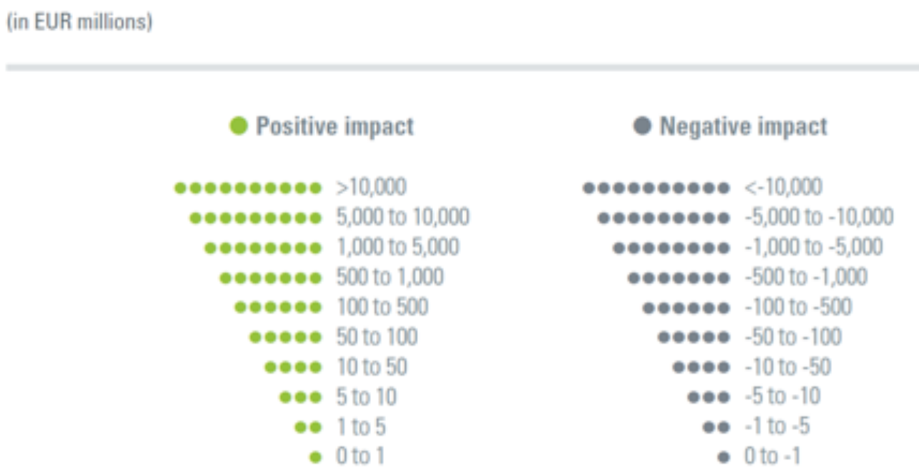
Source: author, based on the ABN AMRO impact report

As mentioned before in Table 2, the organization's objectives are reflected in the five types of impact statements, which should deliver the information required to manage long-term value for stakeholders. We will discuss each of these statements in the following paragraphs.

6.2 The Integrated P&L

The IP&L is the main statement in ABN AMRO's Impact Report. Many choices had to be made on how to present it. For example, ABN AMRO decided to give ranges instead of numbers. The reason is that the exact impact results may be subject to change as methods and data improve, and then ranges are more robust. The project team considered many ways to visualize the impact and eventually chose the bubbles, of which the meaning is given in Figure 1. They admit there are perhaps too many bubbles, but it does force the reader to look carefully. Another thing was choosing millions over billions, where billions would probably have been more intuitive. The key reason to use millions is that the financial reporting also does so.

FIGURE 1. KEY FOR MONETISED IMPACTS



Source: ABN AMRO 2018 Impact Report, page 23

Value creation is defined as the contribution to the well-being of people, now and in the future. It builds on existing frameworks like IIRC, social capital protocol, natural capital protocol, IFRS, and GRI standards. Among those, the Integrated Reporting Framework is the main one, as the ABN AMRO uses the IIRC framework as the basis for their Integrated Annual review. The scope of the statements is wide, as it covers the majority of the bank's activities, but it is not yet complete.

The IP&L statement (see Figure 2 below) contains 43 items, with bubbles per line within each of the six capitals, and columns per stakeholder group. For these 43 separate impact categories, the bank measures hundreds of indicators. Of course, steering cannot be done on all those indicators.

