Blueprint Series 2016-2018

Blueprint 5: The Transformation Journey

A Step-By-Step Approach to Organizational Thriveability and System Value Creation

Synthesis of the Reporting 3.0 Work Ecosystem
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# TABLE OF CONTENTS

**Blueprint 5: A Step-By-Step Approach to Organizational Thriveability and System Value Creation**

1. Introduction
   1.1. The Ground We Stand On – The Reporting 3.0 Work Ecosystem  
   1.2. The Starting Points – Four Blueprints  
   1.3. Blueprint Structure: The Mountain Climb

2. The Basecamp
   2.1. The Sustainability Gap: What’s the Difference Between Sustainability and Incrementalism, and Why Does it Matter?  
   2.2. Sufficient Ambition: Are Current Sustainability Efforts Enough to Break Through Predatory Delay?  
   2.3. What is a Green, Inclusive, and Open Economy? Is it the Future We Want, or the Future We Design?  
   2.4. Can There Be Sustainable Business in an Unsustainable Economy? Or Does Achieving Sustainability Require Economic System Redesign?

3. Planning the Route
   3.1. How Do You Design Strategies to Meet Emerging Systemic Challenges?  
   3.2. How Do Companies Determine What’s Material? And How Can Materiality Instigate Transformative Change?

4. The Climb
   **Section 1:**
   4.1. From Shareholders to Stakeholders – to Rightsholders: Why the Shift?  
   4.2. What Are Thresholds & Allocations, and Why Are They Necessary for Sustainable System Value Creation?  
   4.3. How Can New Lenses of Risk Help Ignite Breakthrough Transformations?  
   4.4. What’s the Appropriate Role of Governance in Spurring System Value Creation? Or: Why Strategic Duty Requires a Shift from Governance Push to Pull Governance  
   4.5. How Can Organizations Align Leadership with Work Levels to Harness Transformative Potential?
   **Section 2:**
   4.6. How Do We Innovate New Business Models that Trigger New Industry Ecosystems and New Integral Economies?
   **Section 3:**
   4.7. How Can Organizations Report on Their Purpose, Success and Scalability  
   4.8. How Can Integral Information Systems Create a Seamless Data Architecture that Measures
Section 4:


4.13. Why Do We Need Narrative Reporting? 73

Section 1:

5.1. What does Advocation and Leadership for a Green, Inclusive, and Open Economy Look Like? 77

Section 2:

5.2. How Can Investors Help Create System Value? 80

5.3. How can Governments, Multilaterals and Foundations learn from Reporting 3.0’s Work Ecosystem? 84

5.4. How can Civil Society Tap into the New Collective Consciousness to Spur Systemic Transformation? 86

Section 5:

5. The Mountain Top 77

Section 2:

5.2. How Can Investors Help Create System Value? 80

5.3. How can Governments, Multilaterals and Foundations learn from Reporting 3.0’s Work Ecosystem? 84

5.4. How can Civil Society Tap into the New Collective Consciousness to Spur Systemic Transformation? 86

6. The Reporting 3.0 Transformation Journey Program 89

6.1. Modules 89

6.2. Working with Reporting 3.0 and r3.0 Advocation Partners 100
1. INTRODUCTION

Welcome to the collective journey to transform the greatest challenges in human history into opportunities for humanity to survive and thrive! With the clock ticking, our economic system design needs to change drastically to enable a Green, Inclusive and Open Economy to come to life through the sustainable regeneration and just distribution of vital resources.

The sustainability ideation of the brilliant Brundtland Report from 1987 gave us the vision of intergenerational equity upon which to act. Three decades later, we’re falling fatally short of fulfilling what was envisaged, as evidenced by the Great Acceleration hockey stick graphs and our ever growing Ecological Footprints (consuming 1.7 planets worth of resources annually). We simply can’t continue like this. To repeat our motto at the outset: There is no sustainable business in an unsustainable world. But how can we “bend the curve” towards the ultimate ends – human wellbeing and living within the means of the only planet we have in a balanced way?

Reporting 3.0 started in 2013 to tackle the challenges that were going unmet. Our aspiration is to create “irresistible” solutions through a pre-competitive and market-making approach that helps to overcome plateauing ambitions and allow for a synchronized and synergized way to collectively “get the job done.”

1.1. THE GROUND WE STAND ON – THE REPORTING 3.0 WORK ECOSYSTEM

The Reporting 3.0 Work Ecosystem – the framework of our thinking and the basis of our theory of change – is based on the notion of an ever growing ‘collective consciousness’ that organizations seeking to solve our joint problems are not isolated islands, so competition amongst organizations is counter-productive – better to pursue radical collaboration to create regenerative and thriving cultures. This needs a pre-competitive and market-making approach that is based on the notion of clear “North Star” / “Southern Cross” purpose, a clear definition of success in changing an entrenched economic system, and how to scale change exponentially. This needs a clear understanding of the to-do’s on nano (personal), micro (organizational), meso (industry, habitat or portfolio) and finally, macro (economic / social / ecological systems) levels. The Reporting 3.0 Blueprints set the foundational pillars for catalysing mindset and paradigm shifts.
1.2. THE STARTING POINTS – FOUR BLUEPRINTS

In 2015, following our 3rd International Reporting 3.0 Conference, we started to develop these pillars of our thinking with four so-called Blueprints. Tapping into "lean startup" wisdom with a “minimum viable product” approach, we purposefully identified the four areas that are minimally necessary to “bend” in order to trigger tipping point changes in broader systems as quickly as possible: reporting, accounting, data, and new business models. To practice what we preach, we gathered Working Groups of 20-40 experts globally to develop Blueprints in each arena, with Recommendations for next-generation practices directed at key constituencies as the primary “deliverable” for translating ideas into action. These projects thus delivered a concise and forward-looking compass and roadmap of what needs to be done. The Reporting and the Data Blueprints were released at the 4th Reporting 3.0 Conference in 2017, and the Accounting and New Business Models Blueprints as well as this fifth Blueprint were released at the 5th Reporting 3.0 International Conference in 2018. These reports complete the first phase of an organizational and content development of Reporting 3.0.

1.3. BLUEPRINT STRUCTURE: THE MOUNTAIN CLIMB

This fifth Blueprint aims to achieve two specific goals:

- **Distill & Synthesize**: With about 500 pages of basic groundwork in the four pillars of the existing Blueprints, a massive amount of knowledge has been gathered and generated. It is necessary to have it in place to underpin a reliable theory of change. However, such a large body of knowledge needs to be distilled and synthesized in order to be truly useful.
- **Activate**: The know-how of Reporting 3.0 should not sit on a shelf, but needs to be enacted in the world. Taking a “no mountain too high to climb” attitude, we outline a step-by-step approach to a Transformation Journey to organizational thriveability (at the nano and micro levels) through the generation of system value, linking in the meso and macro levels.

How can you make best use of this fifth Blueprint? Invoking Interface Founder Ray Anderson’s metaphor of “Mount Sustainability,” we invite you to embark on a mountain climb.

- You start at the basecamp and make sure you are mentally well prepared;
- You carefully plan your route, you socialize with the team, and make sure all gear is available and stress-tested for the forthcoming climb;
- You take the climb one step at a time, with a clear goal in sight, but also resilient to change routes in response to dynamically changing circumstances;
- The closer you come to the mountain top, the more you will collaborate with other teams to collectively reach that mountain top.

All chapters in this Blueprint have consistent subchapters covering:

- What’s the issue?
- Why is it important?
- How can I tackle it?
- What will I have learned afterwards?

Chapter 4 – the climb – has four sections to better structure the complex “ascent.” Chapter 5 also differentiates 2 sections, addressing the need to educate, collaborate, accelerate and advocate in all necessary constituencies, as well as continuing the personal journey. In Chapter 6, at the end of this Blueprint, we will share how Reporting 3.0 can coach and mentor you, either generically, or through the dedicated help of its Advocation Partners. Together, we can succeed, and then help many more to take the journey too!
2. THE BASECAMP

The Basecamp is where you begin your journey, meeting your fellow travellers to start developing team dynamics. As you start planning the route, you also prepare mentally for what’s to come. You once more consider why you want to go on this journey and how it will potentially change your life. You already look forward to the fulfilling feeling when you successfully climbed that mountain. Members of your team will become friends for life.

2.1. THE SUSTAINABILITY GAP: WHAT’S THE DIFFERENCE BETWEEN SUSTAINABILITY AND INCREMENTALISM, AND WHY DOES IT MATTER?

What’s the issue?

Sustainability is a simple concept – the ability to continue – that can be taken for granted until confronting its imminent disappearance. Here’s a quick history of the idea’s development:

- Three centuries ago, German mining official Hans Carl von Carlowitz1 coined the term “sustainability” after observing that firewood demand for ore smelting depleted forests faster than trees could replenish.

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Three decades ago, the *Brundtland Report* famously defined sustainability in the societal context as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” – intergenerational equity, in other words.

- A decade-and-a-half ago, the Global Reporting Initiative introduced the notion of “Sustainability Context” as “the performance of the organization in the context of the limits and demands placed on environmental or social resources at the sector, local, regional, or global level.”

Fast forward to the present:

- Deforestation outpaces reforestation, shrinking the vital carbon sink;
- Development ignores intergenerational equity; and
- Companies routinely overshoot the limits of environmental resources, and shortchange the demands of social resources.

We at Reporting 3.0 call this the “Sustainability Gap” (or the “Context Gap”). Empirical evidence confirms this Gap in the reporting realm: a 2017 Danish study of 40,000+ so-called sustainability reports over the decade-and-a-half starting in 2000 found that only 5% of reports mention ecological limits at all – and a mere 0.3% cite context in discussing product development or corporate strategy. This study reveals the misalignment between what Limits to Growth Co-Author Donella Meadows calls the “ultimate means” of natural capital and the “ultimate ends” of well-being.

*Why is this important?*

Companies and investors recognize the problem, but their solutions – CSR (or corporate social responsibility) for companies, and ESG (or environmental, social, governance) for investors – amount to incremental improvement in the right direction, but at insufficient scale and pace (“too little, too late”). Alex Steffen calls this predatory delay – “the blocking or slowing of needed change, in order to make money off unsustainable, unjust systems in the meantime.” Reporting 3.0 Steering Board Member Brendan LeBlanc of EY puts it this way: “The only thing more dangerous than no progress is the illusion of progress.”

*How can you tackle it?*

If you’re a sustainability professional, a first step is to report on the Sustainability Context of your organization’s impacts – even if the analysis shows you’re company is performing unsustainably. Of course, reporting is just the external expression of internal performance management. So the next step is to transform your performance – perhaps by setting Science-Based Targets for carbon and Context-Based Water Stewardship Goals, and follow the UN Guiding Principles on Human Rights. Of course, true reform cuts deeper, so you will likely need to explore your core business model to assess whether it respects a *safe and just space operating space for humanity*.

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5 [http://donellameadows.org/wp-content/userfiles/IndicatorsInformation.pdf](http://donellameadows.org/wp-content/userfiles/IndicatorsInformation.pdf)
7 [http://sciencebasedtargets.org/](http://sciencebasedtargets.org/)
9 [https://www.shifterproject.org/un-guiding-principles/](https://www.shifterproject.org/un-guiding-principles/)
Stepping back, we at Reporting 3.0 recommend you start by looking at the bigger picture. Here are a few basic steps to get you started on this journey:

- Take the time to re-read ‘Our Common Future’, the report by the Brundtland Commission from March 1987, and build awareness of what once was the original concept of sustainable development. Do a gap analysis of how your own organization honors the original concepts – and how much got lost and why.
- Take the test to find out what ‘intra- and intergenerational equity’, together with the idea of generating wellbeing for all humans on this planet, are in any way recognized in your business model(s), strategies, and selected and reported data, either in dashboards or in sustainability reports.
- Assess the degree to which your ‘sustainability’ efforts are curing symptoms (e.g. climate change → need to reduce emissions), or how much you address root causes. After all, curing symptoms leaves the underlying root causes unresolved, such that more symptoms will always emerge.

