An Introductory Overview of the MultiCapital Scorecard™

The world’s most advanced (and open-source*) Triple Bottom Line performance accounting system

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Five Key Principles of the MCS

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The MultiCapital Scorecard™ (MCS) is the world’s first integrated, multicapital-, context-based measurement and reporting system:

- Is *integrated* in the sense that it expresses performance in Triple Bottom Line terms
- Is *multicapital-based* in the sense that it expresses performance in terms of impacts on all vital capitals, not just economic capital
- Is *context-based* in the sense that it measures and reports performance relative to organization-specific norms for what they would have to be in order to be sustainable & responsible
- Is an “open-source” offering, free for end-user applications; licenses available for commercial use
Five Key MCS Principles
Five Key Principles of the MultiCapital Scorecard (MCS)

1. **Performance as Sustainability Performance**

* The MCS is based on a *sustainability* theory or interpretation of performance (i.e., that performance is fundamentally about whether or not an organization’s impacts and operations are sustainable)
  - Recognizing that *sustainability performance* is just a proxy for *responsibility performance*
* The MCS thereby assesses the performance of an organization across the Triple Bottom Line in all of its dimensions, including the financial one
* It does this by assessing an organization’s impacts on capitals relative to social, economic and environmental limits and thresholds in the world and with stakeholder well-being in mind
* Importantly, this is consistent with how financial reporting has always been done (i.e., performance is expressed in terms of impacts on capitals with stakeholder well-being in mind)
2. **Stakeholder-Centric**
   * The MultiCapital Scorecard focuses exclusively on impacts that can, do or should affect stakeholder well-being
   * A stakeholder is anyone to whom a *duty* or *obligation* is owed by an organization to have, not have or manage its impacts on *vital capitals* in ways that can affect their well-being

3. **Grounded in Multicapitalism**
   * Performance is best understood in terms of impacts on multiple vital capitals
   * Performance is assessed in terms of actual versus normative impacts on natural, human, social & relationship, constructed and economic capitals
What is Capital?

To qualify as capital, a thing must ...

1. Consist of resources important for human well-being
2. Have stocks (S) that are distinguishable from flows (F):
   - Stocks continually produce goods or services (flows)
   - Flows used as resources for human well-being

**Capital**: A stock of anything that produces a continual supply of valuable goods or services

**Stocks**: Accumulations of things that produce continual supplies or flows of valuable goods or services

**Flows**: Continual supplies or discharges of valuable goods or services important for human well-being
“One does not wish to arbitrarily modify such a foundational concept as ‘capital’. It is counterproductive, however, to assume that the concept of capital has a fixed set of innate meanings. As knowledge grows, the denotation and connotation of a core scientific concept may change in a direction that is not purely whimsical. Conceptual development may well be productive in helping scholars understand more phenomena using a core set of conceptual tools.”


The capital theory basis of sustainability is arguably the least controversial aspect of the field, if only because of the extent to which it persists in the literature (and practice) over the past 100+ years!
Two Illustrations of Capital Stocks and Flows

**STOCKS**

**Climate System**
(a form of global natural capital)

The Climate System

**Healthcare System**
(a combination of human, social, constructed and economic capitals)

Healthcare Systems

**FLOWS**

Temperature Regulation

Healthcare Services
Vital Capitals and the Triple Bottom Line

Vital Capitals

- **Human**
- **Social & Relationship**
- **Constructed**

Internal Economic

- **Financial & Non-Financial**

External Economic

- **Financial & Non-Financial**

Natural

- **Natural Resources & Ecosystem Services**

Social Bottom Line

Economic Bottom Line

Environmental Bottom Line

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4. **Context-Based**

* The MultiCapital Scorecard (MCS) is an extension of [Context-Based Sustainability](#) (CBS)

* CBS is an approach to performance measurement and reporting that takes social, ecological and economic thresholds in the world explicitly into account

* Whereas CBS focused only on social and environmental performance, the MCS adds economic performance to the mix resulting in the world’s first context-based Triple Bottom Line measurement and reporting system