FIGURE 2. THE INTEGRATED P&L

		Clients	Employees	Investors	Society at large	Total
	Financial	●●●●●●●●●	●●●●●●●	●●●●●●●●	●●●●●●●●	●●●●
1	Interest payments			●●●●●●●●		●●●●●●●●
2	Payments to suppliers				●●●●●●●●	●●●●●●●●
3	Net profit/loss			●●●●●●●●		●●●●●●●●
4	Employee payments		●●●●●●●		●●●●●●	●●●●●●●●
5	Correction for loan impairments and depreciation			●●●●●●		●●●●●●
6	Income tax payments				●●●●●●	●●●●●●
7	Payments from clients	●●●●●●●●●				●●●●●●●●●
8	Investments in fixed assets			●●●●●		●●●●●
9	Payments for change in housing stock	●●●●●●●			●●●●●●●	–
10	Value of money creation				●●●●●●	●●●●●●
11	Net cost of capital			●●●●●●●●	●●●●●●●●	–
12	Contribution to added value of value chain	●●●●			●●●●●●●●	●●●●●●●●
13	Payments from buyers in the value chain				●●●●●●●●	●●●●●●●●
	Manufactured	●●●●●●●●●●		●●●	●●●●●●●	●●●●●●●●●●●
14	Client value of mortgage provision	●●●●●●●●●				●●●●●●●●●
15	Client value of lending services	●●●●●●●●				●●●●●●●●
16	Client value of fee-based services	●●●●●●●●				●●●●●●●●
17	Client value of money transfers	●●●●●●●●				●●●●●●●●
18	Consumer value in value chain				●●●●●●●	●●●●●●●
19	Client value of money storage and management	●●●●●●				●●●●●●
20	Client value of asset management	●●●●●●				●●●●●●
21	Changes in fixed assets in value chain				●●●●	●●●●
22	Changes in fixed assets			●●●		●●●
23	Change in housing stock	●●●●●●●			●●●●●●●	–
24	Value of supplier services				●●●●●●●●	●●●●●●●●
	Human		●●●●	●●●●●	●●●●●●	●●●●●●●
25	Creation of human capital		●●●●●●	●●●●●	●●●●●●	●●●●●●●
26	Well-being effects of employment		●●●●●●		●●●●●●	●●●●●●
27	Workplace health and safety incidents		●	●●	●●●●	●●●●
28	Value of time		●●●●●●		●●●●●	●●●●●●
	Intellectual	●●●●●●				●●●●●●
29	Costs of cybercrime	●●●●				●●●●
30	Data and privacy breaches	●●●●●●				●●●●●●
	Social	●●●●●		●●●●●●	●●●●●●●	●●●●●●●
31	Detected suspicious transactions and tax evasion				●●●●●●●	●●●●●●●
32	Change in brand value and customer loyalty			●●●●●●		●●●●●●
33	Decrease in cash-related crime	●●●				●●●
34	Child labour in value chain				●●●●	●●●●
35	Gender discrimination in access to higher skill jobs				●●●●	●●●●
36	Financial distress due to repayment difficulties of loans	●●●●●				●●●●●
37	Underpayment in value chain				●●●●●	●●●●●
	Natural				●●●●●●●	●●●●●●●
38	Use of scarce water				●●●●	●●●●
39	Use of scarce materials				●●●●●	●●●●●
40	Water pollution				●●●●●	●●●●●
41	Contribution to climate change				●●●●●●	●●●●●●
42	Land use and transformation				●●●●●●	●●●●●●
43	Air pollution				●●●●●●	●●●●●●
	Total	●●●●●●●●●	●●●●●●●	●●●●●●●●	●●●●●●●●	●●●●●●●●●●

This table shows grouped impacts. This statement provides an overview of financial and non-financial impacts of ABN AMRO Group N.V.

Source: ABN AMRO 2018 Impact Report, page 23

There is a lot of information in this table, and several observation can be made about it. First, there are quite a few negatives. For example, all contributions to natural capital are negative and registered as a loss for society at large, since the bank's clients use a large amount of natural resources. And all contributions to intellectual capital are negative and towards clients. This seems surprising at first, since one can imagine a bank to produce intellectual benefits for its clients, for example by means of new financial structures and business development. However, the negative outcome is due to the limited scope for intellectual capital in the report, which only covers data and privacy breaches.
Second, there are large positives as well and they are where you would expect to see them: in contributions to financial and manufactured capital.
Human and Social capital contributions are mixed, with for example workplace health and safety incidents (item 27) more costly to society at large than to employees and investors combined. The reason for that is this stakeholder group includes all employees of (indirect) clients of ABN AMRO. For instance, if ABN AMRO invests in an industry that has high numbers of accidents, some of those accidents are included in ABN AMRO's IP&L (through the process of attribution that is briefly discussed later).

We would have expected an item like 'Money laundering prevented or not prevented' – but this turns out to be included in item 31 on suspicious transactions.

