

VALUE TO SOCIETY – A BALANCED APPROACH TO MEASURING BUSINESS IMPACT

Based on our purpose “We create chemistry for a sustainable future,” we want to contribute to a world that provides a prosperous future with enhanced quality of life for everyone. But is there a way to measure this and guide management decisions in this direction? Together with external experts, BASF has developed a method to perform the first monetary assessment of the economic, ecological, and social impacts of its business activities along the value chain: the “Value to Society” approach.



By Christian Heller, BASF

Our current economic system has created tremendous wealth for many parts of the world, but is it fit for purpose any longer? Today, a perfect storm of disruptive factors is challenging the stability of our social, environmental, and economic systems. They include increasingly globalized and connected markets; the power and influence of technologies such as the Internet of Things and Artificial Intelligence; growing inequality (particularly regarding income and wealth); and the many social and environmental challenges posed by climate change.

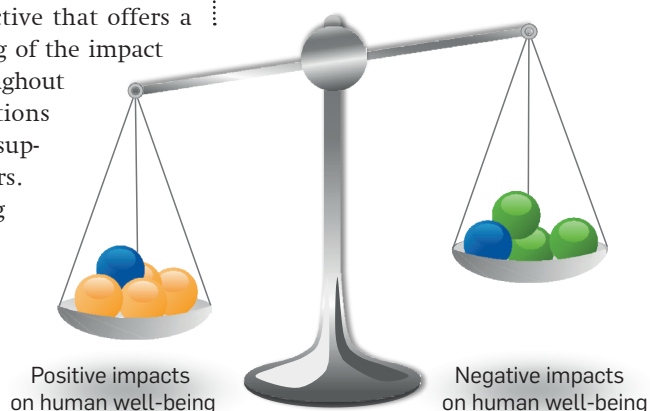
Meeting these challenges is crucial if business is going to maintain the trust of society. This will require a systemic approach. At the moment, most businesses are still operating too much in isolation, and companies are managed based on accounting principles and concepts that are increasingly outdated, as they partially stem from the 19th century. We focus on pure financial performance while neglecting to account in real terms for the impact our activities have on the environment and society.

How can our business contribute toward creating a more viable future with enhanced quality of life? That is a question we at BASF continue to ask as we assess the challenges and opportunities in front of us. Given that BASF is involved in the production of so many of the products that people around the world use every day, we believe we can play an important role in addressing some of the biggest social and environmental issues our society is facing.

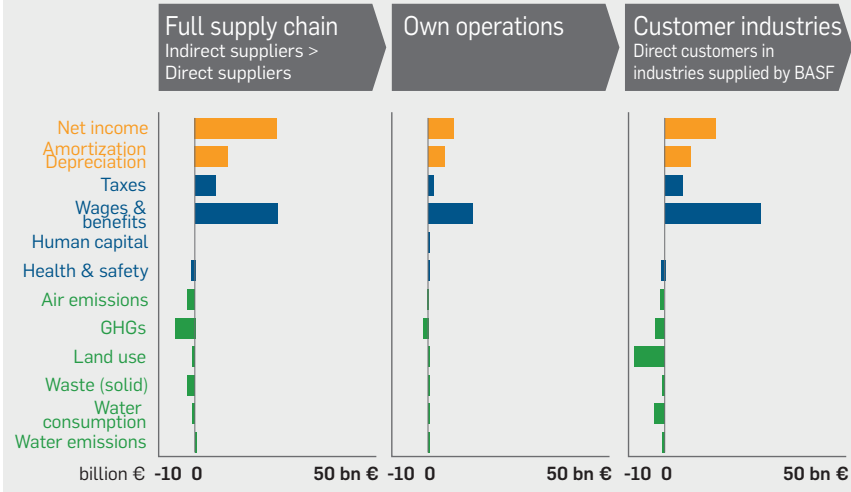
To do so, we need a new way of thinking about business performance – a holistic, value-based perspective that offers a better understanding of the impact of our activities throughout not only our operations but also those of our suppliers and customers. This way of thinking also requires a global perspective that assesses the impacts and value of our activities in nearly every

industry and country. Ultimately, the method has to identify, quantify, value, and demonstrate our economic, social, and environmental impacts as a whole (and their connection to one another) rather than in isolation.

