

A Critical Look at Contemporary Performance Accounting Principles

How performance accounting in the sustainability and non-financial arenas, in particular, has evolved, while still lacking anything close to generally accepted norms, standards or principles for measurement and recording – not reporting – and how leading reporting standards (and ESG), therefore, are all premature because of it!

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Performance Accounting Principles – The Current Lay of the Land

Economic Doctrine		Monocapitalism ¹		Multicapitalism ¹	
Theory of Performance		Economic Value Creation (Shareholder Wealth)		Sustainability Performance (Stakeholder Well-Being)	
Regulative Ideal		Profit Maximization		Capital Improvement	Capital Sufficiency
A C C O U N T I N G S	M A T E R I A L I T Y	Fiduciary Duties to Investors		Significant Capital Impacts ⁴	Capital Impact Duties to Stakeholders ⁵
		Reasonable Investor Criterion ²	Non-financial Drivers of Value Creation and/or Destruction ³		
M E A S U R E M E N T & R E C O R D I N G		Financial Accounting (GAAP)	Impact Valuation ⁶		Sustainability Accounting ⁶

This is the level (Materiality) at which most of today's frameworks and standards for non-financial, sustainability and integrated reporting can be easily differentiated from one another, the fact of which only highlights the absence of sorely needed, generally accepted norms or principles for measurement and recording in the field.

¹See, for example, <http://www.multicapitalism.com/Multicapitalism.pdf> and <https://bit.ly/3ji8oZ4>.

²As reflected in Generally Accepted Accounting Principles (GAAP), including all climate-related risk factors (per TCFD, CDSB, CDC, etc.); see, for example, <https://bit.ly/3clXyZK>.

³As reflected in IIRC, SASB, WEF, and more broadly in ESG; also not context-based per <https://bit.ly/3ji8oZ4>.

⁴As reflected in GRI, the Natural Capital Protocol, and the Social & Human Capital Protocol; also not context-based per <https://bit.ly/3ji8oZ4>.

⁵As reflected in [Context-Based Sustainability \(CBS\)](#) accounting; see here for a full description of context-based materiality determination: <https://www.unrisd.org/mcelroy>

⁶Generally accepted accounting principles for this **do not yet exist** – reporting standards notwithstanding; Sustainability Accounting, however, has put forward related proposals.

See next page for a *Glossary* of terms used here

Glossary of Terms

- **Accounting Principles** – Rules, norms or standards for identifying, measuring, recording, and reporting the transactions of an organization.
- **Capital Impact Duties to Stakeholders** – Responsibilities to stakeholders to manage one’s impacts on vital capitals in ways that can affect their well-being.
- **Capital Improvement** – Changes in the stocks and flows of capitals that, while beneficial, may not be sufficient to ensure stakeholder well-being.
- **Capital Sufficiency** – Stocks and flows of vital capitals that meet the needs of people who depend on them for their well-being.
- **Economic Doctrine** – A specific orientation to economics and its corresponding theory of performance, regulative ideal, and accounting principles.
- **Economic Value Creation** – Growth in the monetary value of economic capital held by the shareholders of an organization.
- **Fiduciary Duties to Investors** – The obligations directors and managers have to act in the financial interest of shareholders.
- **Financial Accounting (GAAP)** – Rules, standards and concepts in the U.S. for identifying, measuring, recording and reporting the financial transactions of an organization.
- **Impact Valuation** – A measure of the magnitude or incremental size of an impact on vital capitals, whether monetized or not.
- **Materiality** – A determination of the extent to which a transaction or fact is germane to the informational needs, interests and well-being of stakeholders.
- **Measurement & Recording** – Bookkeeping tools, methods and metrics used to quantify, document and tabulate the impacts of organizations on vital capitals.
- **Monocapitalism** – An economic doctrine under which the performance of organizations is assessed in terms of what their impacts on economic capital are.
- **Multicapitalism** – An economic doctrine under which the performance of organizations is assessed in terms of what their impacts on all vital capitals are, not just one of them.
- **Profit Maximization** – A regulative ideal that calls for the ongoing and persistent pursuit of ever-greater profits (growth) in the financial performance of organizations.
- **Regulative Ideal** – A governing archetype or standard to aim for, by which goals, behaviors and outcomes can be assessed – whether fully realizable or not.
- **Significant Capital Impacts** – Incremental effects organizations can have on the quality and/or sufficiency of vital capitals in ways that can affect human well-being.
- **Sustainability Performance** – A measure of the performance of an organization expressed in terms of what its impacts on vital capitals are relative to organization-specific norms or standards for what they must be in order to maintain their sufficiency and ensure stakeholder well-being.
- **Sustainability Accounting** – Accounting principles, tools, methods and metrics for determining the sustainability performance of an organization.
- **Theory of Performance** – A principle or construct in accounting by which the performance of an organization is interpreted (i.e., which denotes what is valued).
- **Vital Capitals** – Stocks and flows of resources that humans and non-humans alike rely on for their well-being, consisting of both natural and anthropogenic capitals.