* All standards of performance defined in the MCS are therefore stakeholder-centric, capital-based and organization-specific (i.e., context-based), and are ultimately expressive of organizational responsibilities!
5. Materiality in the MCS

* As an extension of *Context-Based Sustainability*, the MultiCapital Scorecard determines materiality by reference to an organization’s sustainability context:
  - An impact is material and should be measured and reported if it corresponds to a duty or obligation an organization has to manage its impacts on vital capitals in ways that can affect stakeholder well-being
  - If such a duty or obligation exists, the associated impacts involved are material

* This is a materiality criterion that successfully resolves disparities and/or conflicts between historical financial and currently-evolving non-financial materiality principles
  - The common ingredients of *stakeholders* and *vital capitals* are what make this possible and the MCS embraces both
## MCS Materiality Template with Examples

<table>
<thead>
<tr>
<th>Areas of Impact (AOI)</th>
<th>Corresponding D/Os Exist¹</th>
<th>Associated Stakeholder Groups</th>
<th>Impacts are De Minimis (Y/N)²</th>
<th>Impacts are Material (Y/N)</th>
<th>Weight</th>
<th>Progression</th>
<th>Sizing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Safety</td>
<td>Yes</td>
<td>Consumers</td>
<td>N/A</td>
<td>Yes</td>
<td>OS³</td>
<td>OS³</td>
<td>OS³</td>
</tr>
<tr>
<td>Charitable Giving</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners’ Equity</td>
<td>Yes</td>
<td>Owners</td>
<td>N/A</td>
<td>Yes</td>
<td>OS³</td>
<td>OS³</td>
<td>OS³</td>
</tr>
<tr>
<td>Provision of Employment</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Environ.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Use at Plant A</td>
<td>Yes</td>
<td>Local Community</td>
<td>No</td>
<td>Yes</td>
<td>OS³</td>
<td>OS³</td>
<td>OS³</td>
</tr>
<tr>
<td>Water Use at Plant B</td>
<td>Yes</td>
<td>Local Community</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

1. This column asks whether or not corresponding duties or obligations (D/Os) exist for each AOI, by which norms for impacts on vital capitals are defined at levels required to maintain the capitals and ensure stakeholder well-being.
2. Applies only to impacts on Natural Capitals, which unlike other capitals exist only in limited supplies.
3. Organization-specific (OS) assignments of values for these variables are made using standardized MCS scales.

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Materiality in the MCS, like sustainability, is interpreted in terms of what an organization’s impacts on vital capitals are.

In the MCS, materiality determinations are made by way of a two-step process:

- First we assess the Absolute Materiality of impacts on vital capitals.
- Then we assess the Relative Materiality of impacts that are deemed to be material by dint of the first step.
  - Different weights are assigned to them, as appropriate.
  - A progression scoring schema is applied to qualify impacts relative to sustainability norms.
  - Sizing factors are applied to account for proportionality (i.e., in cases where consolidated reporting is being done).
Measurement in the MCS
Measurement in the MCS

* Measurement starts with making materiality determinations
  – Who an organization’s stakeholders are
  – What its duties (moral or ethical) and obligations (legal) are to have, not have or manage impacts on vital capitals in ways that can help to ensure stakeholder well-being (i.e., what its responsibilities are)

* This leads to the identification of material Areas of Impact (AOIs) that should be the focus of measurement
  – This is how we define the scope and boundaries of an organization’s sustainability program
  – If an issue doesn’t involve impacts on vital capitals of importance to stakeholder well-being, it’s not material
## Sample Areas of Impact (AOIs)*

