Course Correction
Measuring Progress as if Nature Mattered

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& UNEP Goodwill Ambassador
Whose Economy is it Anyway?

U.S. Employment

- Government: 17.2%
- Nonprofit: 8.4%
- For-Profit: 74.3%

U.S. Gross Value Added

- Government: 12.50%
- Households: 7.10%
- Nonprofit institutions serving households: 5.50%
- Private business: 74.90%

2010 data. Source: Bureau of Labor Statistics (Occupational Employment Statistics), and Johns Hopkins Nonprofit Economic Data Project

2010 data. Source: U.S. Bureau of Economic Analysis
How ‘Green’ is the Private Sector?

Negative environmental externalities of top 3,000 listed companies estimated at US$ 2.15 trillion p.a.

Corporate Externalities .....
….. Are Pushing Planetary Boundaries
Navigation Challenge Ahead...

Can we navigate a complex, multi-dimensional, economic space ... 

... with a simple economic compass?

Eg.1: SNA for nations?
Eg.2: IFRS for companies?
"Inclusive Wealth" is a True Balance Sheet of Nations

The UN ("Inclusive Wealth Report, 2014") calculates human capital based on average years of schooling, workers wages, and the number of years they can expect to work before they retire (or die).1

Chart Source: http://www.economist.com/node/21557732
“Inclusive wealth is the social value of an economy's capital assets. The assets comprise (i) manufactured capital (roads, buildings, machines, and equipment), (ii) human capital (skills, education, health), and (iii) natural capital (sub-soil resources, ecosystems, the atmosphere).

Such other durable assets as knowledge, institutions, culture, religion – more broadly, social capital – were taken to be enabling assets; that is, assets that enable the production and allocation of assets in categories (i)-(iii). The effectiveness of enabling assets in a country gets reflected in the shadow prices of assets in categories (i)-(iii)”
From “National” to “Corporate” Performance Measurement

From “National” to “Corporate” Performance Measurement

### Four ‘Macro’ Capitals and Examples at ‘Micro’ Level

<table>
<thead>
<tr>
<th>Physical Capital</th>
<th>Human Capital</th>
<th>Natural Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factories</td>
<td>Health</td>
<td>Mines</td>
</tr>
<tr>
<td>Securities</td>
<td>Education</td>
<td>Fields</td>
</tr>
<tr>
<td>Licences</td>
<td>Job Skills</td>
<td>Private Forests</td>
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<tr>
<td>Patents</td>
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</tbody>
</table>

#### Private Ownership: (‘Private Goods’)
- Market design, regulations, rules, etiquette
- Civil & Criminal Laws; Judicial systems

#### Community Ownership: (‘Club Goods’)
- Community rules, norms, customs, culture
- Community Forests
- Grazing Commons

#### Public Ownership: (‘Public Goods’)
- Constitutions; Judicial systems; Law & order; Taxation
- Social equity; Communal harmony; Cultural diversity
- High Seas Fisheries
- National Parks/ Forests

**Social Capital**
- Market design, regulations, rules, etiquette
- Civil & Criminal Laws; Judicial systems
- Constitutions; Judicial systems; Law & order; Taxation
- Social equity; Communal harmony; Cultural diversity
Integrated Profit and Loss
History since 2013

- Enables companies to measure performance from a ‘stakeholder’ perspective across all capital classes.

- Looks beyond company revenues, profits, market cap to impacts to broader dimensions of public wealth critical for a sustainable economy, i.e. natural capital, human capital & social capital.

- <IP&L> enables companies to:
  - Quantify environmental costs of business model choices & strategies
  - Quantify social benefits & costs for local communities from business model choices, policies, CSR programs, etc
  - Quantify positive impacts on employees from HR & EHS investments
  - Compute & communicate wider business “performance” to all stakeholder groups.

Some <IP&L> Pioneers...

2013 ... 2014  ...2015 ... 2016

- AkzoNobel
  Tomorrow’s Answers Today

- Sonera

- BASF
  The Chemical Company

- AMATA

- Yarra Valley Water
From “National” to “Corporate” Performance Measurement: Incorporating Externalities

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Physical Capital</th>
<th>Human Capital</th>
<th>Natural Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Ownership: ('Private Goods')</td>
<td>FCX</td>
<td>HCX</td>
<td>NCX</td>
</tr>
<tr>
<td>Community Ownership: ('Club Goods')</td>
<td>FCX</td>
<td>HCX</td>
<td>NCX</td>
</tr>
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<td>FCX</td>
<td>HCX</td>
<td>NCX</td>
</tr>
<tr>
<td></td>
<td>SCX</td>
<td></td>
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Social Capital

- From "National" to "Corporate" Performance Measurement: Incorporating Externalities
- Private Ownership: ('Private Goods')
- Community Ownership: ('Club Goods')
- Public Ownership: ('Public Goods')
- Social Capital

Private Ownership: ('Private Goods')
- FCX
- SCX

Community Ownership: ('Club Goods')
- FCX
- SCX

Public Ownership: ('Public Goods')
- FCX
- SCX
Brazilian forestry & forest products company that builds & benefits from community links, uses low-impact forestry, aims “Beyond FSC”.

**Approach used to evaluate each capital was:**

**I-P&L**

<table>
<thead>
<tr>
<th>Natural Capital (NCX™)</th>
<th>Human Capital (HCX™)</th>
<th>Social Capital (SCX™)</th>
<th>Financial Capital (FCX™)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• GHG emissions</td>
<td>• Hiring and training of employees</td>
<td>• Business model centered on stakeholder</td>
<td>• Profit after tax</td>
</tr>
<tr>
<td>• Water usage</td>
<td>• Air pollution</td>
<td>• Health and safety of employees</td>
<td>• Fees paid</td>
</tr>
<tr>
<td>• Land pollution</td>
<td>• Waste production</td>
<td></td>
<td>• Remuneration</td>
</tr>
<tr>
<td>• Water pollution</td>
<td>• Ecosystem services</td>
<td></td>
<td>• Net interest rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Net rental fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Depreciation</td>
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</tbody>
</table>
Yarra Valley Water, Melbourne’s leading Water Utility, with 1.8 million customers, faces drought, migration, health issues. Victoria State officially targets “liveability”... Melbourne has been voted “most liveable city” six times (by The Economist Intelligence Unit).

Yarra Valley Water is using 2015/16 base year results (above) and prioritizing amongst proposed social schemes in order to target doubling social value creation by 2020.
Thank You!

Pavan Sukhdev
Founder-Author, Corporation 2020
& UNEP Goodwill Ambassador

www.corp2020.com