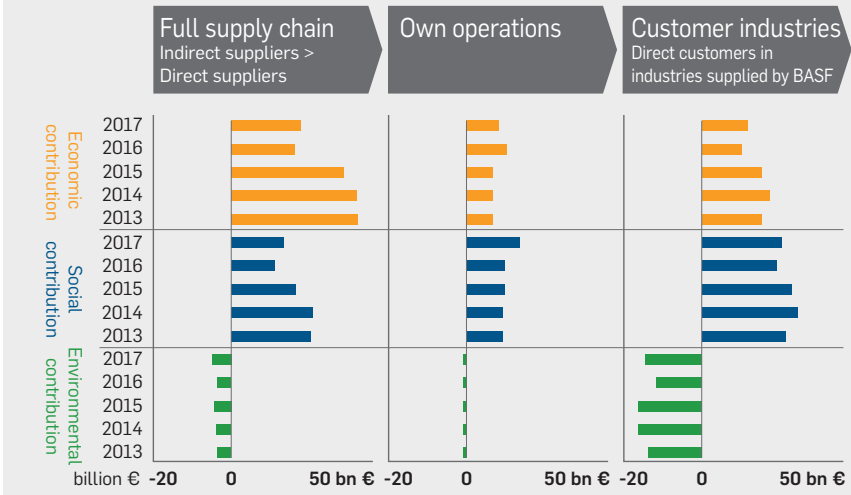
To achieve this and truly measure our value to – and impact on – the world, we created a new measurement framework called Value to Society. It measures our company performance through both the financial and non-financial busi-



BASF'S VALUE-TO-SOCIETY RESULTS 2017



BASF'S VALUE-TO-SOCIETY RESULTS 2013–2017



ness impacts in society and quantifies this through the unit of the euro. Our impact evaluation considers 12 different economic, environmental, and societal categories, including areas such as our net income, the taxes we pay, health and safety, greenhouse gas emissions, and water consumption. This enables us to value the total impacts of our business in a common language that the entire business can understand, and it helps us in applying that insight to future operations and planning. In this way, we can create an accurate measurement of BASF's real

benefits and costs so that we can build on how our company contributes to the well-being of global society. With Value to Society, we follow a common purpose outlined in frameworks such as the UN Sustainable Development Goals.

According to our analysis, the results show a stable distribution of economic, social, and environmental impacts from 2013 to 2017. In each step of the value chain, the benefits of our business activities substantially exceed the costs to society. Economic impacts are positive

along with taxes, wages and benefits, and human capital. Negative impacts are health and safety incidents as well as impacts on the environment. We strive to increase our positive contributions to society and minimize the negative effects of our business activities.

By implementing the Value to Society method, we are able to visualize and share with customers, partners, and regulators both the positive and negative impacts of our total business. This gives us a pragmatic, efficient, auditable, and transferable approach to sustainable growth and provides valuable insight for everyone we do business with or interact with. In turn, this transparency enables the integrated character of our actions for more informed decision-making, and thereby contributes to BASF's long-term success.

While Value to Society is a game-changer from our point of view, we understand that there are more skeptical assessments and requests for an unbiased and balanced approach. We are open to discussions about the methodology. We agree that we need a shared and standardized impact valuation approach in order to create a level playing field. Therefore, we share our approach, experiences, and learnings with our stakeholders and standard-setting communities. Together with other companies, we plan to consolidate the current approaches and pursue the implementation of value-based approaches in entrepreneurial decision-making processes. But companies need to be rewarded for their efforts of integrating environmental and social responsibility in their business models. This requires a bespoke regulatory environment as well as capital markets allocating resources to leading companies.

Moving from the traditional shareholder value concept to a "system value" approach, we truly value the impacts and interdependencies of society and business in a comprehensive system. This system serves as our foundation for shaping the future. ■