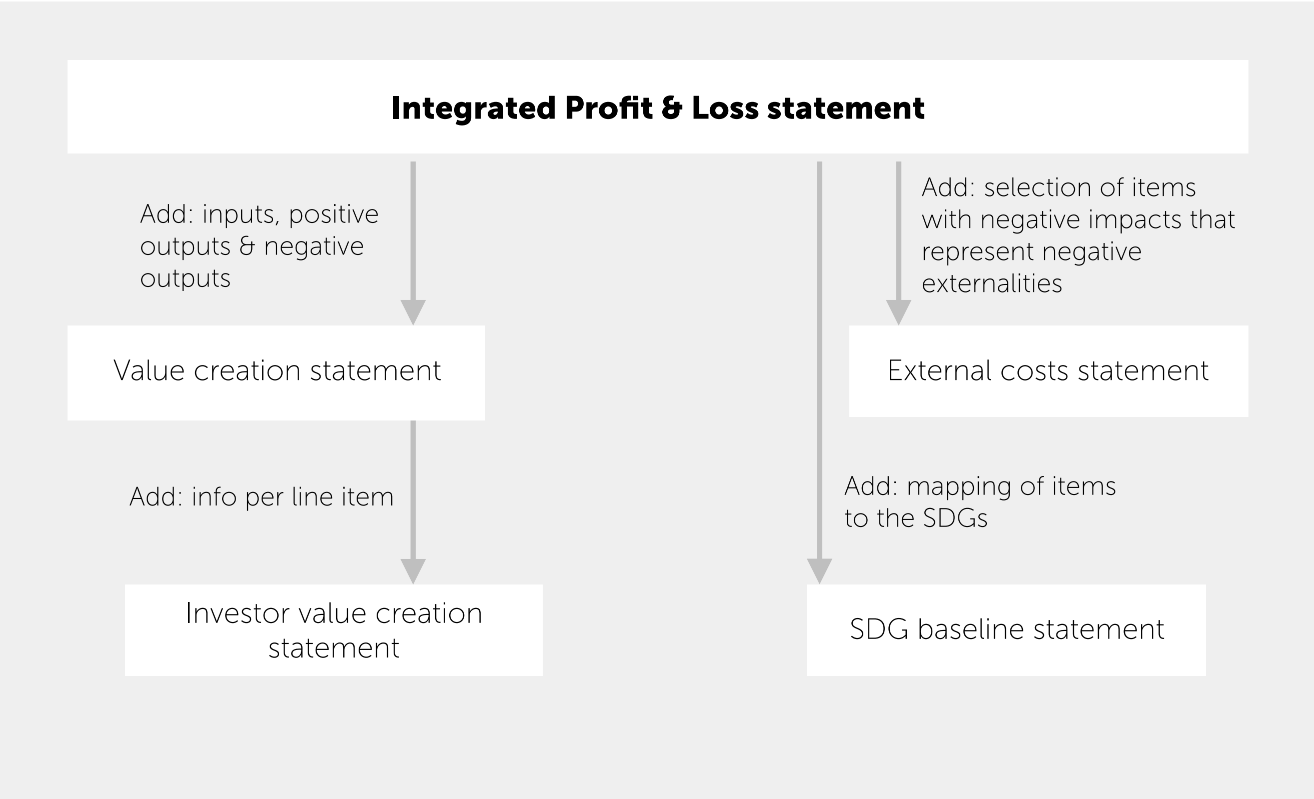
Another issue is netting. For each of the 43 items, the reported result per stakeholder is positive or negative, but in reality these are balances of positives and negatives as well. So, at this level netting does happen. However, this is mostly in the aggregation steps over stakeholder groups and capitals, rarely within individual elements. In fact, the only elements where there has been netting within an element are 'change in fixed assets' (balance of new investments and depreciation) and 'change in housing stock' (showing net increase of the stock). In some cases, there are only negatives, such as in Health and Safety accidents, there is simply no positive contribution there.

The IP&L also raises a number of strategic questions: to what extent will the results affect decision-making, KPIs, capital allocation and communication with financial stakeholders? As will be discussed in section 6.1, the impact on decision making is limited for now, but will grow. Since the IP&L presents information on value creation per type of capital, this begs the question how capital is allocated over the six capitals. Therefore, an integrated balance sheet would be a most welcome addition to really be able to hold management accountable for its capital allocation decisions. This, in turn, would deepen the dialogue with investors. Besides, to what extent is the impact report currently part of discussions with mainstream investors? Is it being discussed beyond the usual suspects of sustainable investors and reporting professionals?

The biggest question the table raises for us is: how do the results of the IP&L compare to the bank's potential and to peers? Is this a weak, okay or strong performance? That is not a conclusion for the bank to be drawn, but in the end the reader would want to have the context to make that verdict. There are several ways in which that judgement could become easier to make. First, as the bank reports new impact reports in the coming years, a historical timeline will become available. Second, forward looking statements, targets, and explanations would help. Third, as other banks start to report similar statement, comparisons with others will become (at least partly) possible.

The IP&L is meant as an overview statement. Let's now consider the four derivative statements, whose relationship with the IP&L is summarized in Figure 3. Most of the information in the derivative statements can already be found in the IP&L, but their focus is different. This was achieved by regrouping and leaving out line items, and adding some new information.