In sum, we conclude that there is no sustainable business in an unsustainable world, so companies that wish to be sustainable have to work not only at the level of their own organization’s sustainability, but also at the systems level.

What will you have achieved?

The above helps to build the understanding of own shortcomings, but also potentials of ‘true sustainability’ when you choose to recognize impacts on individuals (nano level), micro level (organizational level), meso level (industry, habitat or portfolio level) and macro level (economic system design). You learn that the often quoted ‘invisible hand’ of the market needs vision, values and norms as an ‘invisible band’.

2.2. SUFFICIENT AMBITION: ARE CURRENT SUSTAINABILITY EFFORTS ENOUGH TO BREAK THROUGH PREDATORY DELAY?

What’s the issue?

Things are looking up in terms of achieving sustainability, right? The last several years have seen the launch of the United Nations Sustainable Development Goals (SDGs\(^\text{11}\)), the signing of the Paris Agreement\(^\text{12}\) on Climate, and the release of Recommendations\(^\text{13}\) from the Task Force on Climate-related Financial

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\(^{12}\) [https://unfccc.int/process/the-paris-agreement/what-is-the-paris-agreement](https://unfccc.int/process/the-paris-agreement/what-is-the-paris-agreement)

\(^{13}\) [https://www.fsb-tcfd.org/publications/final-recommendations-report/](https://www.fsb-tcfd.org/publications/final-recommendations-report/)

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Disclosures (TCFD\textsuperscript{14}). These are hopeful signs, but do they really assert sufficient ambition – particularly for market actors such as companies and investors?

The short answer is: No, not by a long shot.

\textbf{Why is this important?}

Don’t get us wrong – the SDGs, Paris Agreement, and TCFD Recommendations are all vital stepping stones in the right direction. But none of these initiatives will actually result in the level of change necessary to transform our economy and society to sustainability, much less its flourishing, prosperous potential. The danger here is that corporate and investor embrace of these initiatives could actually amount to what Alex Steffen calls \textit{predatory delay}\textsuperscript{15}: “the blocking or slowing of needed change, in order to make money off unsustainable, unjust systems in the meantime.” Or, looking at it from a hard-nosed business perspective: committing to incrementalist solutions creates opportunity costs, as transformative solutions are ultimately needed, so choosing not to focus on them leaves these necessary opportunities unaddressed.

Here’s how:

\begin{itemize}
  \item \textbf{Country / Company Data Gap:} both the SDGs and the Paris Agreement represent global goals whose achievement is tracked at the national level – via National Sustainable Development Strategies (\textit{NSDS}\textsuperscript{16}) for the SDGs and Nationally Determined Contributions (\textit{NDCs}\textsuperscript{17}) for Paris. Unfortunately, many countries lack \textit{NSDS}s, and existing country \textit{NDCs} fall short\textsuperscript{19} of meeting Paris goals. But perhaps more importantly, company and investor action plays the pivotal role in achieving both sets of goals, yet the country and company data architectures are mismatched, making it impossible to discern corporate contributions to progress on the SDGs.
  \item \textbf{Additionality Gap:} Most company activity on the SDGs simply aligns existing efforts to a subset of the Global Goals, but doesn’t set additional ambition nor extend across all the SDGs. Companies therefore miss out on the innovation and investment potential of SDG achievement.
  \item \textbf{Risk Reduction v Climate Action:} The objective of the TCFD is not to instigate climate action, but rather to identify financial risk associated with climate change. It is therefore unrealistic to expect TCFD to help solve climate change.
  \item \textbf{Scenario Analysis v Transition Plans:} Furthermore, the TCFD calls for scenario analysis, asking companies to assess risks of various potentialities; however, when ExxonMobil \textit{reports}\textsuperscript{20} on its scenario analyses and finds no risk to its business model from climate change, reasonable people must question\textsuperscript{21} the validity of this approach. Reporting 3.0 Advocation Partner Preventable Surprises \textit{calls for}\textsuperscript{22} taking the next step beyond scenario analysis by producing transition plans to <2°C business models with specific goals and timelines, as e.g. AEP has done in its \textit{transition plan report}\textsuperscript{23}.
\end{itemize}

\textsuperscript{14} \url{https://www.fsb-tcfd.org/}
\textsuperscript{15} \url{https://medium.com/@AlexSteffen/predatory-delay-and-the-rights-of-future-generations-69b06094a16}
\textsuperscript{16} \url{https://sustainabledevelopment.un.org/topics/nationalsustainabledevelopmentstrategies}
\textsuperscript{17} \url{https://unfccc.int/process/the-paris-agreement/nationally-determined-contributions}
\textsuperscript{18} \url{https://sustainabledevelopment.un.org/topics/nsds/nationalreports}
\textsuperscript{19} \url{https://wedocs.unep.org/bitstream/handle/20.500.11822/22070/EGR_2017.pdf?sequence=2}
\textsuperscript{20} \url{http://cdn.exxonmobil.com/~/media/global/files/energy-and-environment/2018-energy-and-carbon-summary.pdf}
\textsuperscript{21} \url{https://insideclimatenews.org/news/05022018/exxon-climate-risk-report-oil-reserves-paris-climate-goals-electric-vehicles}
\textsuperscript{22} \url{https://www.ipe.com/reports/special-reports/thought-leadership/climate-risk-running-out-of-time/10023906.article}
\textsuperscript{23} \url{http://aep.com/investors/docs/AEP2018CleanEnergyFutureReport.pdf}
How can you tackle it?

The SDGs, Paris Agreement, and TCFD recommendations provide most value when viewed as intermediary steps toward more significant transformation to thriveable economies. Here are some ways they add value:

- **From Net Zero to Gross Positive Impact:** View the SDGs and the Paris Agreement as net zero negative impact thresholds, with the potential to contribute regenerative / net positive (or even gross positive) impact.
- **From Curing Symptoms to Resolving Root Causes:** Reducing carbon emissions can represent a band-aid solution, whereas eliminating fossil fuel reliance from the business model represents a more root cause solution. And recognize that climate change itself is a symptom of a system that systemically overshoots its resource base, disrupting the balance of natural cycles (such as the carbon cycle.)
- **Assert Purpose:** Companies can leapfrog past incremental solutions by identifying their core purposes, and then committing to that purpose. What would your contribution to a better world be if all SDGs were successfully implemented by 2030? Is your license to grow based on that contribution?

What will you have achieved?

While TCFD seeks to reduce financial risk, it ironically solidifies (or even potentially exacerbates) systemic risk and existential risk by falling short of resolving the instigating problem of climate change. Likewise for the SDGs and the Paris Agreement. The key to more comprehensive solutions is to transform the paradigms that create the problems to begin with.

2.3. **WHAT IS A GREEN, INCLUSIVE, AND OPEN ECONOMY? IS IT THE FUTURE WE WANT, OR THE FUTURE WE DESIGN?**

What’s the issue?

In 2012, 20 years after the first global conference on Sustainable Development in Rio de Janeiro (or the Earth Summit\(^\text{24}\)), government leaders met again in Rio for what is now called Rio+20\(^\text{25}\). The outcome document, entitled The Future We Want\(^\text{26}\), called for creating a “green economy” that “should contribute to eradicating poverty as well as sustained economic growth, enhancing social inclusion, improving

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\(^\text{24}\) [https://en.wikipedia.org/wiki/Earth_Summit](https://en.wikipedia.org/wiki/Earth_Summit)


\(^\text{26}\) [https://sustainabledevelopment.un.org/rio20/futurewewant](https://sustainabledevelopment.un.org/rio20/futurewewant)
human welfare and creating opportunities for employment and decent work for all, while maintaining the healthy functioning of the Earth’s ecosystems.”

**Why is this important?**

While we applaud this vision, we lament the relative lack of progress over the half-decade since its articulation. According to a progress review\(^{27}\) of *The Future We Want*:

> Action through ... globally negotiated agreements or voluntary commitments ... is not sufficient if we are to address the myriad environmental, social, and economic issues we face today.

Perhaps the most significant outcome of *The Future We Want* is the establishment of the Sustainable Development Goals. However, as we point out in the previous article, the SDGs amount to a set of “do no harm” goals in an economic system that inherently creates harm. In order to be truly transformative, the SDGs would need to call for economic system design change. In the absence of such change, waiting for *a Future We Want* is like *Waiting for Godot*\(^{28}\).

**How can you tackle it?**

At Reporting 3.0, we believe in a more active stance – that desire needs to be accompanied by design; hence, we take the next step beyond *The Future We Want* to *The Future We Design*. The first step is to get crystal clear on our design parameters, starting with definitions.

Rigorously Define Green, Inclusive, and Open

In order to make sure we get what we “want,” we need to rigorously define what exactly that is, so let’s first start with general definitions of the three terms:

- **We define green** as ecological sustainability, or the cyclical regenerativity of earth systems and natural capital that serves as the foundation of wellbeing for all species, including humans. In *Doughnut Economics*\(^{29}\), Kate Raworth calls for respect for ‘environmental ceiling’ thresholds, as exemplified by the Stockholm Resilience Center’s notion of *Planetary Boundaries*\(^{30}\).
- **We define inclusive** as the extension of economic and social empowerment to all humans to achieve wellbeing and pursue flourishing and thriving, which requires systemic parity of access and opportunity for people of all sexes, genders, races, etc. Kate Raworth calls for the broad achievement of minimum ‘social foundation’ thresholds.
- **We define open** in the sense of the unfettered flow of information and resources that basic human rights dictate. This notion underpins our definition of ‘rightsholders’ (as compared to shareholders or stakeholders): all humans have the ‘right to know’ about issues that impact them (as well as the right to privacy of information about themselves that doesn’t impact others), and the right to fair distribution of vital capital resources in the Commons needed to support their wellbeing.

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\(^{27}\) [https://www.nrdc.org/sites/default/files/rio-20-report.pdf](https://www.nrdc.org/sites/default/files/rio-20-report.pdf)


\(^{29}\) [https://www.kateraworth.com/doughnut/](https://www.kateraworth.com/doughnut/)

\(^{30}\) [http://www.stockholmresilience.org/research/planetary-boundaries.html](http://www.stockholmresilience.org/research/planetary-boundaries.html)
The Rise of Positive Mavericks

Transcending the status quo does not happen accidentally, but rather requires the conscious adoption of what we call a ‘positive maverick’ stance, which calls for adherents to:

- work constructively (not destructively) toward positive change;
- think independently, challenging personal & institutional constraints, structural limitations, unconscious biases & shadow agendas;
- backcast from a desired future, building bridge foundations on the far side of the river and spanning backwards to meet the present;
- catalyze transformation from the foundations of incremental change;
- act at the scale and pace dictated by science & ethics;
- think and act at systems levels, making micro / meso / macro links;
- work collaboratively in ne(x)tworks, dispelling the illusion of separation to advance collaborative advantage;
- maintain persistence even in the face of widespread resistance to a transformative agenda & active hope in the face of the existential risk of societal collapse.

With these definitions established, we can turn our attention to design – which Reporting 3.0 pursued by producing Blueprints in four areas fundamental to leveraging the broad realm of disclosure to trigger economic system change: Reporting31, Accounting32, Data33, and New Business Models34. In our research reviewing hundreds of reports, we found a need for establishing the foundational desiderata and principles upon which a Green Inclusive and Open Economy rests.

Specifically, Reporting 3.0 identified Six Desiderata, a structured set of preconditions (connected to the vital capitals) for a Green, Inclusive, and Open Economy.

Reporting 3.0 extrapolated these desiderata into Nine Principles that crystalize insight on what we call the ‘invisible band’35 – a value system, the unspoken context that Adam Smith presumed in articulating the ‘invisible hand’ of the economy.

These tools – the Six Desiderata and Nine Principles – serve as a starting point for assessing alignment with the preconditions necessary to spur the emergence of a truly Green, Inclusive, and Open Economy.

