



Sustainability

Does Sustainable Performance Mean Abandoning Capitalism?

By MARTIN P. THOMAS AND MARK W. McELROY

We introduce **multicapitalism** and the **MultiCapital Scorecard** as a means of extending capitalism to include social and environmental performance. Setting related standards in organisations' own contexts starts profound learning and also answers the question: "How much is enough?" Leaders can then formulate strategies to become environmentally, socially and economically sustainable.

Many governors, leaders and financial officers recognise that planetary limits of natural resources will (if they do not yet) constrain traditional ways of operating their organisations. They also understand that the richest 1 billion of the world's 7 billion people cannot expect to continue their over-consumption while the poorest 6 billion compensate for them. The dilemma that confronts many responsible leaders is therefore: "How do we balance our environmental and social duties with our economic responsibilities to investors?"

Does it mean we have to abandon capitalism in favour of an essentially social mission?"

Of course, many prefer not to ask these questions, fearing the consequences of the possible answers. But as the frequent failures of governance in recent years have shown, turning a blind eye to vital questions is itself often the cause of failure.

Moreover, organisations of all sorts and sizes find that the accounting and

reporting of their performance already consume immense amounts of time, money and information technology resources. Should responsible leaders contemplate doing more than simply focusing on their own economic impacts? After all, the funds flowing from financial success are needed to pay for existing administrative resources, which are usually stretched. And Milton Friedman in 1962¹ argued that the only duty of companies was to make money.

To prosper beyond the short term, organisations need to learn how to learn continuously. This requires an ability to make all questions discussable.

So for those with the courage to ask the right questions, are there any answers that do not imply the overthrow of the very capitalism on which the western world and their organisation have become prosperous? And is it responsible to ask questions that will inevitably require some administrative work beyond the status quo?

The Dawning of Multicapitalism

Our work and research show positive answers to both these questions:

1. To prosper beyond the short term, organisations need to learn how to learn continuously. This requires an ability to make all questions discussable.² So, not only can these questions be asked, responsible managers and governors have a duty to ask them,

particularly in turbulent times.

2. Maintenance of the carrying capacity of capitals of all sorts is built upon the principles that lie at the very foundation of capitalism.³ By extending these principles to include a duty of care towards natural and other capitals of all sorts (e.g. Human, Social & Constructed) we create the concept of multicapitalism.⁴ This is no rejection of capitalism. It is the very opposite: it is the extension of it to include all sorts of capital.

This idea of reporting impacts on multiple capitals is reflected in the Framework published by the International Integrated Reporting Council in December 2013. Integrated Reporting is now required in South Africa, France, and is recommended as best practice in the UK. Leading organisations tend to prepare their internal management information processes in advance of any publication becoming mandated.

Moreover, the fundamental principles we adopt for meaningful presentation of performance across different forms of capital (the triple bottom line) include:

1. Stakeholder engagement (recommended by the Global Reporting Initiative),
2. Sustainable performance as the common normative concept for all capitals,
3. Context-based standards: performance norms set in the context of each organisation, and
4. Progression scoring: measuring progression in closing the gap to sustainability norms.

To address these needs, we have developed the MultiCapital Scorecard, a triple bottom line performance measurement methodology designed to present a one-page report on the progression of the organisation towards meeting its sustainability norms.⁵

Strategy

Sample MultiCapital Scorecard

Vital capitals

- Constructed
- Economic
- Human
- Natural
- Social & Relationship

BOTTOM LINE	AREAS OF IMPACT	CAPITAL IMPACTS	A	B	C	D	Gap to fully sustainable (D-C)	Area of impact (Aol) bottom line (C/D)	TRIPLE BOTTOM LINE SCORES
			Progression score	Weight	Weighted score (AxB)	Fully sustainable score (Bx3)			
SOCIAL	Product safety	■	3	5	15	15	0	100%	43%
	Workplace safety	■ ■ ■	-1	5	-5	15	20	-33%	
	Gender equity	■	2	4	8	12	4	67%	
ECONOMIC	Living wages	■	1	1	1	3	2	33%	79%
	Owners' equity	■	2	5	10	15	5	67%	
	Borrowings	■	3	5	15	15	0	100%	
ENVIRONMENTAL	Climate system	■	-2	4	-8	12	16	66%	0%
	Water	■	2	3	6	9	3	67%	
	Solid waste	■	1	2	2	6	4	33%	
OVERALL PERFORMANCE					44	102	58		43%

Note: Areas of Impact shown here are purely illustrative and are always organisation-specific.

Non-executive directors and other members of governance bodies need such a report in which all forms of capital impact are presented on the same basis. The MultiCapital Scorecard therefore requires answers to two more questions that few organisations dare to ask for each of its main areas of impact:

1. How much is required for our organisation to be sustainable in our context? and
2. How are we performing in progressing towards those sustainability norms?

To do so, the process calls for organisations to engage with their stakeholders and consider the duties (including moral or ethical duties) they believe the organisation owes them. Management then sets standards of performance that represent their obligations to stakeholders. Those duties and obligations should represent the organisation's fair, just and

proportionate share of available resources or the burden to maintain them in order for its impacts to be sustainable (assuming everyone else were to apply the same criteria to their own performance). That is to say, no organisation can be expected to right the wrongs of the whole world, but a fair share of duties to maintain vital resources represents an appropriate benchmark for performance measurement and accountability.