FIGURE 3. THE IP&L AND ITS DERIVATIVE STATEMENTS



Source: author's interpretation

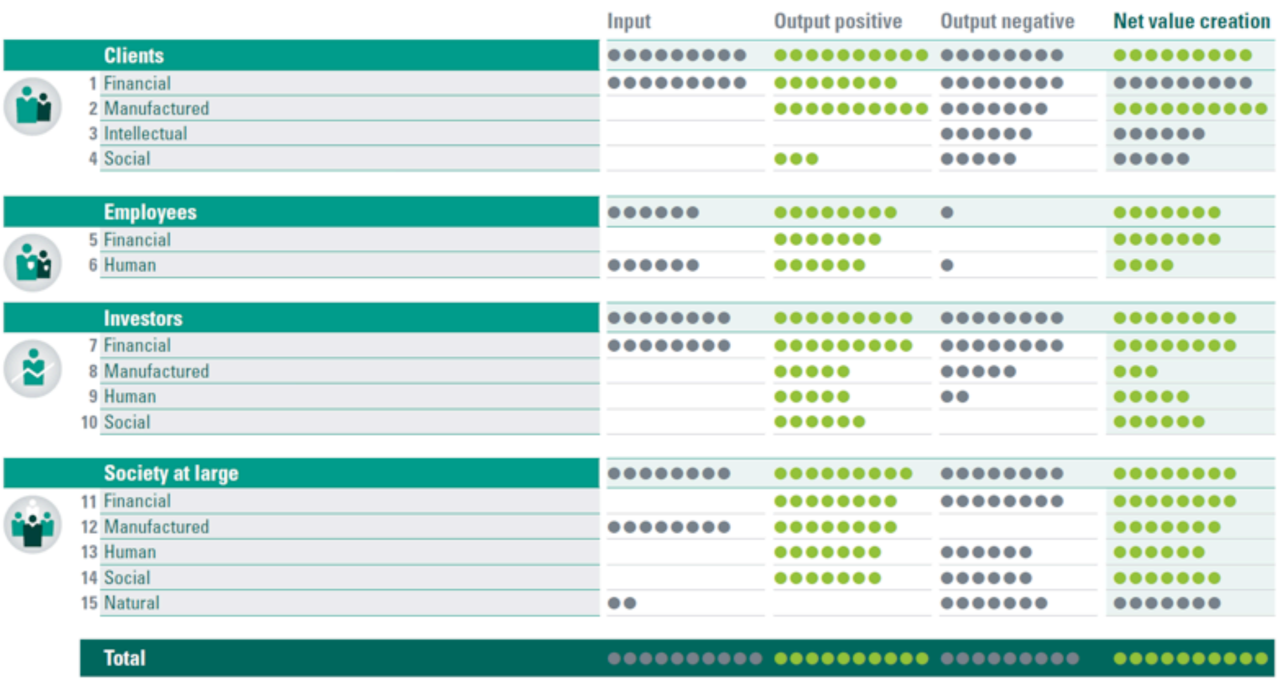
6.3 Value creation statement

The first derivative statement is the value creation statement, of which the bank presents a high level overview on page 7. In terms of long-term value creation for its stakeholders, ABN AMRO concludes that most value was created for clients, namely in the range of €5-10 billion, which may or may not be more than for the combined value creation for the other stakeholders (€2.5-11 billion): employees (€0.5-1 billion), investors and society at large (both €1-5 billion). It suggests the sum of total value creation is in the €7.5-21 billion range.

Then on pages 12-15, the report presents value creation diagrams for each of the four stakeholders, which indicate how much of each of the capitals was created for that stakeholder, and with what capitals as inputs. These are flow diagrams, in which the thickness of the line indicates the size of the particular type of capital that was created or destroyed. These remain quite abstract though.

The actual value creation statement is presented in the report on page 24. It contains 19 lines, namely the relevant capitals for each of the four stakeholder groups, and the sum per stakeholder group. Per line, the statement reports the input (always a negative), the positive output, the negative output, and the balance of those three: net value creation. The latter can also be found in the IP&L, but the other three categories are new versus the IP&L. Hence, the value creation statement cannot be derived from the IP&L without the underlying information on inputs and outputs.

FIGURE 3. VALUE CREATION STATEMENT



This table shows grouped impacts. This statement shows the value creation for each stakeholder group of ABN AMRO Group N.V.

Source: ABN AMRO 2018 Impact Report, page 24

The statement indicates that value creation is net positive for all groups, and that within the 15 lines of capitals, only four are net negative. It also shows that for employees, financial value creation is at least a ten times larger than human value creation. That is interesting, but we miss granularity on what happened within those lines, which keeps it a bit abstract. What went in it in terms of assumptions? What kind of activities did it concern? What were the contributors and detractors? Where did they learn most? Etc. Some of this is mentioned in the disclosures, but not that much.

Granularity within clients would have been particularly interesting, for example slicing and dicing them by product, by location (province, rural versus city, etc.), by type (companies versus individuals), and within those groups (SMEs versus large companies; individuals by age or income/wealth group). What's the value creation per client and per client group? What are the differences across client groups? And of course, the same question we asked of the IP&L as well: how can the reader determine if this is a weak, okay or strong performance?

6.4 Investor value creation statement

The investor value creation statement is presented on page 24 of the impact report. By name, this sounds like a more traditional type of statement. But in set-up, it is similar to the value creation statement, of which it can be considered a specification, since it zooms in on just one of the stakeholder groups. Again, inputs, positive outputs and negative outputs are distinguished to arrive at net value creation. The 13 lines register value creation for investors by type of capital.