- The Six Desiderata provide a comprehensive overview for ensuring strategies and interventions resolve root causes (instead of simply curing symptoms) by backcasting from desired outcomes with specific pathways for managing the multiple capital stocks within their carrying capacities to ensure ongoing capital flows that create system value36 (not just shareholder value37 or shared value38). All this will support your transition planning.

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31 https://reporting3.org/reporting-blueprint/
32 https://reporting3.org/accounting-blueprint/
33 https://reporting3.org/data-blueprint/
34 https://reporting3.org/newbusinessmodels-blueprint/
37 https://en.wikipedia.org/wiki/Shareholder_value
The Nine Principles provide the foundations for identifying organizational purpose, and subsequent development of vision, mission and generic strategy of how to design future business models that align with a Green, Inclusive, and Open Economy. The subsequent parts of this series will start to explain these Principles in more depth as they informed the development of all of Reporting 3.0’s Blueprints. We will refer back to the 9 Principles whenever they guided our recommendations. For now they are a representation of the ‘invisible band’ guiding the ‘invisible hand’ to act within real-world constraints.

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<thead>
<tr>
<th>Sustainability: Natural Capital</th>
<th>Manufactured Capital</th>
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<tbody>
<tr>
<td>1. A circular and regenerative economy</td>
<td>a. Natural and man-made materials and ecosystems are regenerated through circular economic processes</td>
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<tr>
<td>2. Long term resource planning for intergenerational equity</td>
<td>a. Technologies, Products, Services and Businesses are designed for durability to continue serving future generations</td>
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<tr>
<th>Organizational: Intellectual Capital</th>
<th>Financial Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. A transparent and level global playing field that delivers True Value</td>
<td>a. Apply accounting principles that measure true costs including externalities, and calculate true returns with full transparency</td>
</tr>
<tr>
<td>4. Strategic Decision Making to Scale-Up to ThriveAble Sectors</td>
<td>b. Level the playing field towards renewable and regenerative industries through true taxation and incentives</td>
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<tr>
<th>Socio-Cultural: Human Capital</th>
<th>Social Capital</th>
<th>Reputation Capital</th>
</tr>
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<td>5. Holistic Education to Develop Complex Systems Thinking &amp; Leadership</td>
<td>a. Nurture multi-stakeholder collaboration to amplify and scale-up positive impacts and increase advocacy for a green, inclusive &amp; open economy</td>
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<tr>
<td>6. Governance Systems Aligned to Inclusive Stakeholder Wellbeing</td>
<td>b. Investment decisions based on the solutions of the 3-gap-challenge dimensions (new measurement needed)</td>
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Figure 1: The Six Desiderata of a Green, Inclusive and Open Economy (Source: Ralph Thurm, Reporting Blueprint, Reporting 3.0, 2017)

Figure 2: The Nine Principles of a Green, Inclusive and Open Economy (Source: Ralph Thurm, Reporting Blueprint, Reporting 3.0, 2017)
**What have you achieved afterwards?**

The concepts, exercises and tasks recommended in these first three subchapters focus on creating a transformational mindset, as exemplified by Positive Mavericks, which creates a foundation for applying what Reporting 3.0 calls ‘integral thinking’ (that you will learn more about in subsequent chapters and subchapters.)

**2.4. CAN THERE BE SUSTAINABLE BUSINESS IN AN UNSUSTAINABLE ECONOMY? OR DOES ACHIEVING SUSTAINABILITY REQUIRE ECONOMIC SYSTEM REDESIGN?**

**What’s the issue?**

The pursuit of sustainability only makes sense in the context of an unsustainable system; if the system were sustainable, there would be no need to pursue sustainability – it would be the water fish swim in. So, companies and investors pursue sustainability *precisely because* the system – our economic system, that is – is unsustainable. And yet individual pursuit of sustainability will not achieve systemic sustainability – at least not until those individual pursuits add up to some tipping point of grassroots transformation. But if we know that the economic system is broken – unsustainable – doesn’t it make sense to simultaneously pursue sustainability bottom-up at the individual *and* top-down at the systemic level?

**Why is this important?**

“There can be no sustainable company in an unsustainable economy” is a truism at the core of Reporting 3.0’s philosophy. Yet corporate “sustainability” focuses almost exclusively at the micro level of the company (and addressed through enterprise risk management), with scant attention to the macro level of the economic system. Likewise for investment, which focuses on the meso level of the portfolio, and is only beginning to wake up to the macro level of systemic risk (much less the cosmic level of existential risk). And the Sustainable Development Goals are articulated within the context of the existing economic system design, and do not address the question of economic system redesign in any depth.

As a Global Common Good R&D provider, Reporting 3.0 proposes four areas in which economic system conditions and incentive structures need to change to allow for a Green, Inclusive, and Open Economy:

- Adjust cost accounting to cover the true cost of the depreciation of natural and manufactured capitals, to more accurately and holistically reflect current value and future value. Such calculations would more clearly identify how costs enhance or diminish the ability of current and future generations to
live lives with equal opportunities, respecting the Precautionary Principle\(^\text{39}\) to ensure the intra- and intergenerational equity condition of sustainability. The intended outcome is to align financial costs with ecological costs so as to manage vital natural resources within their carrying capacities, enabling existing natural capital stocks to regenerate productive flows in perpetuity. The same logic applies for social costs consequences that often flow from ecological overshoot – for example, the current costs for climate migration and the integration of climate refugees into new habitats around the world.

- **Introduce benefit accounting** to capture the appreciation of positive impact, and thereby achieve a total contribution accounting system. This would include the monetization of positive increases in social capital, human capital, reputation capital and intellectual capital. The same applies for environmental benefits, accounted for through natural capital and manufactured capital.

- **Translate true costs into true prices**, shining light on the shadow calculations many companies already use as internal pricing mechanisms, but do not add them to products – yet. The intended outcome for consumers is higher quality, sustainable goods that are cheaper than lower quality, unsustainable goods, because the true costs (across the multiple capitals) are reflected in prices. Action at the meso level can spur this transformation new “level playing fields” across industries, thereby creating collaborative advantage (instead of blocking progress that benefits the entire industry – and society – because it currently incurs competitive disadvantage at the micro level). This would break the deadlock of 25 years of attempts to spur demand for sustainable products through consumer behavior change. As long as pricing signals are the main driver for buying decisions, scalability of sustainable solutions can only be achieved through such market-based pricing levers.

- **Change incentive structures through true taxation** that encourages productive activity by a liberating labor from taxation and discouraging detrimental impacts by increasing taxes on non-renewable resource use. This move would align also subsidies with beneficial business and behavior. Coordination at the regional, national, and global level would tap into a similar “level playing field” dynamic – particularly if business and investment leaders lobby for such common-sense approaches.

How can you tackle it?

Economic system redesign will require collaboration between business, investment, and government, among others. While we acknowledge such a complex endeavor is likely to require multi-generational action, we also recognize we only have one generation left to make needed changes. It is therefore necessary that end goals and timelines be negotiated from the outset. A lot can be learnt from the climate change negotiation process over the last couple of years, the journey from Kyoto to the Paris Agreement, and how to negotiate these new terms for a green, inclusive & open economy that builds on those costing, benefiting, pricing and taxation transformations and honors multiple-capital accounting to reveal organizations’ total contribution. These ingredients are part of the “North Star” Reporting 3.0 envisages over time, enabling financial markets to more accurately gauge future value, creating innovation incentives and supporting more scientific benchmarking through ratings, rankings and indices.

So, in practical terms this leads us to the following set of activities that you can initiate:

- **Apply scenarios for outcomes of new level playing fields associated with true costing, pricing, and taxation, as well as benefit accounting.** Run shadow calculations of how your business model is affected by any such changes.

- **Build the case for bold action,** for example by researching economists advocating for these kind of measures, such as Doughnut Economics author Kate Raworth or the Stiglitz-Sen-Fitoussi Commission Report on the Measurement of Economic Performance and Social Progress.

\(^{39}\) https://en.wikipedia.org/wiki/Precautionary_principle
• Engage with same sector peers, industry associations, investors, lobbyists, and government representatives to vet / promote the idea of collaborative advantage to break through first-mover / free-rider disadvantages. Nothing is more powerful than a collective plea for change and action.

**What have you achieved afterwards?**

Reporting 3.0 advocates for economic system design change not because it’s easy, but because it’s necessary for reaching scalability, away from looking up to the leaders in sustainability, but to make anybody else followers of a system that does the ‘right thing’ automatically through its incentives. What makes the challenge worth taking is the end result of an economy that grows wellbeing, the “ultimate ends” according to *Limits to Growth* Co-Author Dana Meadows, displacing our current economy’s fixation with the “intermediate ends” of financial and economic growth that actually reduces wellbeing through environmental degradation, wealth concentration and disparity, etc.. In other words, a transformed economy results in shared prosperity, economic resilience, social stability, and ecological regeneration.
3. PLANNING THE ROUTE

At this stage of your journey, you are planning your route with the team of climbers you will embark on your walk with shortly. There might be various ways to reach the mountain top, but you need to know all relevant contexts to choose for the best route. How’s the weather, are there any specific areas that warrant special attention, what sort of gear needs to be collected to be prepared for all possible situations that could occur?

3.1. HOW DO YOU DESIGN STRATEGIES TO MEET EMERGING SYSTEMIC CHALLENGES?

What’s the issue?

Corporate strategy increasingly considers environmental and social issues, but it typically falls short of assessing the sustainability of company impacts on the ecological and social systems within which it operates. This oversight is one of the drivers behind the Sustainability Gap, so Reporting 3.0 developed a tool to address this shortcoming – the r3.0 Strategy Continuum.
The r3.0 Strategy Continuum visualizes progress:

- **On the horizontal axis**, from incremental to transformative strategies, with (context-based) sustainability as the midline, and regeneration and thriveability on the far side of the line; and
- **On the vertical axis**, from current economic system design to the emergence of a new economy, with transformation scaling up from the micro (company) level through the meso (industry / portfolio / habitat) level to the macro (economic, social, and ecological systems) level.

**Why is this important?**

The first companies to pilot the Strategy Continuum remarked that the tool helped them distinguish corporate social responsibility (CSR) initiatives and environmental, social, governance (ESG) ratings & rankings – with their focus on incremental improvement – from more transformative sustainability, which links micro-level impacts to macro-level systems viability. As Global Reporting Initiative (GRI) Co-Founder Allen White said: “ESG does not, by nature, carry a true sustainability gene. Incremental performance assessment [is] insufficient. Sustainability ... call[s] for assessing ... performance against thresholds and limits.”
How can you tackle it?

In piloting the r3.0 Strategy Continuum, we developed the below "legend" to guide users in determining where to plot a strategy.

On the Horizontal Axis:

- **BAU**: No evidence of sustainability assessment / progress
- **Improving**: Evidence of incremental progress, uncontextualized vis-à-vis sustainability thresholds
- **Sustaining**: Evidence of performance improvement vis-à-vis carrying capacities of capitals / sustainability thresholds
- **Sustainable (mid-line)**: Performance meets break-even point – no worse than the sustainability threshold
- **Regenerating**: Evidence of (context-based) net-positive sustainability performance (regenerative impacts on capitals)
- **Thriving**: Evidence of gross-positive sustainability performance (no negative impacts on capitals needing to be netted out)
On the Vertical Axis:

- Micro Level: Evidence of progress at the company level
- Meso Level: Evidence of company-level progress catalyzing industry / portfolio / habitat level transformation
- Macro Level: Evidence of company- / industry- / portfolio- / habitat-level progress that catalyzes economic / ecological / social systems level transformation

![Strategy Continuum Plotting Legend](source.png)

**Figure 5: r3.0 Strategy Continuum Plotting Legend (Source: Reporting 3.0)**

Additionally, piloting the Strategy Continuum led to the development of a color-coded system for recognizing goals and assessment mechanisms that take a context-based approach to achieving sustainability (orange), as well as recognition for the next step of actually achieving sustainable performance.