<table>
<thead>
<tr>
<th>Bottom Line</th>
<th>Stakeholders</th>
<th>Areas of Impact / (Capitals)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>Employees</td>
<td>Living Wage (H)</td>
</tr>
<tr>
<td></td>
<td>Employees &amp; Contractors</td>
<td>Workplace safety (H,S,C)</td>
</tr>
<tr>
<td></td>
<td>Consumers, Employees, Universities, Communities, Shareholders</td>
<td>Innovative Capacity (H,S,C)</td>
</tr>
<tr>
<td>Economic</td>
<td>Shareholders</td>
<td>Equity (IE)</td>
</tr>
<tr>
<td></td>
<td>Lenders</td>
<td>Borrowings (IE)</td>
</tr>
<tr>
<td></td>
<td>Competitors, Customers, Shareholders and Communities</td>
<td>Competitive Practices (EE)</td>
</tr>
<tr>
<td>Environmental</td>
<td>Local Community</td>
<td>Water Supplies (N)</td>
</tr>
<tr>
<td></td>
<td>Local / Regional Community</td>
<td>Solid Waste (N)</td>
</tr>
<tr>
<td></td>
<td>Global Community</td>
<td>GHG Emissions (N)</td>
</tr>
</tbody>
</table>

**Capitals Legend:**
- C = Constructed**
- EE = External Economic**
- H = Human**
- IE = Internal Economic**
- N = Natural
- S = Social & Relationship**

**These capitals are often inclusive of Intellectual Capital, which need not be separately listed.**

*AOIs shown are purely illustrative; actual AOIs are always organization-specific.

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* Measurement continues by defining sustainability standards of performance for each AOI
  - For impacts on natural capital, standards are expressed in terms of not-to-exceed (maximum) thresholds
  - For impacts on all other capitals, standards are expressed in terms of not-to-fall-below (minimum) thresholds

* Actual performance can thereby be quantitatively assessed relative to standards for what impacts on capitals would have to be in order to be sustainable and support stakeholder well-being

* Most important is that in the MCS, all such standards are organization-specific, self-determined and science- and/or values-based
Sustainability Norms (SNs) and interim Trajectory Targets (TTs) are then defined for each AOI – e.g., for a “Living Wage”:

<table>
<thead>
<tr>
<th>Sustainability Norm (minimum threshold)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>-</td>
<td>$35,000</td>
<td>$36,050</td>
<td>$37,132</td>
<td>$38,245</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trajectory Targets</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>-</td>
<td>$29,061</td>
<td>$32,123</td>
<td>$35,184</td>
<td>$38,245</td>
</tr>
</tbody>
</table>

We then measure and score actual performance every year thereafter using a 7-point “Progression Performance” scale.
<table>
<thead>
<tr>
<th>Numeric Score</th>
<th>Score Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>+3</td>
<td>Meeting or exceeding the sustainability norm for the year</td>
</tr>
<tr>
<td>+2</td>
<td>Meeting or exceeding the year's trajectory target, but falling short of the sustainability norm</td>
</tr>
<tr>
<td>+1</td>
<td>Improving upon the previous year's performance, but not meeting the year's trajectory target; or any year of improving performance while having no such targets at all (sustainability norm or trajectory target)</td>
</tr>
<tr>
<td>0</td>
<td>Maintaining the previous year's performance while not meeting the year's trajectory target or sustainability norm; or any year of unchanged performance while having no such targets at all (sustainability norm or trajectory target)</td>
</tr>
<tr>
<td>-1</td>
<td>A 1-year regression in performance while not meeting the year's trajectory target or sustainability norm; or any single year of worsening performance while having no such targets at all (sustainability norm or trajectory target)</td>
</tr>
<tr>
<td>-2</td>
<td>A 2-year regression in performance, while not meeting the year's trajectory target or sustainability norm; or any second consecutive year of worsening performance while having no such targets at all (sustainability norm or trajectory target)</td>
</tr>
<tr>
<td>-3</td>
<td>A 3-or-more-year regression in performance while not meeting the year's trajectory target; or any third-or-more consecutive year of worsening performance while having no such targets at all (sustainability norm or trajectory target)</td>
</tr>
</tbody>
</table>
Assigning Scores to Individual AOIs

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability Norm</strong></td>
<td>-</td>
<td>$35,000</td>
<td>$36,050</td>
<td>$37,132</td>
<td>$38,245</td>
</tr>
<tr>
<td>(minimum threshold)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Trajectory Targets</strong></td>
<td>-</td>
<td>$29,061</td>
<td>$32,123</td>
<td>$35,184</td>
<td>$38,245</td>
</tr>
<tr>
<td><strong>Annual Wage of Lowest</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid</td>
<td>$26,000</td>
<td>$28,000</td>
<td>$32,250</td>
<td>$35,184</td>
<td>$38,245</td>
</tr>
<tr>
<td><strong>Progression Score</strong></td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>
Reporting in the MCS
Performance in the MCS is reported in three ways at both the operating unit and consolidated levels:

- The individual Area of Impact (AOI) level
- The Triple Bottom Lines level
- Overall performance level
Recall the Living Wage AOI earlier discussed; reporting for that would include the graphs shown here.