FIGURE 4. INVESTOR VALUE CREATION STATEMENT

	Input	Output positive	Output negative	Net value creation
Financial	●●●●●●●●	●●●●●●●●●	●●●●●●●●	●●●●●●●●
1 Interest payments		●●●●●●●●		●●●●●●●●
3 Net profit/loss		●●●●●●●●		●●●●●●●●
5 Correction for loan impairments and depreciation		●●●●●●		●●●●●●
8 Investments in fixed assets			●●●●●	●●●●●
11 Net cost of capital	●●●●●●●●			●●●●●●●●
Manufactured		●●●●●	●●●●●	●●●
22 Changes in fixed assets		●●●●●	●●●●●	●●●
Human		●●●●●	●●	●●●●●
25 Creation of human capital		●●●●●		●●●●●
27 Workplace health and safety incidents			●●	●●
Social		●●●●●●		●●●●●●
32 Change in brand value and customer loyalty		●●●●●●		●●●●●●
Total	●●●●●●●●	●●●●●●●●●	●●●●●●●●	●●●●●●●●

This table shows grouped impacts.
This statement shows the short- and long-term value creation for investors of ABN AMRO Group N.V.

Source: ABN AMRO 2018 Impact Report, page 24

A few things strike us in the Investor Value Creation Statement. Rather technically, we observe a negative output and negative net value creation in element #8, investments in fixed assets. The reason is that elements #8 and #22 need to be considered together, as the costs of investments and the investments themselves[4]. In general, there seems to be limited additional information compared to the IP&L, since most items have values in only one of the three categories. #22 is the only element with both positive and negative outputs.

The statement also raises some fundamental questions. How exactly does the Investor Value Creation Statement link to the regular financial statements? This is not straightforward. For example, element #1 interest payments is in the €1-5 billion range, but net interest income in the P&L of the Annual Review (page 154) is €6.6 billion, i.e. above that range. Apparently, an adjustment was made to that, perhaps to reflect the cost of capital?

More importantly, how is the value creation distributed across groups of capital providers? For example, value creation for shareholders is driven by net profit (item #3), but also partly by item #11, net cost of capital. But value creation for shareholders is not shown separately. It would be helpful to do so, as it would make the statement more interesting for specific capital providers – hence facilitating the investor dialogue that we referred to in section 5.2.

Moreover, why are similar value creation statements not presented for the other three stakeholder groups: employees, clients, and society at large? In fact, the latter does get extra attention with the SDG baseline statement. The reason the Investor Value Creation statement is singled out, in addition to the Value Creation Statement, appears to be that ABN AMRO is a listed company. In contrast, social enterprises or non-profits would likely emphasize value creation for society.

One of the external experts was surprised to see that natural and intellectual capital are not accounted for in the Investor Value Creation Statement.

> *"Does that mean that both are not value relevant from an investor perspective? Is it a matter of scope? It seems unlikely that natural and intellectual capital have no financial ramifications, if only indirectly. More clarity on this would help, as well as a link to materiality in the taxonomy and a prioritisation of topics."*

6.5 The External Costs Statement

To avoid netting, and to report on 'do no harm', it is recommendable to present a separate External Costs Statement. ABN AMRO presents a summary of its external costs on page 16, split by the type of capital. Natural capital turns out to be the biggest negative, at -€0.5 to -1bn, while intellectual capital and social capital are both in the range of -€0.1 to -0.5bn. This implies that the total external costs are in the range of €0.75 to 2bn. These are significant numbers for a bank with a net profit of €2.3bn in that same year, i.e. the negative externalities amount to 30-90%

[4] Element #8 is an outflow of money that says that investments cost money. The green elements ('output positive') of #22 show the investments themselves. These show that Manufactured Capital increases. #8 and the positive output of #22 balance each other out. What the bank pays in Financial Capital, they get back in Manufactured Capital. Then, lastly, there is the grey part of #22. These are the depreciations, a way that Manufactured Capital decreases. Apparently in 2018 ABN AMRO had more investments than depreciation. As a result there is a (small) net value creation for fixed assets.

of profits. Fortunately, the positive externalities are even larger. One can only imagine how large the negative externalities would be for say a large US bank with significant lending to the coal, oil and gas industries. Of course it can be calculated, but such a bank would likely not report on it voluntarily.

The full external costs statement is presented on page 25. Effectively, it is already contained in the IP&L. It just excludes all positives and also those negatives that are not considered externalities. As a result, no elements from financial and manufactured capital are included. By nature of course, it presents only negatives.

FIGURE 5. EXTERNAL COSTS STATEMENT

	Clients	Employees	Investors	Society at large	Total
Human		●		●●●●	●●●●
27 Workplace health and safety incidents		●		●●●●	●●●●
Intellectual	●●●●●●				●●●●●●
30 Data and privacy breaches	●●●●●●				●●●●●●
29 Costs of cybercrime	●●●●				●●●●
Social				●●●●●●	●●●●●●
37 Underpayment in value chain				●●●●●	●●●●●
35 Gender discrimination in access to higher skill jobs				●●●●	●●●●
34 Child labour in value chain				●●●●	●●●●
Natural				●●●●●●●	●●●●●●●
43 Air pollution				●●●●●●	●●●●●●
42 Land use and transformation				●●●●●●	●●●●●●
41 Contribution to climate change				●●●●●●	●●●●●●
40 Water pollution				●●●●●	●●●●●
39 Use of scarce materials				●●●●●	●●●●●
38 Use of scarce water				●●●●	●●●●
Total	●●●●●●	●		●●●●●●●●	●●●●●●●●

This table shows grouped impacts.
This statement provides an overview of the external costs of the activities of ABN AMRO Group N.V.