In addition to plotting current strategy, goals, and performance, the Strategy Continuum enables visualization of scenarios as well as plotting roadmaps for transition planning in order to create Maturation Pathways.

40 [https://en.wikipedia.org/wiki/Context-Based_Sustainability](https://en.wikipedia.org/wiki/Context-Based_Sustainability)
To demonstrate the Strategy Continuum in action, we provide below a few hands-on examples from the pilots.

Current Strategy

- The company has a 1.5°C Science Based Target strategy that transcends the context-based mid-line threshold at the micro/company level.
The company goal to drive further emissions reductions through customer use of its technologies has resulted in 1.8x more reductions than its own reductions, thus demonstrating meso-level transformation.

The company also collaborates with GeSI, RE100, and other initiatives driving meso-level transformation.

Recommended Actions:

- **Horizontal Axis**
  - To move into the regenerative zone, the company would need to add “negative emissions” – i.e., carbon sequestration – to its portfolio. This would require to support significant reforestation/land use transformation toward removing “fugitive carbon” from the atmosphere. As well, the company can codify its commitment to climate by producing a “transition report” documenting all the ways in which its business models need to change in order to help achieve a <2°C world – including shifts at the governance and strategy levels.

- **Vertical Axis**
  - Clearly, the company’s current goal and program represents its strongest lever to scale up sustainability through balancing out the carbon cycle, so the maturation pathway here would entail enhanced ambition. As well, the company can leverage its position as a pioneer on climate stabilization amongst peer companies for industry ecosystem transformation, and more importantly at the government level, seeking to apply its climate stabilization approach to national level measurements.

The second example looks at a social impact, human rights:

![Figure 8: Applying the Strategy Continuum for a human rights strategy (Source: Reporting 3.0)](http://gesi.org/)

![http://there100.org/](http://there100.org/)
Current Strategy

- As John Ruggie says, the United Nations Guiding Principles on Human Rights and Business represent norms, so the company’s use of them move it toward the sustainable line, though its performance has yet to demonstrate full compliance with the UNGPs.

Recommended Actions

- Horizontal Axis
  - Human Rights are largely binary at the company level, with progress gradations on the unsustainable side. The goal at the micro level is simply to uphold all human rights – including freedom from enslavement. Complexity arises when rights conflict.

- Vertical Axis
  - The primary maturation path on human rights / modern slavery is upscaling to the meso & macro levels – for example through supply chain engagement at the meso level. At the macro level, one could argue that human rights abuses are encoded into the DNA of monocapitalism, so advocacy for economic system transformation holds the potential to engineer human rights abuses out of the economy’s DNA.

What will you have achieved afterwards?

The use of the r3.0 Strategy Continuum enables companies to assess the sufficiency of their current strategies in navigating the transition to an economy built for sustainability. The Strategy Continuum thus provides a starting point for defining an ambition level. Maturation Pathways combine scenarios with transition planning and allow for tracking trajectory targets, enabling adjustments as needed along the way.

3.2. HOW DO COMPANIES DETERMINE WHAT’S MATERIAL? AND HOW CAN MATERIALITY INSTIGATE TRANSFORMATIVE CHANGE?

What’s the issue?

The practice of companies determining what’s “material” to their businesses emerged in the financial accounting and reporting worlds to establish thresholds between what’s relevant, and thus obligatory to disclose to inform financiers’ decision-making, and what’s not. Intending to crystallize a more comprehensive approach, the sustainability accounting and reporting worlds broadened the definition of materiality to include social and environmental issues, in order to inform their stakeholders’ (or rightsholders’) decisions.
**Why is this important?**

This has resulted in two unfortunate outcomes:

- First, this proliferation has created a *definitional morass*; 43
- What’s worse, sustainability accounting and reporting definitions of materiality neglect to link to sustainability thresholds in ecological and social systems.

As a global public good R&D function for the disclosure field, Reporting 3.0 is filling this gap by proposing an approach to materiality tied to sustainability thresholds in ecological, social, and economic systems, as well as links to business model viability and sustainable system value creation. In this way, we see materiality operating not simply at the micro level of companies, but also at the meso level of industries as well as the macro level economic, social, and ecological systems.

**How can you tackle it?**

Say hello to the Reporting 3.0 Integral Materiality Process. Organized around a Plan-Do-Check-Act cycle (PDCA, or Deming Wheel) known from Quality Management Systems, this process applies across functions in the organization and can therefore align sustainable value creation at company as well as systems levels. Now, what makes the r3.0 Integral Materiality Process so different:

![Figure 9: The r3.0 Integral Materiality Process (Source: Ralph Thurm, Reporting Blueprint, Reporting 3.0, 2017)](http://www.materialitytracker.net/standards/definitions/)

43 http://www.materialitytracker.net/standards/definitions/
• The PLAN phase, which is firmly grounded in a context-based⁴⁴ approach linked to the carrying capacities of capitals, calls on companies to identify three key elements:
  ◦ **Rightsholders** to whom companies owe legal duties and ethical obligations due to direct impacts on their wellbeing or, indirect impacts on vital capital resources that these rightsholders rely on for their wellbeing.
  ◦ We assert this linguistic shift from stakeholders, which typically amounts to those who claim a stake in a company’s considerations, to rightsholders, which more clearly aligns to companies’ accountability for direct and indirect impacts on social, economic, and ecological resources.
  ◦ Impacts companies have (both negative and positive) on vital capital resources that rightsholders rely on for their wellbeing.
  ◦ These impacts can increase or decrease the amount (or “stocks”) of natural, social, human, built, financial, and intellectual capital (to name the six capitals in the International Integrated Reporting Council format), as well as the “flows” of these resources.

• **Thresholds** that differentiate sustainable levels of these vital capital resources from unsustainable levels – also known as the carrying capacities of capitals; as well as allocations of companies’ fair, just, and proportionate shares of these resources.

• The DO phase shifts into operationalization mode, which includes:
  ◦ **Collaborating** with these rightsholders to validate and manage the above impact areas, thresholds and allocations.
  ◦ **Setting** context-based targets across the multiple capitals and dashboards for tracking performance on trajectory targets.
  ◦ **Integrating** this context-based thinking and practice across all key elements of the enterprise, including risk management, governance, innovation and leadership (including performance and compensation metrics).

• The CHECK phase controls and tracks performance towards set targets, but also evaluates the longer-term delivery status and correction measures. This phase calls for:
  ◦ **Tracking** performance against trajectory targets, enabling redirection if necessary.
  ◦ **Testing** against scenarios (particularly <2°C / net zero GHGs by 2050 climate scenarios) and creating transition plans that respond to this systemic (and indeed existential) risks.
  ◦ **Assessing** the ongoing viability of business models to ensure current and future system value creation (which includes and transcends both shareholder value and shared value)

• The ACT phase revisits elements of the DO phase, while also scaling up influence and advocacy from the micro to the meso and macro levels. This phase calls for:
  ◦ **Engaging** rightsholders around the sustainability of business models to ensure ongoing future system value creation.
  ◦ **Transitioning** to <2°C / net zero GHGs by 2050 business models.
  ◦ **Transforming** the broader contexts within which companies operate, including their industries at the meso level, as well as the economic system that needs reform in order to support healthy social and ecological systems.

Why “Integral” as the moniker for this approach to materiality? We draw this term from Integral Theory, which advances a holistic approach, integrating considerations across the individual to the collective levels, and the internal / subjective to the external / objective realms.

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What will you have achieved afterwards?

The Integral Materiality Process addresses the current shortcomings in materiality mentioned above, as a means of also resolving broader misalignments. It is the core implementation mechanism for 'integral thinking' and designing 'integral materiality'. Not all of this can or even should be implemented in a short amount of time. This process also allows a step-by-step implementation, and we leave it up to each organization to design its own pace. On average, we expect a full implementation to be possible within three years. We are convinced that this process allows enough flexibility and future-readiness that it can lead towards a full implementation of integral business models.
You have started your walk with the group. It will take a while to reach the mountain top, if all goes well, and the team works together well. You have divided your climb into a few sections, to not overstretch. Each section has its own challenges and rewards. All members of the team need to function together: the first can proceed only as fast as the last.

**Section 1**

### 4.1. FROM SHAREHOLDERS TO STAKEHOLDERS – TO RIGHTSHOLDERS: WHY THE SHIFT?

*Shareholder primacy*, focused as it is on short-term profit and return maximization above all else, drives monocapitalism. So, the shift to multicapitalism similarly entails a broader focus – on *system value creation* – to address the interests of a wider spectrum of stakeholders. We at Reporting 3.0 believe this wider spectrum actually transcends the notion of stakeholders to encompass *rightsholders* – namely, we all have a *right to wellbeing* that’s *free from harm* by corporate activities – or, ideally holistically *enhanced* by company influence.

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What's the issue?

Shareholders have long held primacy in company decision-making. A shift started about a half-century ago, when Stanford Research Institute (now SRI International) coined the term "stakeholder" to describe a broader set of constituencies that influence enterprises' decisions and actions. In his seminal 1984 book, the "godfather" of Stakeholder Theory Ed Freeman defined stakeholders as "any group or individual who can affect or be affected by the achievement of an organization's objectives."

And over that last several decades, these stakeholders have exerted an increasing voice in setting corporate agendas – precisely because these stakeholders have a rightful claim to a world where their wellbeing is at least respected, and certainly not systemically degraded (as is now often the case). We at Reporting 3.0 believe this calls for transforming the language behind this logic one step further. We believe that humanity's core right to wellbeing establishes a commensurate accountability for company activities that impact on this wellbeing, and hence we propose the concept of rightsholders.

We can't conceive of a reasonable case for a license to harm, only a license to help (or perhaps a do-no-harm license).

Underpinning this concept is the doctrine of Context-Based Sustainability (CBS), which establishes companies' duties and obligations to support stakeholder wellbeing. Company activities have direct impacts on people, as well as indirect impacts on the vital capital resources (water, climate regulation, human labor, etc…) they rely on for their wellbeing. So, companies have a responsibility to manage their impacts on these capitals within their carrying capacities – in order to retain sufficient resources to support their rightsholders' wellbeing. In other words, managing resource stocks within their natural cycles, such that they continue to produce necessary flows.

Why it's important?

The right-to-wellbeing represents a rapidly emerging risk for companies that neglect to take a rightsholder perspective. Take, for example, the recent lawsuits by the Philippines Government and the City of New York against companies for climate change impacts on human rights. These companies are being held accountable for upholding citizens' rights to a liveable climate.

On the flip side, the opportunities of a rightsholder approach are also emerging more clearly. Take, for example, the move toward a circular economy, which we believe is a necessary aspect of a Green, Inclusive and Open Economy. In such an economy, there are no "losers" in the value cycle, as it is today when negative impact created within a closed loop inherently impacts the whole cycle.

Reporting 3.0 collaborator Alexander Lemille calls for a circular economy that manages the cycles of stocks and flows of vital capital resources not only in the biosphere and technosphere (as displayed in the Ellen MacArthur Foundation Circular Economy System "Butterfly" Diagram), but also in the circular humansphere.

48 https://tamplc.wordpress.com/2013/09/20/the-origins-of-the-stakeholder-concept/
49 https://books.google.com/books/about/Strategic_Management.html?id=NpmA_qEiOpkC
50 https://en.wikipedia.org/wiki/Context-Based_Sustainability
51 https://www.climateliabilitynews.org/2017/10/05/philippines-climate-change-human-rights/
52 http://www.pna.gov.ph/articles/1021209
53 https://www.ellenmacarthurfoundation.org/circular-economy/interactive-diagram
54 https://www.linkedin.com/pulse/circular-humansphere-video-alexandre-lemille/
We believe this perspective supports a rightsholder approach that isn't based on just reducing risk, but offering a broader spectrum of opportunities.