Performance for each AOI is reported relative to organization-specific Sustainability Norms (SNs) and Trajectory Targets (TTs) as defined by an organization.
MCS aggregates AOI performance reports at the organizational level and across the Triple Bottom Line.
Reporting at the Operating Unit Level (cont.): Multi-Year Reports

Performance is reported by Triple Bottom Line category and in overall terms

<table>
<thead>
<tr>
<th>Year</th>
<th>Social</th>
<th>Economic</th>
<th>Environmental</th>
<th>Overall Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>92%</td>
<td>-25%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>79%</td>
<td>62%</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>2017</td>
<td>77%</td>
<td>62%</td>
<td>77%</td>
<td>77%</td>
</tr>
<tr>
<td>2018</td>
<td>79%</td>
<td>5%</td>
<td>77%</td>
<td>77%</td>
</tr>
<tr>
<td>2019</td>
<td>90%</td>
<td>90%</td>
<td>83%</td>
<td>83%</td>
</tr>
</tbody>
</table>

5 year bottom line performance - Company ABC

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Reporting at the Consolidated Level

Performance is also reported *annually* for multiple operating units by Triple Bottom Line and in terms of centrally determined AOIs.
The MCS also supports *multi-year* consolidated reporting across multiple business units by Triple Bottom Line.

... as well as *multi-year* consolidated reporting across multiple business units for specific AOIs, per centrally determined standards of performance.

### Consolidated Reporting (cont.)

#### Consolidated Summary

<table>
<thead>
<tr>
<th>Business Units</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>DEF</td>
<td>GHI</td>
<td>ABC</td>
<td>DEF</td>
<td>GHI</td>
</tr>
<tr>
<td>33%</td>
<td>67%</td>
<td>67%</td>
<td>31%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Social</td>
<td>Economic</td>
<td>Environmental</td>
<td>Social</td>
<td>Economic</td>
<td>Environmental</td>
</tr>
<tr>
<td>76%</td>
<td>47%</td>
<td>47%</td>
<td>33%</td>
<td>65%</td>
<td>62%</td>
</tr>
<tr>
<td>Group</td>
<td>56%</td>
<td>55%</td>
<td>69%</td>
<td>64%</td>
<td>72%</td>
</tr>
</tbody>
</table>

#### Centrally Determined Areas of Impact

<table>
<thead>
<tr>
<th>Equity</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>DEF</td>
<td>GHI</td>
<td>ABC</td>
<td>DEF</td>
<td>GHI</td>
</tr>
<tr>
<td>33%</td>
<td>67%</td>
<td>67%</td>
<td>57%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Group</td>
<td>56%</td>
<td>57%</td>
<td>67%</td>
<td>44%</td>
<td>78%</td>
</tr>
<tr>
<td>The Climate System</td>
<td>0%</td>
<td>67%</td>
<td>67%</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>44%</td>
<td>56%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Group</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
</tr>
</tbody>
</table>
Compliance with Standards in the MCS
MCS Compliance with Standards

* The MCS is the only measurement and reporting system that fully complies with the Global Reporting Initiative’s (GRI’s) Sustainability Context principle
* The MCS is the only measurement and reporting system that more than complies with the International Integrated Reporting Council’s (IIRC’s) <IR> Framework (now part of Value Reporting Foundation)
  - Goes beyond assessments of “value creation” to include fully integrated, context-based triple bottom line reporting
* The MCS is also endorsed by the United Nation’s (UNEP) corporate sustainability reporting guidelines in its 2015 Raising the Bar report …
* And also by B Lab for Benefit Corporation measurement and reporting
Contact Information