Source: ABN AMRO 2018 Impact Report, page 25

As observed above, the vast majority of external costs are to society at large (-€1 to -5bn), with much smaller ranges for clients (-€0.1 to -0.5bn) and especially employees (-€10 to -50 million). The damage of -€10 to -50 million in human capital / to employees seems rather small for a company with such high human capital intensity. After all, the bank's functioning crucially depends on the interplay of people and IT systems. Part of it is due to the fact that effects on employees of partners of ABN AMRO are included in 'society at large'.

As said before on the other statements, some granularity on assumptions and activities concerned would be most welcome. Of course, it would be unrealistic to expect all external costs to go to 0, and they likely differ in terms of how unavoidable they are. Still, it would be helpful to have some elaboration on the extent to which they can be avoided. What would be realistic targets (next to the ambition to go for 0) for each of them?

6.6 Sustainable Development Goals Baseline Statement

The Sustainable Development Goals (SDGs) were set by the UN in 2015, and have turned out to be a popular tool to communicate about progress (or deterioration) in societal goals. They benefit from being less abstract than externalities. Many listed companies have started to mention them in their reporting, while not actually reporting on them. Typically, they make a vague claim about contributing to specific (or even all) SDGs, without any reference to negative contributions, nor numbers or evidence to back up the claims. We have even seen oil companies claim to be contributing to SDG 13 (climate action) in spite of the clearly detrimental nature of their core activities; the sponsoring of climate change denial; and lobbying against climate mitigation policies. ABN AMRO clearly takes the SDGs more seriously. Its baseline impact on its three focus SDGs is summarized on page 17 of the report, and very positive on SDG 8 (€1-5 billion), but net negative on SDGs 12 (between -€0.1 billion and 0) and 13 (between -€0.5 billion and -€0.1 billion). People at the bank found it surprising that they did not score that well on climate. And they had also underestimated biodiversity and water.

The full SDG baseline statement can be found on page 26, where 30 line items from the IP&L are mapped to 12 of the 17 SDGs (Figure 6). This is done without an indication of size, but the patient reader can choose to cross-check with the IP&L if he or she so wishes.

FIGURE 6. SUSTAINABLE DEVELOPMENT GOALS BASELINE STATEMENT

		Baseline assessment	
		Negative	Positive
	SDG 1 – No poverty		
37	Underpayment in value chain	■	
	SDG 3 – Good health and well-being		
26	Well-being effects of employment		■
36	Financial distress due to repayment difficulties of loans	■	
43	Air pollution	■	
40	Water pollution	■	
	SDG 5 – Gender equality		
35	Gender discrimination in access to higher skill jobs	■	
	SDG 6 – Clean water and sanitation		
38	Use of scarce water	■	
	SDG 7 – Affordable and clean energy		
39	Use of scarce materials	■	
	SDG 8 – Decent work and economic growth		
12	Contribution to added value of value chain		■
4	Employee payments		■
3	Net profit/loss		■
10	Value of money creation		■
28	Value of time	■	
27	Workplace health and safety incidents	■	
35	Gender discrimination in access to higher skill jobs	■	
34	Child labour in value chain	■	

SDG 12 – Responsible consumption and production		
39 Use of scarce materials	■	■
SDG 13 – Climate action		
41 Contribution to climate change	■	■
39 Use of scarce materials	■	■
SDG 14 – Life below water		
40 Water pollution	■	
SDG 15 – Life on land		
42 Land use and transformation	■	
SDG 16 – Peace and strong institutions		
29 Costs of cybercrime	■	
30 Data and privacy breaches	■	
33 Decrease in cash-related crime		■
31 Detected suspicious transactions and tax evasion		■
34 Child labour in value chain	■	
SDG 17 – Partnerships for the goals		
12 Contribution to added value of value chain		■
4 Employee payments		■
6 Income tax payments		■
31 Detected suspicious transactions and tax evasion		■

Source: ABN AMRO 2018 Impact Report, page 26

Out of the 30 line items, 16 are negative and 11 are positive, while 3 are both positive and negative. Most of the line items raise specific questions. For example, in what part of the value chain is underpayment (element #37, SDG 1) found? Where is the gender discrimination (SDGs 5 and 8, element #35) happening and what is being done about it? To what extent can the use of scarce water (SDG 6, element #38) and scarce materials (SDGs 7, 12 and 13; element #39) be reduced?

