

# Vital Capitals and the 7-Point Progression Scoring Schema Used in the MultiCapital Scorecard™

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# Introduction

- \* The MultiCapital Scorecard is a performance accounting system that:
  - \* Is context-based and Triple Bottom Line (TBL) in scope
  - \* Measures and reports performance in terms of impacts on multiple vital capitals compared 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

# Vital Capitals and the Triple Bottom Line

<b>Vital Capitals</b>		
<b><i>Human</i></b>	<b><i>Internal Economic</i></b> <i>Financial &amp; Non-Financial</i>	<b><i>Natural</i></b> <i>Natural Resources &amp; Ecosystem Services</i>
<b><i>Social &amp; Relationship</i></b>		
<b><i>Constructed</i></b>		
<b>Social Bottom Line</b>	<b>Economic Bottom Line</b>	<b>Environmental Bottom Line</b>

# 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., intellectual property).

### - *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.



# 7-Point Scoring Schema Used in the MultiCapital Scorecard™

## THE SCORING SCHEMA USED IN ASSESSING PERFORMANCE IN THE MULTICAPITAL SCORECARD

- 3 = Meeting or exceeding the Sustainability Norm.
- 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 period's Trajectory Target, or any period of improving performance while having no such targets at all (SN or TT).
- 0 = Maintaining the previous year's performance, while not meeting the period's Trajectory Target.
- 1 = A 1-year regression in performance, and not meeting the period's Trajectory Target.
- 2 = A 2-year regression in performance, and not meeting the period's Trajectory Target.
- 3 = A 3-or-more year regression in performance while not meeting the period's Trajectory Target, or any period of worsening performance while having no such targets at all (SN or TT).

# Sample Scorecard

## Sample MultiCapital Scorecard

### Vital capitals\*

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

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)			
<b>SOCIAL</b>	Product safety	<span style="color: red;">■</span>	3	5	15	15	0	100%	<b>43%</b>
	Workplace safety	<span style="color: red;">■</span> <span style="color: yellow;">■</span> <span style="color: red;">■</span>	-1	5	-5	15	20	-33%	
	Gender equity	<span style="color: red;">■</span>	2	4	8	12	4	67%	
<b>ECONOMIC</b>	Living wages	<span style="color: cyan;">■</span>	1	1	1	3	2	33%	<b>79%</b>
	Equity	<span style="color: darkblue;">■</span>	2	5	10	15	5	67%	
	Debt	<span style="color: cyan;">■</span>	3	5	15	15	0	100%	
<b>ENVIRONMENTAL</b>	Climate system	<span style="color: gray;">■</span>	-2	4	-8	12	16	-66%	<b>0%</b>
	Water	<span style="color: gray;">■</span>	2	3	6	9	3	67%	
	Solid waste	<span style="color: gray;">■</span>	1	2	2	6	4	33%	
					<b>OVERALL PERFORMANCE</b>	<b>44</b>	<b>102</b>		<b>43%</b>

Note: Areas of impact shown here are purely illustrative and are always organization-specific.

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



# Thank you!

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