For more information about the MultiCapital Scorecard™, including opportunities to pilot the method in your own organization, feel free to contact us at the coordinates below:

In the US:
Mark McElroy
Thomas & McElroy LLC
P.O. Box 766
Woodstock, VT 05091, USA
PHONE: 1 (802) 457-4222
MOBILE: 1 (802) 296-1928
EMAIL: mmcelroy@vermontel.net
Skype: mwmcelroy
Twitter: @mwmce

In the UK:
Martin Thomas
Thomas & McElroy LLC
Green Lane House, The Mount,
Guildford, GU2 4RH
Surrey, UK
PHONE: +44 (0) 01483 808105
MOBILE: +44 (0) 7899 064 956
EMAIL: martin@call4change.com
Skype: martinthomas

Click here for a presentation on Materiality in the MCS
Click here for a Prospectus on Piloting the MCS

https://www.multicapitalscorecard.com
Appendix:
Definitions of Vital Capitals
Vital Capital Definitions

Natural Capital

- Natural Resources

Consists of air, land, water, minerals, flora, fauna, ecosystems and other natural biophysical resources that humans and non-humans alike rely on for their well-being.

- Ecosystem Services

Consists of services or functions provided by ecosystems that humans and non-humans alike rely on for their well-being. Examples include climate regulation.

Human Capital

Consists of knowledge, skills, experience, health, values, attitudes, motivation and ethical entitlements of individuals. This therefore includes the intellectual capital held at the level of the individual.
Social & Relationship Capital

Consists of teams, networks and hierarchies of individuals working together and their shared knowledge, skills, experience, health, values, attitudes, motivation and ethical entitlements. This therefore includes the shared intellectual capital of the group. Groups may be wholly internal to an organization, external to an organization, or inter-organizational, and may or may not be controlled by the organization of interest. They may be physical groups, virtual groups or blends of both.

Constructed Capital

Consists of material objects, systems or ecosystems created and/or cultivated by humans, including the functions they perform. It is the world of human artifacts and the functions or services they provide, in which other capitals will usually be embedded, although in modified or designed forms. It is the world of human design.
Internal Economic Capital

- **Financial**

Consists of the pool of funds available to an organization, including debt and equity finance. This description of financial capital focuses on the sources of funding, including cash and liabilities on the balance sheet, rather than their application, which usually results in the acquisition of assets such as land, buildings, plant and inventories or other forms of capital (e.g., constructed and intellectual capital).

- **Non-Financial**

Consists of net assets not recognized in internal financial capital. This category captures assets pertaining to an organization that are not recognized as financial capital. They may or may not be monetized and reflected in the Financial category. An example is the value of brands that have been developed organically internally, but not recognized in the financial accounts.
External Economic Capital

- **Financial**

Consists of financial funds available to parties outside an organization. MCS takes account of the impact an organization has (or should have) on the financial capital of entities other than the reporting entity itself. For example, an investment in a factory, outlet or warehouse may reduce the financial value of other owners’ properties in the vicinity. Impacts, too, may impose costs on society, such as the healthcare or municipal costs of dealing with an adverse impact on the environment.

- **Non-Financial**

Consists of external non-financial capitals and the externalities that generally escape the financial accounting system (e.g., impacts on natural resources, ecosystem services, socio-economic systems, etc.).

(continued on next slide)
Some such impacts may also be monetized and reflected in the *External Economic Financial* category. However, simply accounting for the monetary value of impacts is seldom sufficient to effectively maintain the resource or its carrying capacity intact; there usually needs to be a social or biophysical obligation that goes alongside a monetized financial impact even if it is satisfactorily treated as a cost. Indeed, in indigenous societies, vital economic capitals are often not monetized at all. Nevertheless, MCS may still recognize them as either economic or non-economic capitals, whichever makes more sense to the organization in its own context. The choice of categorization is, in our view, secondary to the capture of impacts on vital capitals and their proper treatment under the principles of MCS.