It is surprising not to see a contribution to SDG 4, education. Quite a few financial institutions claim to contribute to SDG 4 by means of financial literacy programs. Again, explanations and granularity on assumptions would help.

7 The impact of the report

The report is ground-breaking, which raises the obvious question what its own impact is and will be. Hence, we tried to answer the below questions by interviewing both outside experts and people involved in the process of constructing ABN AMRO's impact statements:

1. What has been the impact on decision making? What has it brought?
2. What has the feedback been like?
3. What are the likely drivers of uptake elsewhere?
4. How do you know if your impact performance is good enough?
5. What is next?

7.1 What has been the impact on decision making? What has it brought?

The Impact Report's impact on decision making is still limited, as those involved are quick to point out. It's simply too early for that, as the insights still need to seep into employee evaluations, operating procedures, etc. Also, the strategy led to the Impact Report rather than the other way around - as it should ultimately go. But that will happen over time. So far, it did bring new insights, with new questions being asked. And in some partial analyses it also brought to light new business potential.

A surprise was the size of the value created for society, which was bigger than people at the bank had expected, and which emphasizes the utility function of a bank. The results make it clear that ABN AMRO has both a positive and a negative impact on the capitals and on SDG 8, and a mainly negative impact on SDGs 12 and 13, which was quite an eye-opener for some people.

> *"This kind of thinking needs to reinforced. Monetisation brings dialogue: if you don't know it, then how do you find out? But one has to be careful in interpreting the results: it is a snapshot at a particular moment in time, and you should not present valuation as the one and only truth. The real value is in the new insights and questions raised. Thorough management steering information will only be generated after a few years of doing this, and when others start doing it so that you have a basis for comparison."*

As one the experts puts it:

> *"Companies have no clue about their impact. This kind of analysis yields the first insights, generates awareness, affects strategy building and*

communication. It's like turning on the light. Most people don't even know the lights are out. They think they're already doing so much sustainability reporting with GRI etc. But without an IP&L you cannot take it seriously." Producing and reporting an IP&L creates a clear feedback loop. "You do less stupid stuff. With such analyses you could have prevented disasters like at Facebook or the Bayer-Monsanto takeover."

7.2 What has the feedback been like?

Internally, they did meet a lot of scepticism. But the scepticism was typically mitigated when they made things small. For example, by posing a simple question: "What value is generated by our training programs?" That question could not be answered, but people did find it logical that training programs generated non-financial value. This helped generate good awareness.

Externally, ABN AMRO got a lot of appreciation for doing this, simply for the fact of having such a report. "People ask a lot of questions about it. They want to know how we did it, what kind of assumptions we made, for example on CO2 pricing. The best praise was from people saying that it was well beyond what they thought was possible now." Especially abroad (i.e., outside of the Netherlands) people are surprised and had expected this much later.

Most external criticism was directed at attribution and monetisation. Monetisation simplifies things, which means you lose something as well. Some would argue that monetisation results in excessive financialization, but our experts disagree. First:

"You don't necessarily need to express it in monetary euros, but it needs to be understood – and people typically do not grasp concepts like life satisfaction years."

Second, these are autonomous targets that are not being netted – although it is sometimes hard not to net things out. At any rate:

"Monetisation remains controversial, especially if you talk about the value of human lives. The tone is crucial then."

The hardest part was attribution, i.e. determining how much of the impact was caused by ABN AMRO and how much by other parties. This is relevant when different organizations create (or destroy) value together. In that case, some of the value can be attributed to each of them. A guiding principle is that this should be done without double counting or undercounting.

"Experts thought that ABN AMRO attributed too much value, both on the positive and on the negative side. And that criticism was fair. For example, in green mortgages, they attributed most of the GHG savings to ABN AMRO, although these savings were created by others as well. But what

do you do then: attribute it to both in full, split it proportionally? It's a tough call."

Other feedback was more mixed, with some people finding the report too technical and others not technical enough. And while people tend to miss comparability, they also to understand it's not possible yet given the lack of similar reports.

7. 3 What are the likely drivers of uptake elsewhere?

People involved in producing ABN AMRO's Impact Report say that a lot of companies show an interest, especially people in investor relations or sustainability roles. Quite a few companies are already experimenting, but don't dare to take it outside. There are multiple reasons for that. For example, many obviously fear that the outcomes will be quite negative. Others actually fear that the outcomes will look too positive (and hence not credible), or that competitive information is given away. In addition, more urgent matters like scandals can take precedence. Also, quite a few seem to be more interested in it as a communication tool than as a measurement tool. And of course at every company there is the internal resistance that needs to be overcome.