**How can you tackle it?**

The Reporting 3.0 Integral Materiality Process that we introduced in the last chapter calls for taking a rightsholder-based approach by:

- Identifying legal duties and ethical obligations your company owes to your rightsholders – which secures your right to exist and indeed your right to grow;
- In addition to identifying these responsibilities (from the first bullet above) on your own, you can also engage with the rightsholders in your value cycles to confirm alignment between perspectives, or differences that point to latent risk;
- Differentiating between direct and indirect impacts on rightsholders (while direct impacts may be easier to identify, indirect impacts on vital capital resources that rightsholders rely on for their well-being can create bigger risks);
- Using the r3.0 Strategy Continuum, you can map the interlinkages between micro / meso / macro impact areas to clarify individual, collective, and systemic rights that your business model impacts.

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**Figure 11:** Circular Economy System "Butterfly" Diagram. (Source: Ellen MacArthur Foundation)
**What will you have achieved?**

A rightsholders approach *insulates* your company from risks associated with the harms your business model may cause to your stakeholders, inadvertently or otherwise. It also generates opportunity to prosper from tapping into the system value creation of the circular humansphere. Ultimately, taking a rightsholder-based approach continues the journey from a shareholder primacy orientation that may rely on a *license-to-harm*, through a stakeholder primacy orientation that advances a *do-no-harm license*, to a rightsholder alignment that progresses a license-to-help model.

### 4.2. WHAT ARE THRESHOLDS & ALLOCATIONS, AND WHY ARE THEY NECESSARY FOR SUSTAINABLE SYSTEM VALUE CREATION?

**What’s the issue?**

Thresholds and allocations are easiest to understand by thinking of doughnuts and pies. Seriously.

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Oxford Economist Kate Raworth popularized the idea of environmental and social thresholds by envisioning a *doughnut*:\(^{55}\): its outer edge represents “ecological ceilings” (i.e. *Planetary Boundaries*:\(^{56}\)), or “do-not-exceed” limits of resource use beyond which natural systems start to collapse; its inner edge represents “social foundations,” below which societal systems start to founder:\(^{57}\).

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55 [https://www.kateraworth.com/doughnut/](https://www.kateraworth.com/doughnut/)

56 [http://www.stockholmresilience.org/research/planetary-boundaries.html](http://www.stockholmresilience.org/research/planetary-boundaries.html)

57 The idea of outer and inner limits was first proposed by Barbara Ward in the Cocoyoc Declaration at a 1974 joint UNEP / UNCTAD Symposium. [http://www.jstor.org/stable/2706353?seq=9&refreqid=excelsior%3A1846d984351233c-776aef9c43f4fc22b#page_scan_tab_contents](http://www.jstor.org/stable/2706353?seq=9&refreqid=excelsior%3A1846d984351233c-776aef9c43f4fc22b#page_scan_tab_contents)
And a “slice of the pie” is the best way to envision allocations, or a proportionate share (slice) of the full stock of a resource (pie). Think of water in a watershed, which needs to account for natural processes (e.g. evaporation; plant, animal & human consumption, etc...) before being divvied up between commercial / industrial users.

But now that you know what thresholds & allocations are, so what? How do they help us better understand how best to use our shared resources in ways that ensure their ongoing availability?

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**Figure 13:** Doughnut Economics & Planetary Boundaries (Sources: Kate Raworth, *Doughnut Economics*[^58], Chelsea Green, 2017; Stockholm Resilience Centre, *Planetary Boundaries*[^59])

[^58]: https://www.chelseagreen.com/product/doughnut-economics-paperback/
[^59]: http://www.stockholmresilience.org/research/planetary-boundaries.html

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**Figure 14:** Context-Based Water Allocation (Source: Rylan Dobson & Alexis Morgan, “From Conflict to Context-Based Metrics,” *REVOLVE #22: Liquidity*[^60], Winter 2016/17; Adapted from Mark McElroy & Jo van Engelen, *Corporate Sustainability Management*, Earthscan, 2012)

[^60]: https://issuu.com/revolve-magazine/docs/re22
Why it’s important?

The idea of thresholds & allocations isn’t new. In fact, the concepts grew out of the notion of “capitals” as stocks of resources that generate productive flows, which are vital to support well-being (see below for a visual overview of the history of novel contributions to this thinking).

The key to achieving sustainability is to respect the carrying capacities of the capitals41, as Reporting 3.0 Advocation Partner Mark McElroy established in his 2008 Doctoral Dissertation42 (applying the carrying capacities concept from the field of ecology). And McElroy also proposed a Sustainability Quotient for expressing thresholds, whereby sustainability (S) equals actual impacts (A) over normative impacts (N) – think carbon footprint over carbon budget.

And Reporting 3.0 notes that most practice in the so-called sustainability space (think CSR, ESG, etc...) amounts to numerator-only work, focused on incremental improvement that falls short of sustainability thresholds. As Reporting 3.0 Steering Board Member Brendan LeBlanc of EY notes, “the only thing more dangerous than no progress is the illusion of progress.” We at Reporting 3.0 also like to point out that thresholds and allocations are always being employed (resources always have upper or lower limits of viability, and use of a shared resource always requires parsing it out); the main question is how consciously resources are used and shared.

The key “marriage” of thresholds & allocations started with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines in its second generation (G243) released in 2002, which introduced the Sustainability Context Principle that tied micro-level organizational impacts on the multiple capitals

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41 https://www.greenbiz.com/blog/2013/06/18/carrying-capacities-capitals
43 https://www.epeat.net/documents/EPEATreferences/GRIguidelines.pdf
to macro-level economic, social, and ecological systems viability. Ideally, this would have inspired companies to make this vital micro/macro link in their management, performance, and reporting in order to operationalize sustainability.

![The Sustainability Quotient](image.png)

**Figure 16: Sustainability Quotient** (Source: Mark McElroy, *Social Footprints*, 2008)

Unfortunately, a 2017 study of 40,000 sustainability reports issued since then found that only 5% make any mention of ecological limits, and only 31 of 9,000 reporting companies (0.3%) integrate such limits into their strategy and product development. Reporting 3.0 calls this the **Sustainability Context Gap**.

**How can you tackle it?**

In its 2015 *Raising the Bar* report, UNEP succinctly summarizes what companies can do:

> All companies should apply a context-based approach to sustainability reporting, allocating their fair share impacts on common capital resources within the thresholds of their carrying capacities.

A number of initiatives have spawned in the past decade to help operationalize thresholds and allocations.

- Employ **Context-Based Metrics**, such as **Science Based Targets** for greenhouse gas emissions reductions and **Context-Based Water Stewardship Targets**;
- Implement the **UN Guiding Principles on Business & Human Rights**;
- Utilize the **Vital Capital Index** in agriculture and assess synergies between sustainability impacts;

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64 https://www.rug.nl/research/portal/files/13147569/DISSETRATION-2.pdf
67 http://www.sustainableorganizations.org/downloadable-context-based-metrics/
68 http://sciencebasedtargets.org/
71 https://www.cabotcheese.coop/vital-capital-index
• Consult the Embedding Project’s *Road to Context*[^3] for guidance
• Set “break even” and “positive pursuit” goals using the *Future Fit Business Benchmark*[^4];
• Apply systems-level considerations[^5] and measure influence[^6] in investment decisions, as advocated by The Investment Integration Project;
• Conduct scenario analysis (with guidance at the *TCFD Knowledge Hub*[^7]) and produce transition plans to <2°C business models (as advocated[^8] by Preventable Surprises);
• Use the *MultiCapital Scorecard*[^9].

In additions to these actions, Reporting 3.0 provides a comprehensive approach to applying thresholds & allocations through a number of fit-to-purpose tools:

• Mapping: The Reporting 3.0 Strategy Continuum (covered in chapter 3) enables plotting of practices, impacts, business models, etc. on the spectrum from incremental improvement through sustainability (defined by thresholds and allocations) to regeneration and thriving;
• Implementation: The Reporting 3.0 Integral Materiality Process (covered in chapter 3 as well) applies thresholds and allocations in its context-based approach to materiality;
• Governance: The UNEP Raising the Bar report also recommends: *Multilateral organizations should collaborate to create a global governance body of scientists, governments, businesses, NGOs and other stakeholders to provide guidance on methodologies for determining ecological (and social) thresholds, as well as guidance on approaches to allocations, all of which are broadly applicable to the business level.*
  - Reporting 3.0 is enacting this recommendation by establishing the *Global Thresholds & Allocations Council*[^10] (GTAC) with a 3-prong mission:
    - Identify thresholds & norms for sustaining the carrying capacities of systems-level capital resources in the commons that are vital to stakeholder wellbeing, based on a comprehensive review of research in physical and social sciences and practice in the field.
    - Design and validate allocation methodologies that apportion fair share responsibility for jointly preserving and enriching capital resources vital to stakeholder wellbeing.
    - Disseminate consensus-based thresholds/norms/allocations with “off-the-shelf” ease-of-use in mind to facilitate global mainstreaming of such practices.

### What will you have achieved afterwards?

Application of thresholds and allocations is a necessary precondition for achieving truly sustainable organizations (at the micro level), industry sectors, investment portfolios and bioregional habitats (at the meso level), and economic, societal, and ecological systems (at the macro level). Indeed, thresholds & allocations approaches enable fulfillment of the transition from shareholder value creation to shared value creation (which aligns financial and social value creation while overlooking value destruction) to *system value creation* – which harmonizes financial value creation with the enhancement of social and ecological systems in which the economy operates.

[^3]: https://embeddingproject.org/resources/the-road-to-context
[^4]: http://futurefitbusiness.org/resources/downloads/
[^5]: http://www.tiiproject.com/effective-investing-long-term/
[^7]: https://www.tcfdhub.org/
[^9]: http://www.multicapitalscorecard.com/multicapital-scorecard/
[^10]: https://reporting3.org/gtac/
4.3. HOW CAN NEW LENSES OF RISK HELP IGNITE BREAKTHROUGH TRANSFORMATIONS?

In a provocative new book, Amundi Global Chief Investment Officer Pascal Blanqué proposes replacing the notion of risk (which is typically assumed to originate externally) with uncertainty (which can apply to external events as well as internal influence). This aligns with work at the London School of Economics distinguishing between exogenous risk (or shocks from outside the system) and endogenous risk (or shocks from within the system). And both of these point to Reporting 3.0’s perspective on risk, and new lenses that can help ignite breakthrough transformation.

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83 http://www.systemicrisk.ac.uk/endogenous-risk
**What’s the issue?**

Traditional risk management is maturing, and expanding its scope. Last year, the Committee of Sponsoring Organizations of the Treadway Commission (COSO\(^{85}\)), the main body that provides guidance on enterprise risk management (ERM), issued\(^{86}\) the first revisions to its Framework in over a dozen year. And early this year, in a first-of-its-kind move, COSO collaborated with the World Business Council for Sustainable Development (WBCSD) to issue\(^ {87}\) draft Guidance on the intersection between ERM and ESG (or environmental, social, and governance issues).

**Overview of exposure draft**

However, traditional risk management continues to assume that risk is generally an external event that afflicts companies – and hence companies lack agency in risk creation, and can only manage risk. Reporting 3.0 calls this outside-in risk, and believes it is vital to complement this perspective with inside-out risk; in other words, the risks that companies create, which then impact other companies (as outside-in risk) – and also circle back to impact the company that created the risks in the first place (we might call this bite-you-in-the-butt risk).

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85 https://www.coso.org/Pages/default.aspx
In addition to this internal / external risk axis, Reporting 3.0 sees an emerging hierarchy of risk that is expanding in scope, and aligns with our levels of scalability:

- At the nano level there’s career risk, whereby individuals (including “positive mavericks”) are dis-incentivized from pushing for the degree of transformation needed, as it flies in the face of business-as-usual and even bucks the CSR / ESG incrementalist party line;
- At the micro level there’s enterprise risk, which (as discussed above) is expanding its scope but still falls short of making the outside-in / inside-out link;
- At the meso level there’s portfolio risk, which aggregates the risks experienced by individual companies, but still tends to consider those to be outside-in risks;
- At the macro level there’s systemic risk, which starts to capture the inside-out risk that aggregates at the systems level, and often follows non-linear trajectories, making it much harder to model and predict;
- At the cosmic level there’s existential risk, whereby the very continuation of human civilization sits in the balance.