Establishing sustainability norms therefore involves discussion with stakeholders about the duties they believe the organisation owes them. In many cases of natural capital impacts, the organisation will also refer to current scientific analysis to set maximum impacts for sustainability (ceilings). In cases of economic impacts, market and peer group norms will be taken into account to set threshold performance norms (floors). Economic returns below the opportunity cost of capital are unlikely to be sustainable (although this is currently the case

for many organisations which are therefore unsustainable). Norms for social impacts are also expressed in terms of thresholds or floors. In all cases the context of the individual organisation is an essential reference point in setting meaningful performance norms.

In determining the sustainability norms, attention has to be paid to the available data sources and the metrics to be adopted for standard setting (and of course the corresponding actual performance measurement). Sometimes new data sources will need to be developed, but in many cases existing surrogates will be useful to kick-start the process. The MultiCapital Scorecard adopts the principle that it is better to be approximately right (in measuring the right elements of performance) than precisely right in measuring (very exactly) only part of what is important. In practical terms, that means that an imperfect triple bottom line scorecard that compares performance to context-based sustainability norms is preferable to any single bottom line scorecard or any other that fails to set meaningful performance standards.

This is not to say that the information can be of poor or inconsistent quality, but it is important for organisations to start the thinking and learning processes without the fear that the output will be challenged as imperfect. Once started, external assurers will help improve the concepts and data used in the MultiCapital Scorecard and will compare peer group norms adopted wherever possible. But perfection is a counsel of despair. In the 500 years since Pacioli published his treatise on financial capital maintenance via double entry book-keeping, scholars have been (and still are) debating what perfection might mean in financial accounting.⁶ The world simply does not have the time required to perfect the concepts and practices of accounting for our impacts on natural, social and other capitals. We need to accept that “approximately right” is better than “precisely wrong”.

The MultiCapital Scorecard has been designed to support organisations of all sorts in which there is a genuine will to become less unsustainable. In the fullness of time, it may be expected that the sustainability audit and accounting professions will be able to synthesise

the best practices and perhaps set some criteria to help support the formulation of norms. The MultiCapital Scorecard incorporates a periodic double loop review to reconsider the whole process and recommend improvements. If at any stage these periodic reviews indicate that the benefits fail to outweigh the costs of the exercise, the organisation may feel at liberty to jettison its use or modify it to make it more cost-effective.

The scorecard (see scorecard on previous page) reports performance for one year for a hypothetical company.

Daring to ask provocative questions is a prerequisite of collective learning. In an era of Big Data, surprising answers will emerge. The MultiCapital Scorecard encourages practitioners to ask the vital questions. Everyone in the organisation should be authorised to ask what sustainable performance would look like. It is then simply good practice to measure progression towards becoming sustainable. That is the very essence of the MultiCapital Scorecard; the best of capitalism applied to environmental and social capitals as well as to financial capital.

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Benefits of Multiple Capital Accounting

Finally, let’s think about the benefits that accrue to organisations that work with the framework of the MultiCapital Scorecard.

The organisation itself develops a broadly based governance process that is ahead of the field in dealing with its externalities and sustainability needs. Integrated (triple bottom line) reporting will become mandatory at some future date almost everywhere. Prime movers create advantageous positions by developing the skills and setting standards to their own time constraints and in their own contexts. In the process, they build lasting links with stakeholder groups that feed contextual data into the heart of the organisation and they tend to attract enlightened employees.

Strategy




To leaders who initiate such enquiry come the benefits of cohesive energies towards collective goals. The MultiCapital Scorecard harnesses the uncertainty that lurks in us all to channel it into a constructive change process. The potentially revolutionary thrust to include duties of care to environmental and social capitals becomes structured evolution. Leaders themselves gain an understanding of the deep meaning of sustainability for their organisation and focus on its longer-term shape.

To individuals who participate in such activities comes the freedom to articulate and explore the needs of the context. This results in personal learning and growth as well as internal motivation to accomplish the changes needed to move towards sustainable futures.

To governors who ask to see a MultiCapital Scorecard comes the ability to strike balances between competing demands upon scarce resources. Strategic formulation can therefore genuinely become informed by seeking sustainability in all aspects of their business. This includes of course managing reputational capital which has proven in recent decades to be so important yet so fragile. Addressing reputational risk on a preventative basis should be required by every governor.

To the accountants who take on the challenge of structuring the MultiCapital Scorecard process, come the skills of appreciating and managing non-financial as well as financial performance. These include its decentralised standard setting

and multicapital consolidation protocols that will allow “integrated reporting” to become truly integrated. The MultiCapital Scorecard also supports investment decision-taking, bringing into account social, environmental and economic aspects. This will become a critical skill in supporting strategies respectful of triple bottom line impacts.

The MultiCapital Scorecard therefore frames the performance measurement process needed to lead organisations from myopic financial capitalism to the broad horizons of multicapitalism. When the world recognises the call for change, those prepared for it, individually and collectively, will be able to thrive. Those who remain in denial will join the ranks of the bankers who rejected computerisation and the retailers who dismissed the potential of e-commerce. 

For more information about the MultiCapital Scorecard, visit www.multicapitalscorecard.com

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