

# Triple capital accounting: a cornerstone for resilient business – H el ene Le Teno (Medium)



Capital and assets : how do you preserve them?

*Have you ever experienced that accounts do not tell the truth about a business (and especially yours)? Would you picture the accountants defending the myth of flat Earth while Galileo tries to tell that the earth is a sphere? If you are ready to doubt figures, let's build together a new way of thinking and doing business.*

## Why?

Wherever we look, the huge impact of our current economic system on the environment is obvious. From climate change to biodiversity loss, pollution of the oceans, deforestation... the list is long and this article has no intent to be a gloomy list of the perils we face, which you probably are well aware of. If not you may want to know about Anthropocen and/or read "Beyond the limits" (see "Further reading" at bottom).

We can sum it up by saying that the crisis we are facing is multiform and unprecedented in the scale of the destruction it is bringing. We simultaneously face huge social challenges, as unemployment looks like it's here to stay, inequality is rising and poverty is on the rise.

These issues all point to one thing : the urgency of imagining and implementing new economic models which enable **everyone to live well within our ecological limits**.

In this article I will explain the key role that accounting can play in a transition towards economic models that are both effective and socially and environmentally sustainable. Indeed at the core of this problematic lies the question : **how can we count what really counts?** By that I mean, how can we make sure that we are preserving and developing what really matters?

Indeed, until now, accounting techniques have focused on the financial aspect of a business' activities while ignoring their social and environmental dimensions. This means that a business that is making a profit while simultaneously destroying social relations and/or the environment, is still considered a "successful" business ! Moreover, the focus of current accounting techniques on financial assets, ignores the reliance of all business' on natural and social assets ! It is an absolute necessity for the relationships between economic activity and natural and social assets to be visible, and that requires them to be legible in the accounting of business', which is

exactly what the Triple Capital Accounting (TCA) accounting framework proposes to do.

### **What?**

This triple capital accounting emerges from the field of environmental accounting, that has been investigated for decades by academics of renown such as french professor Jacques Richard and german Doctor Stefan Schaltegger.

One of its key concepts is to apply the powerful tool of preservation of financial capital to human and social capital. Indeed, we are used to depreciation and amortization concepts, as well as re-investment and capex (capital expenditure), in order to keep or develop the key assets of a company, that we think are displayed on the balance sheet. Capitalism—and accountants—requires the financial capital to be preserved, before we establish that the business has made a profit and that dividends can be payed out. TCA wants to apply this same logic to the natural and social capital—which are strategic assets that you should not forget about.

TCA does this by adding additional lines to count the depreciation of natural and social capital as well. One of the axioms of this framework is that the three types of capital are not interchangeable, you cannot (or hardly) replace natural or social capital with financial capital. For instance, if we want to produce apples but there are no bees left, we'll face a hard time (it happened already in some region of China!). If your plan is to sell a new digital service to many but IT skills have disappeared and/or social relationships and communities are altered, it will not work.

This type of accounting puts cost at its center, it is not about assigning a value to the damage caused or internalising the externalities of production, it is about ***funding the cost of maintaining ecosystems.***

If there is today one universal language it is the one of accounting. Through various trading agreement, homogenous accounting norms have imposed themselves all over the world. The power of accounting in shaping economic models is huge and therefore we must engage in the politics of accounting !

A major challenge is to be able to shift these international accounting norms through creating and spreading a new accounting framework. This will entail engaging in the politics of accounting and shift lines in organisations such as the International Accounting Standards Board (IASB).

### **How ?**

I will explain how this type of accounting functions in practice using an example. Let us imagine a business (B) who is a farm producing vegetables and that wants to incorporate natural capital his accounting. The economic activity of B uses a given ecosystem (E) that includes a living soil, pollination etc.

The notion capital does not exist of itself, rather it is socially defined. Therefore, in order to integrate natural capital to its accounting, B needs to sit around a table with different type of actors to define together what the natural capital is and how its maintenance shall be measured and implemented. Let's take the example of a business that uses a river ecosystem in its production process. The process of accounting for this ecosystem as part of its natural capital requires the company to sit down with actors that have an interest in preserving this ecosystem, such as scientists or NGOs, and co-determine what the natural capital in question is, how it can be measured, what actions shall be put in place and over what period to maintain the quality of that ecosystem.

The accounting value of capital (financial or not) is based on the cost of preservation of this capital on a given period of time. For example if it costs B 6000 to put in place practices that maintain or restore the ecosystem his production relies on, then that is the value that he will incorporate in his accounting as is natural capital. This cost of maintenance of the natural capital is counted as an investment rather than a cost which has its importance.

As Rambaud and Richard explain :

*“This accounting model also changes the value added and the profit conceptualisation. As maintenance costs are no longer expenses, they are integrated into the value added: thus, maintaining a type of capital does not reduce this value anymore. Then, the profit corresponds to a genuine measure of degradation for all the types of capital used and the firm’s capacity to struggle against them this new type of accounting changes the conceptualisation of value added and profit.”*

This is especially interesting as it means that in this framework, a company can only be profitable if it is preserving its three capitals.

Our conclusion: if you want your business to sustain and perform, you’d better put on the top of your agenda this permacultural principle “care for earth and people”, and redesign your business model to fit a world “with limits”—whether they are physical limits to growth, purchasing power and inequalities, skills....

*If you want your business to be built on rock and not on sand, why would not you start by counting what really counts?*

#### **Further reading:**

*Anthropocen?*

<https://en.wikipedia.org/wiki/Anthropocene>      <http://www.anthropocene.info/great-acceleration.php>

<http://journals.sagepub.com/doi/abs/10.1177/2053019614564785>

Beyond the limits and The Limits to Growth, a must-read from Dennis Meadows

[https://www.amazon.fr/Limits-Growth-30-year-Update/dp/1844071448/ref=sr\\_1\\_3?s=english-books&ie=UTF8&qid=1494000497&sr=1-3&keywords=dennis+meadows](https://www.amazon.fr/Limits-Growth-30-year-Update/dp/1844071448/ref=sr_1_3?s=english-books&ie=UTF8&qid=1494000497&sr=1-3&keywords=dennis+meadows)

*Is US economic growth over? Faltering innovation confronts the six headwinds*

[http://www.cepr.org/sites/default/files/policy\\_insights/PolicyInsight63.pdf](http://www.cepr.org/sites/default/files/policy_insights/PolicyInsight63.pdf)

*Permaculture principles, or how to design a sustainable and prosperous system*

<https://permacultureprinciples.com/principles/>

*More technical accounting papers about multiple capital accounting and triple depreciation line*

<https://basepub.dauphine.fr/handle/123456789/14276>

[http://www.sustainablebrands.com/digital\\_learning/slideshow/new\\_metrics/multiple\\_capital\\_accounting\\_new\\_paradigm\\_measurement\\_reportin](http://www.sustainablebrands.com/digital_learning/slideshow/new_metrics/multiple_capital_accounting_new_paradigm_measurement_reportin)

***“the arrival of multiple capital accounting shall be “only the second revolution in accounting since double-entry bookkeeping began” and “of seismic proportions”***