**Why it’s important?**

Risk is the canary in the coalmine, and current risk methodologies are predisposed to interpret the bird’s impending asphyxiation as mild hiccups. And of course, risk also acts as a signpost to opportunity, enabling companies and investors with foresight to innovate solutions that create financial value while also creating system value—i.e. sustainable ecological and social and economic systems.

**How can you tackle it?**

Companies are starting to recognize the intersection between risk and sustainability⁹⁰, for example by merging these roles into formal positions – as Lockheed Martin did recently by creating the role of Director of Enterprise Risk and Sustainability.

Investors are starting to wake up to systemic risk. For example, universal investors (who typically apply Modern Portfolio Theory⁹¹ and diversify their holdings across entire economies) increasingly recognize that systemic risk cannot be hedged. There’s no place to hide from systemic risk, by definition. And therefore, the traditional practice of buffering portfolio risk by generating alpha² from security selection fails in a world of systemic risks. Indeed, Jim Hawley and Jon Lukomnik make the case⁹³ in a recent paper for “beta⁹⁴ activism,” or “improving and enhancing beta, which it defines as the market as a whole, through corporate governance stewardship.”

Such “beta activism” is an example of what Preventable Surprises⁹⁵ calls “forceful stewardship,” or investors’ fiduciary duty to engage with companies in their portfolios on climate systemic risk by seeking transition plans to <2°C business models through direct dialogue, filing shareholder resolutions, and proxy voting.

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⁹⁵ [https://preventablesurprises.com/](https://preventablesurprises.com/)
Arjuna Capital and As You Sow filed just such resolutions at Chevron and ExxonMobil (see here and here). As Arjuna Capital’s Natasha Lamb told us in our recent virtual dialogue:

These resolutions represent a next level in the maturation of our strategies, following in the footsteps of resolutions in previous years (and continuing this year) asking companies to conduct scenario analyses of potential climatic outcomes based on scientific extrapolations. So, the main questions we now face are: how do we scale business model transitions to encourage industry-wide transformation to low carbon energy models? And how can we encourage other investors to support transition plan resolutions through filing and proxy voting?

Tying together the far ends of the spectrum, positive mavericks must ask themselves how to navigate career risk in light of the ethical imperative of confronting existential risk. One answer to this is to focus attention on the opportunities to create system value as a means of addressing systemic risk.

What will you have achieved?

Addressing the full risk axis (outside-in / exogenous plus inside-out / endogenous) applies a holistic approach that is both reactive and proactive. As well, addressing the full risk hierarchy (from nano-level career risk through micro-level enterprise risk and meso-level portfolio risk to macro-level systemic risk and cosmic-level existential risk) provides a much more comprehensive means of insulating from risk, while recognizing that the risks created by other actors may not be mitigatable. Accordingly, realists will augment such holistic and comprehensive approaches to risk with level-headed adaptation to unavoidable risks.

4.4. WHAT’S THE APPROPRIATE ROLE OF GOVERNANCE IN SPURRING SYSTEM VALUE CREATION? OR: WHY STRATEGIC DUTY REQUIRES A SHIFT FROM GOVERNANCE PUSH TO PULL GOVERNANCE

The latest “shot heard ‘round the world” has been fired! But as with the first gunshots of the Revolutionary War and World War I, there’s a lag time between the actual event, and widespread recognition of its significance. The most recent shot, aimed squarely at the heart of unsustainable quarterly capitalism, was fired by Keith Johnson and Kenneth McNeil (with gunpowder provided by Mark Van Clief of

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99 https://en.wikipedia.org/wiki/Shot_heard_round_the_world
Organizational Capital Partners, a member of the Reporting 3.0 New Business Models Blueprint Working Group. Johnson recently posted the incendiary article100, “The Elephant in the Room: Helping Delaware Courts Develop Law to End Systemic Short-Term Bias in Corporate Decision Making,” which is forthcoming as the lead article in Michigan Business & Entrepreneurial Law.

The piece makes the case that corporate pursuit of short-term profits has eclipsed sustainable long-term value creation, despite the fact that the latter is the rightful core of fiduciary duty. Johnson & McNeil further observe that “Delaware court justices, the primary referee of corporate director fiduciary duties in the United States, are so frustrated with the persistent effects of short-term pressures ... that they are actively encouraging investors to bring the right cases to help change the rules.”

Bang!

This strategy aligns precisely with Reporting 3.0’s line of advocacy, which similarly seeks systemic solutions (i.e. corporate and institutional investment governance focused on sustainable long-term value creation) to what the piece refers to as “systemic failures” (i.e. such governance focused on unsustainable short-termism).

**What’s the issue?**

Johnson & McNeil open with stunning statistics:

- **According to**101 McKinsey, 85% of the 384 companies it surveyed have strategic planning horizons of less than 5 years; yet102 corporations that do long-term planning had economic profits 81% higher between 2001 and 2014—with less volatility—than other firms.
- **According to**103 Van Clieaf et al, “[a]t least 50% of the current value of the top 1500 S&P corporations is ‘future value.’ And the trend toward a future value as a higher percentage of total equity value is growing.” However, “85% of the S&P 1500 have long term incentive plan performance periods of 3 years or less.”

Johnson & McNeil contrast this with the clear trend of the Delaware courts, since at least 1986, to increasingly stress long-term strategic planning as part of the “**best interest**104” goal of Delaware common law. Case after case decided by Delaware justices hold that Directors must “maximize the value of the corporation over the long term.” Johnson & McNeil then emphasize this by pointing out that “there is no common law that clearly establishes the opposite. That is to say, there is no clear Delaware authority condoning a corporate director that destroys the long-term future of a company for short-term profit.”

They then proceed to quote Chief Justice Leo Strine to further solidify the Delaware court’s antipathy to short-termism, and its embrace of long-term value generation:

> [M]ost of us think the market’s fetishistic preoccupation with quarter-to-quarter profits is stupid. Anyone who is honest will admit that this obsessional behavior contributed to wrongdoing at corporations like Enron and HealthSouth.

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It is well known that businesses aggressively seeking profit will tend to push right up against, and too often blow right through, the rules of the game as established by positive law. The more pressure business leaders are under to deliver high returns, the greater the danger that they will violate the law and shift costs to society generally, in the form of externalities.

In a "seminal" 2010 paper, Chief Justice Strine builds upon these foundations toward the logical conclusion that the ultimate role of the corporation is to create "durable, long-term wealth," which he further characterizes as "societal wealth" and finally refines to "sustainable wealth."

Johnson & McNeil use this as a foundation upon which to build their case for "future value," which is of course consistent with the needs of pension funds, with generation-spanning commitments to their beneficiaries. Pension funds are thus perfectly positioned to initiate litigation against companies for prioritizing short-term value extraction over future value creation. Johnson & McNeil end their article noting that there "would be no better time to bring such litigation than when a court encourages it."

**Why it’s important?**

This stance aligns closely with Reporting 3.0’s advocacy that the proper purpose of the corporation in society is to generate what we call "true future value" and "system value." In other words, companies should not only create value in the form of financial capital for their shareholders and broader stakeholders, but also companies should create value for the economic, social, and ecological systems within which these companies operate, in the form of natural, social, and human capital. Such system value creation is not simply altruism, but rather, it is application of enlightened self-interest to ensure the ongoing viability of the systems companies rely upon as the foundation for their own value creation.

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How can you tackle it?

- Shift from ESG Push to GSE Pull

Reporting 3.0 has long argued for a shift from the current strategy of what we call ESG push, to what we call GSE pull. ESG push is best characterized by the 400+ shareholder resolutions filed each year on Environmental, Social, and Governance issues that seek to push corporate directors toward stronger ESG practices. This system is predicated on lagging leadership by corporate directors.

Reporting 3.0 advocates for a system where strong corporate governance plays a leading role, and so we flip the order from ESG to GSE, which provides the governance pull instigating progress. In essence, we believe that corporate (as well as investment, NGO, foundation, etc) boards have the opportunity (and responsibility) to play leadership roles in transforming the economy. We believe that such leadership is in the best interest of companies and investors, from financial and system value perspectives, and thereby in the best interest of society.

- Enact Strategic Duty

Of course, this requires a paradigm shift for boards from a compliance mindset to a strategic mindset when it comes to fiduciary duty. Van Cleef calls this Strategic Duty, and he points to the pivotal role climate change plays in triggering this shift:

The COP21 targets for 2050 are crystallizing the Strategic Duty of directors as a core foundation of corporate law and corporate governance to set the minimum standard for longer term strategic and investment planning, business model viability and risk assessment, and meaningful process and duty of care / duty of loyalty to the enterprise, its stakeholders and its longer-term transformation to achieve a net zero GHG business model in line with IEA scenarios.

The “Elephants in the Room” article proposes a laundry list of tangible Strategic Duty processes, including:

- A process for strategic and scenario planning 5 to 15 years into the future;
- A process for setting 5 to 10 year strategic goals and targets;
- A process for assessing risk to current business model 5 to 15 years into future;
- A LTIP design goals and pay for performance align for 5 years plus goals;
- A process for measuring or reporting Future Value;
- A process for reporting CEO and named officer succession planning aligned to strategy for the next 10 years.

What will you have achieved?

In essence, the shift from ESG Push to GSE Pull and from a compliance-oriented approach to fiduciary duty to an innovation-oriented approach to Strategic Duty promises to trigger a paradigm shift from the current short-term value extraction regime to a system value creation regime that attends to intergenerational equity. This transformation also flips on its head the traditional notion that addressing environmental and social challenges is a drag on business performance and profit; indeed, managing environmental and social impact within key ecological and societal thresholds is a keystone for sustainable value creation in the long-term.

108 https://static1.squarespace.com/static/59f0e404c326d3b5a4c4f6a0/t/5aa2cf838165f56d578afce0/152061941334/Proxy-Preview-2018-Final.pdf
4.5. HOW CAN ORGANIZATIONS ALIGN LEADERSHIP WITH WORK LEVELS TO HARNESS TRANSFORMATIVE POTENTIAL?

We at Reporting 3.0 talk a lot about the “micro-macro gap” and the “micro-macro link” between organization-level impacts that aggregate to systems-level breakdowns or, ideally, positive breakthroughs. And we talk about the meso level of corporate industries, investment portfolios, and bioregional habitats that intermediate. But all of this is built on the foundation of individual leadership at the “nano” level, ideally through Positive Maverick consciousness.

This thinking grew out of our work (with Robin Lincoln Wood and Paul van Schaik) at the ThriveAbility Foundation where we identified what we called the Three Gap Problem:

- The Sustainability Gap (Macro level threshold-crossing in biosphere & sociosphere)
- The Organizational Gap (Micro level transformation pace & meso level scale lagging)
- The Leadership Culture Gap (Nano level sociocultural development disconnects)

We proposed a Three Axis Solution to stress the need for holistic, interrelated responses. Upshifts on one axis can pull up the other axes, but best to upshift all three in sync.

Figure 20: Three Axis Solution (Source: ThriveAbility Foundation)


111 http://thriveability.zone/
**What’s the issue?**

A rich vein of research (dating back to Clare Graves' landmark 1970 “Levels of Existence” paper[^112]) proposes a kind of double-helix relationship between human development at the individual level, and cultural development at the collective level. Management theorists subsequently applied this lens to corporate leadership, perhaps most famously Rooke & Torbert in their 2005 *Harvard Business Review* “Seven Transformations of Leadership” article[^113] and Laloux in his 2014 *book[^114]*, *Reinventing Organizations*.

Reporting 3.0 embraces such approaches that tie leadership at the individual level to paradigm shifts at the collective level. For example, Mark Van Clieaf of Organizational Capital Partners draws on Elliot Jacques’ *Work Levels*[^115] concept to propose the need for alignment between leaders’ “strategic horizon” and levels of transformation. “Only 5% of the world’s adults have the cognitive hard wiring and systems thinking to conceptualize, plan out, resource and implement business model and industry ecosystem transformations,” says Van Clieaf.