The following are identified as likely drivers of (or obstacles to) uptake by other companies:

- **Top management**.
  The importance of societal value needs to be recognized at the top of an organization, either intrinsically or as a business driver;

- **Societal pressure**.
  For example, insurance companies are less likely to do it than banks, as the former are less in the societal spotlight;

- **Nature of the main shareholders**.
  At ABN AMRO, and at Volksbank, the government stake gives extra pressure to make societal value visible;

- **Size and sign of externalities**.
  Companies with large negative externalities, such as coal miners, oil, and airlines, have strong incentives to downplay or hide those externalities. Conversely, companies with large and positive externalities would want to make them very visible;

- **Financial success**.
  You need to be financially successful for people (especially investors) to grant you this space to manoeuvre;

- **Social & human capital**.
  This matters in two ways. First, in business models where human and social capital are large and positive, it is likely beneficial to make that capital more visible. Second, in any company you need a lot of inhouse capacity to get it done, including intrapreneurs to get people along;

- **Optionality in assets**.
  Impact information is probably more valuable if you have options to act on it. For example, financial institutions can more easily switch their investments than companies that are stuck to their factories.

- **Effects of transparency**.
  Impact reporting seems less likely at companies that benefit from opacity, such as predatory business models or consumer facing companies that sell illusions. It might also be less likely at sustainability leaders who have a reputation to loose[5].

In addition, uptake depends on entrepreneurial individuals who drive it within companies. Such people could be helped by making them aware of this kind of reporting and by sharing experiences with them. Moreover, the feedback discussed in the previous section suggests that uptake would be stimulated by taking away concerns over attribution and monetization.

7.4 How do you know if your impact performance is good enough?

As noted in the previous sections, it is hard for the reader to ascertain how strong ABN AMRO's performance is. ABN AMRO and Impact Institute acknowledge this. There are no clear benchmarks against which to measure performance. An integrated balance sheet is still out of reach. The team at ABN AMRO find the thresholds & allocations approach of R3.0 very interesting (R3.0, 2018), but cannot yet map the approach with current data. However, comparability across companies and time will bring more information to judge performance. So hopefully, others will start doing it. In the meantime, ABN AMRO will just keep on doing this, and will keep on improving. This will likely not change when CEO Van Dijkhuizen steps down in 2020. This can be seen as a risk to the bank's sustainability efforts, but the risk seems low: "Sustainability is firmly anchored into the bank's strategy and the board will take sustainability into account when choosing the next CEO. It also helps that CFO Clifford is very committed to it."

7.5 What is next?

As CEO Kees van Dijkhuizen said in his introduction, this is only the beginning. Ideally, future Impact Reports will see the inclusion of:

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[5] i.e. where perceptions about their sustainability profile (due to PR, high ratings, etc.) are more favourable than their actual business practices, products and sustainability integration warrant

- Historical and forward looking statements that include targets and scenarios on how important social and environmental issues will evolve;
- Transparency & granularity on assumptions;
- More examples of how value was created or destroyed;
- Clearer links between the various statements; and ultimately
- An integrated balance sheet that allows the calculation of integrated returns.

All of this would help readers of impact reports to understand how the company creates value, and how that compares both to its potential and to others.

For the reporting organizations, we would welcome this analysis to be fed into:

- Strategy;
- Investment decisions;
- Board discussions;
- Management remuneration;
- Employee incentives & evaluation; and ultimately
- Decision making at all levels of the organization.

In doing so, the organisation truly embeds the objective of integrated value creation, and is more likely to be successful.

On an industry and societal level, we would like to see:

- Other banks and companies to start issuing similar reports;
- Auditors to become skilled at auditing such reports;
- Inclusion of sustainability issues into reporting standards like IFRS (International Financial Reporting Standards);
- Business schools to teach about the methods and thinking behind Impact Reports;
- Data providers to systematically collect such data like they do with financial data;
- Security analysts and investors to use such reports for assessing long-term value creation – and make educated guesses where reports are underwhelming; and ultimately
- Investment for long-term value creation across organizations and markets.

In this way, integrated value creation could become the standard corporate objective, and we could achieve better societal outcomes.

8 Conclusions

The ABN AMRO impact report is a reporting milestone that deserves more attention and following than it has received so far. At the company level, ABN AMRO has gone through, and continues to go through a great learning journey. The bank has taken major steps towards measuring integrated value. This serves as a shining example for others to follow suit. At the macro level, a group of leading corporates reporting in this way could help reduce the blindness of the financial system for social and environmental issues. Of course, a lot remains to be done, and we are looking forward to comparability across time, activities, and companies; as well as to integrated balance sheets. But that’s the ideal and those elements should not have been expected at this stage anyway.

In sum, ABN AMRO has delivered an admirable achievement by producing this impact report and we look forward to seeing the next versions of it, as well as similar reports by other companies.

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