Vital Capitals, the Triple Bottom Line and the MultiCapital Scorecard™

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MultiCapital Scorecard™
Rethinking Organizational Performance

Contents

Introduction

* The MultiCapital Scorecard is a performance accounting system that:
  * Is context-based and Triple Bottom Line (TBL) in scope (i.e., which measures and reports performance in terms of impacts on *the carrying capacities of vital capitals* relative to standards or norms for what they would have to be in order to be sustainable)
  * Expresses TBL performance in accordance with how specific capitals correlate to the three bottom lines

The Capital Theory Basis of Sustainability and the Triple Bottom Line

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
3. Only sometimes consist of economic things

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

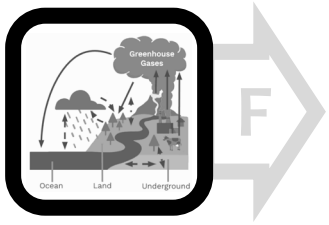
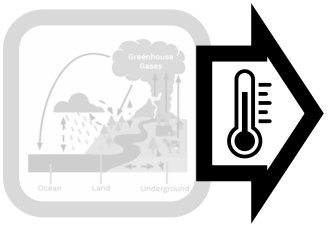
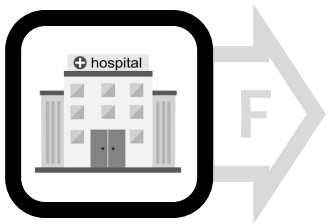
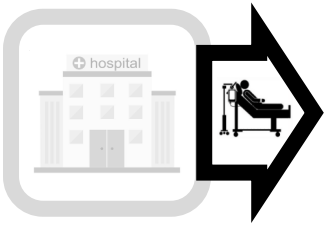
Is "Capital" the Right Word?

"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."

E. Ostrom and T.K. Ahn, *Foundations of Social Capital* (2003)

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	FLOWS
Climate System (a form of global natural capital)	 The Climate System	 Temperature Regulation
Healthcare System (a combination of human, social, constructed and economic capitals)	 Healthcare Systems	 Healthcare Services

Vital Capitals and the Triple Bottom Line

Vital Capitals		
Human	*Internal Economic* *Financial & Non-Financial*	*Natural* *Natural Resources & Ecosystem Services*
Social & Relationship	*External Economic* *Financial & Non-Financial*	
Constructed		
Social Bottom Line	**Economic Bottom Line**	**Environmental Bottom Line**

The MultiCapital Scorecard™

Performance Accounting Implications of Capital Theory

1. Performance accounting must be multicapitalistic in scope (i.e., what we call 'multicapitalism', a new economic doctrine)
2. Metrics and indicators used must be context-based
   * Monetization, if used, must also be context-based
3. Integrated reporting must be free of illicit mixing or offsetting of impacts on one type of capital with impacts on another
4. Value creation accounting (e.g., impact valuation, risk reporting, shared value, net positive, ESG, etc.) must not be confused or conflated with sustainability accounting!

Sample MultiCapital Scorecard

Sample implementation of the ...

MultiCapital Scorecard™
Rethinking Organizational Performance

Vital capitals:*

- Natural
- Constructed
- Human
- Social & Relationship
- Internal Economic–Financial
- Internal Economic–Nonfinancial
- External Economic–Financial
- External Economic–Nonfinancial

BOTTOM LINES	AREAS OF IMPACT**	CAPITAL IMPACTS	Progression Performance Scores (A)	Weightings (1-3)** (B)	Weighted Scores (AxB) (C)	Fully Sustainable Scores (Bx3) (D)	Gaps to Fully Sustainable (D-C)	Individual Area of Impact Scores (C/D)	TRIPLE BOTTOM LINE (TBL) SCORES
SOCIAL	Worker safety		3	3	9	9	0	100%	50%
	Product safety		-1	3	-3	9	12	-33%	
	TBL reporting		3	2	6	6	0	100%	
ECONOMIC	Living wage		2	2	4	6	2	67%	87%
	Shareholder returns		3	1	3	3	0	100%	
	Debt		3	2	6	6	0	100%	
ENVIRONMENTAL	Climate		1	3	3	9	6	33%	53%
	Solid waste		2	1	2	3	1	67%	
	Water use		3	1	3	3	0	100%	
		GRAND TOTALS & TBL SCORE		18	33	54	—		61%

*Intellectual Capital is typically embedded in most of the others.

**Weightings are assgined from a budget of 18 total points: Total number of Areas of Impact (9 in this case) x 2 (the mid-range score) = 18.

Note: The Areas of Impact shown here are purely illustrative and are always organization-specific, as determined by a materiality analysis.

7-Point Progression Performance Scoring Schema Used in the MultiCapital Scorecard

Numeric Score	Score Definition
+3	Meeting or exceeding the sustainability norm for the year
+2	Meeting or exceeding the year's trajectory target, but falling short of the sustainability norm
+1	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)
0	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)
-1	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)
-2	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)
-3	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)

Progression Performance Scoring Schema

Thank you!

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Appendix:
Capital Definitions

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.

Vital Capital Definitions (cont.)

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.

Vital Capital Definitions (cont.)

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.

Vital Capital Definitions (cont.)

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.).

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Vital Capital Definitions (cont.)

External Economic Capital (cont.)

- Non-Financial (cont.)

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.