![Figure 21: Work Levels, Innovation, Strategic Horizon, and Enterprise Valuation (Source: Organizational Capital Partners)](image)

Misalignment between professional role and Work Level obstructs goal achievement. Given the emergence of [super wicked problems[^116]] such as climate change, the need for Work Level cognitive capacity commensurate with the challenges is paramount – but the actual alignment is, shall we say, not quite “fit-to-task.” How many companies – or investors – can you name that have aligned their long-term strategy, business model innovation, influence on industry ecosystem shifts, and advocacy for economic system transformation to

[^112]: https://d3gxp3knbs7bs.cloudfront.net/attachments/ed36b512-5529-4858-816e-b0a8930a10ce.pdf
[^113]: https://hbr.org/2005/04/seven-transformations-of-leadership
[^115]: https://www.economist.com/node/13599026
achievement of the IEA net zero GHG emissions by 2050 scenario\textsuperscript{117}? Your answer to this question defines the need for aligning Work Level 5 and above leaders with the key leadership roles in business and finance (among other sectors).

**Why it’s important?**

The purpose of business and finance is to serve the “ultimate end” of well-being. This is the lesson we at Reporting 3.0 extrapolate from Limits to Growth Co-Author Donella Meadows, in her interpretation\textsuperscript{118} of the Daly Triangle (named after World Bank Economist and Ecological Economics Co-Founder Herman Daly.)

![Daly Triangle](image)

Figure 22: Daly Triangle (Adapted by Reporting 3.0 from Donella Meadows, *Indicators and Information Systems for Sustainable Development*\textsuperscript{119}, Sustainability Institute, 1998)

To understand this truism, you need only consider it’s opposite: the purpose of business and finance is to serve ill-being. While this may accurately reflect reality (think: opioid crisis, coal business model, etc.), it certainly sounds insidious when framed this way. And we can take a hard-nosed perspective on it as well: enterprise wellbeing requires feedstock wellbeing, supply chain wellbeing, employee wellbeing, customer wellbeing, etc. So, the role of business and finance leadership is to serve (and enhance) holistic wellbeing. How many business and finance leaders do you know who serve this goal?

**How can you tackle it?**

Our Reporting Blueprint\textsuperscript{120} offers some clear guidance: 21\textsuperscript{st} Century leaders identify a clear purpose and “worldview” for their organization (aligned with the ultimate end of wellbeing), project a legacy they wish to create, and backcast from there to determine the building blocks.

\textsuperscript{117} http://www.iea.org/publications/freepublications/publication/ECCE2016.pdf  
\textsuperscript{118} http://donellameadows.org/wp-content/userfiles/IndicatorsInformation.pdf  
\textsuperscript{119} http://donellameadows.org/wp-content/userfiles/IndicatorsInformation.pdf  
The *Reporting Blueprint* also points to King IV\(^{121}\), the fourth generation of the King Codes of Corporate Governance in South Africa (named after South African Judge Mervyn King, also Chairman of the IIRC), which now calls for “ethical leadership,” which is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. It involves the anticipation and prevention, or otherwise amelioration, of the negative consequences of the organization’s activities, and outputs on the economy, society and the environment and the capitals that it uses or affects.

King IV also posits that organizations are “an integral part of society,” dependent on society for “a conducive operating environment, a viable customer base, and the skills the organization requires,” while society is dependent on organizations as “creators of wealth; providers of goods, services, and employment; contributors to the fiscus; and developers of human capital.”

This idea of interdependency between organisations and society is supported by the African concept of *Ubuntu* or *Botho*, captured by the expression *uMuntu ngumuntu ngabantu* and *Motho ke motho ka batho* – I am because you are; you are because we are. Ubuntu and Botho imply that there should be common purpose to all human endeavors (including corporate endeavors) which is based in service to humanity.

**What have you achieved afterwards?**

Leadership at the Work Levels aligned with scope and scale of challenges needing to be navigated in the emerging Anthropocene clearly result from a significant mindset shift from the status quo. At the same time, such mindset shifts amongst leaders, rising to the challenge of intergenerational transformation of our economic system, seeds mindset shifts amongst other leaders, adding up to a critical mass needed to trigger tipping points.

To conclude, we return to Dana Meadows, whose list of “leverage points\(^{122}\)” (or “places to intervene in a system”) placed in the second-most-important slot “the mindset or paradigm out of which the system — its goals, structure, rules, delays, parameters — arises.”

You could say paradigms are harder to change than anything else about a system, and therefore this item should be lowest on the list, not second-to-highest. But there’s nothing physical or expensive or even slow in the process of paradigm change. In a single individual it can happen in a millisecond. All it takes is a click in the mind, a falling of scales from eyes, a new way of seeing.

So how do you change paradigms? Thomas Kuhn, who wrote the seminal book about the great paradigm shifts of science, has a lot to say about that. In a nutshell, you keep pointing at the anomalies and failures in the old paradigm, you keep coming yourself, and loudly and with assurance from the new one, you insert people with the new paradigm in places of public visibility and power. You don’t waste time with reactionaries; rather you work with active change agents and with the vast middle ground of people who are open-minded.

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Section 2

4.6. HOW DO WE INNOVATE NEW BUSINESS MODELS THAT TRIGGER NEW INDUSTRY ECOSYSTEMS AND NEW INTEGRAL ECONOMIES?

In the Reporting 3.0 Blueprints, we lay out the need for simultaneous bottom-up and top-down transformation to trigger the kinds of societal shifts needed to achieve a regenerative and distributive economy. In the New Business Models Blueprint, in particular, we call for entrepreneurs launching startups with innovative net positive impact business models from the grassroots up, and intrapreneurs transforming existing business models from the inside out toward what we call Integral Business Models that create system value.

What’s the issue?

But how can we tell if business models actually create sustainability? After a comprehensive review of business models literature and practice, we found the most advanced integration of theory and practice by Antony Upward of the Flourishing Business Canvas (a maturation of the Osterwalder Business Model Canvas). Upward points out that business models are simply extrapolated templates of actual businesses; his work extends another layer, to business model ontologies, which are extrapolated templates of business models that allow for generalization and meta-designing of broad characteristics that can be integrated into business models – and enacted in actual businesses.

The New Business Models Blueprint literature/practice review revealed an opportunity to articulate a set of general characteristics aligned with the next-generation practices identified in the suite of Reporting 3.0 Blueprints. Taken together, these General Characteristics describe what we call Integral Business Models, aligning with and extending the most advanced thinking and practice in the field, such as the Flourishing Business Canvas / Flourishing Enterprise Toolkit. Below is a representation of the 8 General Characteristics of Integral Business Models that are described in full in the New Business Models Blueprint.

123 https://reporting3.org/projects/
124 https://reporting3.org/newbusinessmodels-blueprint/
125 https://en.wikipedia.org/wiki/Intrapreneurship
126 http://www.flourishingbusiness.org/the-toolkit-flourishing-business-canvas/
127 https://hbr.org/2013/05/a-better-way-to-think-about-ye
These characteristics set the foundation of a business model ontology that cascades down to transformation at the actual business level; such change also aggregates in a scaling progression from new business model innovation on the micro level to the emergence of new industry ecosystems on the meso level, adding up to the transformation to new integral economies on the macro level. This progression corresponds to Work Levels 5 / 6 / 7 in the Organizational Capital Partners typology discussed in the previous subchapter. This progression also aligns with recent academic research\textsuperscript{128} by Bidmon & Knab brought to our attention by Niels Faber.

Figure 23: Business Model Generalization Progression (Source: Bill Baue & Ralph Thurm, New Business Models Blueprint, Reporting 3.0, 2018; inspired by Antony Upward, Towards an Ontology and Canvas for Strongly Sustainable Business Models: A Systemic Design Science Exploration, 2013)

Figure 24: Integral Business Models General Characteristics (Source: Bill Baue & Ralph Thurm, New Business Models Blueprint, Reporting 3.0, 2018)

\textsuperscript{128} https://www.sciencedirect.com/science/article/pii/S095965261733189X
Why it’s important?

“I have not been able to identify any existing companies with truly flourishing / integral business models that we can point to as examples of comprehensive best practice,” says Upward, who is a Reporting 3.0 Advocation Partner. “Some companies have some characteristics; none have them all. So, our work has to spur flourishing / integral businesses into existence.”

The reason for this gap, Upward explains, is that “flourishing / integral business models aren’t as viable in today’s market, with today’s laws and regulations, industry sector orientations, business and investment assumptions, and custom and stakeholder values and preferences. Hence, we need to co-evolve the interdependent nano, micro, meso, and macro levels to usher into existence the possibility for individual lives, organizations, sectors, economies, societies and the environment that sustain the possibility for flourishing.”

How can you tackle it?

As a starting point, the New Business Models Blueprint includes a Process Flowchart for assessing business models with the goal of moving toward Integral Business Models.

This Process Flowchart walks business model designers and implementers through the Blueprint, and

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129 [https://reporting3.org/advocation-partners/](https://reporting3.org/advocation-partners/)
therefore serves as a basis for preliminary orientation. Digging deeper, we developed a Template that walks both entrepreneurs and intrapreneurs through the steps of applying the thinking of the Blueprint. The virtual dialogue\textsuperscript{130} on Exposure Draft 2.0\textsuperscript{131} of the Blueprint featured in-depth vetting of these Templates. And the final report includes case examples from three companies: Coop Power\textsuperscript{132}, ReBlend\textsuperscript{133}, and VDMbee\textsuperscript{134}.

For existing business models, the Blueprint advocates for companies to apply \textless{}2°C scenario analyses as recommended by the Taskforce for Climate-Related Financial Disclosure (TCFD\textsuperscript{135} – which recently launched a Knowledge Hub\textsuperscript{136} compiling helpful tools). And the Blueprint goes a step further, calling for companies to produce transition plans to \textless{}2°C business models, as advocated by Preventable Surprises\textsuperscript{137} – which published a Guidance Note\textsuperscript{138} on transition plans for utilities and their investors.

The Flourishing Enterprise Innovation Toolkit\textsuperscript{139} – which includes the Flourishing Business Canvas – represents a strong set of tools to build flourishing business models, and assess existing business models for opportunities to mature them toward flourishing.

\textsuperscript{130} https://convetit.com/reporting-30-new-business-models-blueprint-exposure-draft-2-review-729.html
\textsuperscript{132} https://www.cooppower.coop/
\textsuperscript{133} https://www.reblend.nl/
\textsuperscript{134} https://vdmbee.com/
\textsuperscript{135} https://www.fsb-tcfd.org/
\textsuperscript{136} https://www.tcfdhub.org/
\textsuperscript{137} https://preventablesurprises.com/
\textsuperscript{138} https://preventablesurprises.com/publications/guidance-notes/flip-the-switch/
\textsuperscript{139} http://www.flourishingbusiness.org/the-toolkit-flourishing-business-canvas/
What will you have achieved?

As we have discussed in previously, one of the goals of Reporting 3.0 is to spur the shift from creating shareholder value only and beyond creating shared value to creating system value. Toward that end, the new term “system entrepreneur” has emerged over the last several years as “a person or organization that facilitates a change to an entire ecosystem by addressing and incorporating all the components and actors required to move the needle on a particular social issue.” While this definition is clearly broader than the traditional scope of entrepreneurship in business, it does apply to Integral Business Model entrepreneurs.

Interestingly, the term “system intrapreneur” has yet to produce a Google footprint. Perhaps this article – and the New Business Models Blueprint – is a first step toward changing that, and inspiring a new generation of business model intrapreneurs to focus on creating system value by building Integral Business Models.

Section 3

4.7. HOW CAN ORGANIZATIONS REPORT ON THEIR PURPOSE, SUCCESS AND SCALABILITY?

Existing reporting frameworks and standards have made significant strides forward in the past several decades. However, they all still fall short of providing the guidance needed to paint a clear enough picture of an organization’s overall impact in the world. How and where and for whom is the organization creating – and destroying – value? And how does this value creation and destruction impact the systems within which it operates? Does its share of impacts (rolled up with others’ impacts) put those systems at risk – and by extension the wellbeing of those who rely on those systems? In other words, does the organization create systemic risk141 to the economy (or to society or the environment)? Or does it create system value142?

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140 The work on the New Business Model Blueprint was supported by the Dutch Stichting Doen, focusing their ‘New Economy’ program on sustainable business model entrepreneurship.
141 https://en.wikipedia.org/wiki/Systemic_risk
What’s the issue?

As we have mentioned in previous articles in this series, existing reporting frameworks and standards (and their underlying management systems) fall short in two primary ways.

1. Current reports (following existing frameworks and standards) tend to paint fragmented pictures instead of holistic views: elephant toes and tails, instead of elephants. The International Integrated Reporting Council (IIRC) is addressing this through its multicapital approach. But...

2. Current reports tend to focus on performance and progress untethered from real-world benchmarks and thresholds.

In other words, reports tend to provide numerators without denominators. For example, when addressing climate change, reports include carbon footprints (numerator), but not in the context of the carbon budget (denominator). We already cited the Danish study finding less than 5% of reports mention the denominator perspective. This is why we say that “ESG Progress Report” is a more accurate label than “Sustainability Report.” And unfortunately, sustainability ratings and rankings ask companies only for numerator data – we are unaware of any of the 650+ ratings and rankings applying denominators, so they are best characterized as ESG progress ratings and rankings.

Or, traditional reporting focusing on short-term financial performance without mention of future value creation processes (as covered in the “Elephants in the Room” piece that makes the case for shifting from ESG Push to GSE Pull).

To illustrate these shortcomings with an analogy, this would be akin to a sports reporter mentioning the improvement rate of a star player’s first-half goal scoring, while neglecting to mention her teammates’ worsening rates dragging the overall team rate down; or the team’s statistical underperformance in the second half, and hence its overall losing streak.

Why it’s important?

We at Reporting 3.0 have distilled what’s needed for reporting to play its proper role in catalyzing a Green, Inclusive, and Open Economy that’s regenerative and distributive. We see three primary components:

- **Purpose**: Organizations need to articulate why they exist. How is the world a better place because of their existence? What’s their beneficial legacy? How are they enhancing wellbeing?
- **Success**: Organizations need to decide how they determine success of fulfilling their purpose. How do they create value for themselves? For their stakeholders and rightsholders? For the systems within which they operate? In the present and into the future? In other words, how do they account for their total contribution to wellbeing – and thriving?
- **Scalability**: Companies are not isolated islands, so they must augment sustainability pursuits at the micro level with broader efforts to scale up transformation at the meso and macro levels.

The Reporting Blueprint visualizes these interconnected components in its New Impetus graphic:

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As suggested graphically, the New Impetus identifies how these components lead to the desired outcomes on the triangle sides:

- **Trust**: Combining a clear corporate **Purpose** with **Success** measurements tied to actual outcomes, impacts, and **system value creation** creates **Trust**, demonstrating a specific commitment to beneficial impact that is demonstrable. Such measures are particularly in this era of eroding trust in companies, as revealed in the just-released [2018 Edelman Trust Barometer](http://engageforgood.com/2018-edelman-trust-barometer-2/). As the old saying goes, “trust but verify.”

- **Resilience**: Combining a beneficial **Purpose** with measures to accelerate its **Scalability** beyond the organization creates **Resilience**, as organizations can only be sustainable when the broader systems they operate within are sustainable.

- **Innovation**: Scaling up **Success** measures requires **Innovation** when operating in today’s unsustainable systems. The True Future Value Equation established by the ThriveAbility Foundation includes innovation mechanisms in the denominator that synergize natural capital and manufactured capital in ways that both optimize performance within the “safe and just operating space” between ecological ceilings and social foundations. The Equation also calls for innovation in the numerator through synergies amongst the Anthro Capitals (Human, Intellectual, Social & Relationship) that have no upper limit!

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How can you tackle it?

The Reporting Blueprint outlines three primary mechanisms to achieve the desired outcomes (Trust, Resilience, Innovation) in each area of the New Impetus (Purpose, Success, Scalability), as outlined in the below figure:

![Figure 28: Innovation in the True Future Value Equation (Source: ThriveAbility Foundation)](image)

![Figure 29: Implementation Mechanisms in the New Impetus (Source: Ralph Thurm, Reporting Blueprint, Reporting 3.0, 2017)](image)

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The Reporting Blueprint includes long lists of specific questions associated with each mechanism, where the answers point to actions and interventions. Below are selections from these lists (distilled to fit this context) and drawn from elsewhere in the Reporting 3.0 body of knowledge:

**Purpose**

- **Contextualization**: To clarify if you are part of the problem or part of the solution (or potentially both), does your organization cure symptoms or tackle root causes?
- **Leadership**: Does your organization’s leadership address economic system dysfunction? How so?
- **Ambition**: How does your organization prioritize growth, and how do you differentiate sustainable from unsustainable growth? Is growth even necessary for your organization, or can it thrive in a steady state or de-growth economy?

**Success**

- **Measurement**: Does your organization measure its impacts across and amongst the multiple capitals? And does it measure (and pursue) the internalization of negative externalities that compromise the carrying capacities of natural capital? And the externalization of positive internalities that enhance the carrying capacities of anthro-capitals (human, social, etc...)
- **Target-Setting**: Does your organization set science-based or context-based goals and targets that assess thresholds and allocations of vital capital resources that rightsholders rely on for their wellbeing?
- **Incentives**: How does your organization incentivize sustainable performance, and disincentivize unsustainable performance? And how does your organization incentivize transformation?

**Scalability**

- **Education**: To what degree does your organization promote and support internal (employee) and external (across its value cycle) education on the need for transcending incrementalism to achieve transformative change in light of emerging megatrends and systemic existential risk?
- **Collaboration**: How does your company differentiate between competitive advantage and collaborative impact? To what degree does your organization participate in pre-competitive collaboration on joint innovation for collective advantage?
- **Advocation**: How does your organization advocate for transcending incremental change to achieve necessary transformative change?

**What will you have achieved?**

The New Impetus enables a holistic assessment of your organization’s Purpose, Success, and Scalability to position you best for creating Trust, Resilience, and Innovation to benefit yourselves while simultaneously catalyzing a Green, Inclusive and Open Economy.
4.8. HOW CAN INTEGRAL INFORMATION SYSTEMS CREATE A SEAMLESS DATA ARCHITECTURE THAT MEASURES

Where is the wisdom we have lost in knowledge?
Where is the knowledge we have lost in information?
TS Eliot, The Rock, 1934

The rise of Big Data, Internet of Things (IoT), Artificial Intelligence (AI), and Blockchain (or Distributed Ledger Technology – DLT), etc... heralds significant promise for accelerating and scaling up innovative solutions to humanity’s super wicked problems\(^\text{148}\). However, data and technology alone do not automatically produce solutions; they are mere building blocks (that may even introduce unintended risks – think HAL’s “I’m sorry, Dave, I’m afraid I can’t do that...”\(^\text{149}\)). Successful solutions require the additional application of knowledge, or what some might even call wisdom. More specifically, the building blocks of data and technology must be integrated into systems designed to provide actionable (or “decision-useful” in accounting parlance) information that trigger responses that promote broadly beneficial solutions.

What’s the issue?

All our knowledge brings us nearer to our ignorance

So writes Eliot elsewhere in The Rock – an apt description of the current state of data and information in the corporate and investment spheres in particular. The primary problem is that this data and information remains obstinately disconnected from the broader systems within which business and investment operates.

This disconnect was clearly identified two decades ago, in Donella Meadows’ 1998 report Indicators and Information Systems for Sustainable Development\(^\text{150}\), where she mapped the multiple capitals to the Daly Triangle (named after World Bank Economist and Ecological Economics Co-Founder Herman Daly) that outlines the relationship between intermediary and ultimate means and ends.

Meadows underlines how the Daly Pyramid (as she also calls it) illuminates a fundamental problem: governments and economies typically focus on delivering Intermediate Ends – in particular wealth – which often ends up undermining Ultimate Ends, ironically.


\(^{149}\) [https://www.youtube.com/watch?v=ARJ8cAGm6JE](https://www.youtube.com/watch?v=ARJ8cAGm6JE)

\(^{150}\) [http://donellameadows.org/wp-content/userfiles/IndicatorsInformation.pdf](http://donellameadows.org/wp-content/userfiles/IndicatorsInformation.pdf)
Meadows also points to a similarly ironic intermediary / ultimate distinction when it comes to environmental indicators:

An environmental indicator becomes a sustainability indicator (or unsustainability indicator) with the addition of time, limit, or target. The central questions of sustainability are: How long can this activity last? How long do we have to respond before we run into trouble? Where are we with respect to our limits? ...

[S]ustainability indicators should be related to carrying capacity or to threshold of danger or to targets. Tons of nutrient per year released into waterways means nothing to people. Amount released relative to the amount the waterways can absorb without becoming toxic or clogged begins to carry a message.

Unfortunately, the lion’s share of corporate and investment metrics fall into the “means nothing to people” category.

Figure 30: Daly Triangle (Source: Donella Meadows, *Indicators and Information Systems for Sustainable Development*[^151^], Sustainability Institute, 1998; adapted by Reporting 3.0)

### Why it’s important?

In order to “carry a message,” Meadows tells us, metrics need to relate to carrying capacity or thresholds. Fortunately, messaging on thresholds / carrying capacities has matured significantly over the past decade, with the coining of the *Planetary Boundaries*[^152^] (ecological ceilings) in 2009 and *Doughnut Economics*[^153^] (ecological ceilings + social foundations) in 2012.

[^152^]: [https://www.nature.com/collections/dcqxgqxfws](https://www.nature.com/collections/dcqxgqxfws)
Recognizing the shortcomings in most data architecture and information systems, the Reporting 3.0 Data Blueprint\(^\text{156}\) opted to take a First Principles approach to identify the fundamental needs of data architecture and information systems. We built our approach on the Daly Triangle, with a series of adaptations:

- We added an upside-down triangle for the base to contain the Ultimate Ends, to signal their commensurate importance as the Ultimate Means.
- We melded the two opposing triangles to form an hourglass, creating balance while also introducing the arrow of time.
- We flipped the hourglass, making the Ultimate Means of Natural Capital the resource that sets the process in motion.
- We introduced the notion of stocks and flows of capital resources.
- We overlaid sustainability thresholds (ecological ceilings & social foundations) to preserve vital capital resource stocks by operating off the flows.

We implemented these augmentations because we believe they enhance the ability to translate data into actionable information that “carries a message” – or as Eliot says in The Rock, “the endless cycle of idea and action.”

See Figure 32 to view what we at Reporting 3.0 call the Daly Hourglass:

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154. https://www.nature.com/articles/461472a
How can you tackle it?

The Data Blueprint distills its guidance on how to build what it calls Integral Information Systems (labeled in a nod to Integral Theory) into three primary categories:

- **Integration** between and amongst the multiple capitals to optimize positive synergies for creating system value;
- **Contextualization** within the carrying capacities (i.e. sustainability thresholds) of the capitals, allocated in fair share proportions to organizations;
- **Activation** of responses when the sustainability of any capital – and hence rightsholder well-being – is placed at significant risk. Activated data also catalyzes “acceleration” to scale up transformation to systems levels. This category is inspired by Meadows’ notion of information that “carries a message.”

**Integral Information Systems** call for a seamless architecture that integrates data flows from internal and external sources at the micro (company), meso (industry, portfolio, habitat), and macro (economic, social, and ecological systems) levels. They also integrate data across the multiple capitals, contextualized to their carrying capacities (thresholds & allocations). This enables assessments of sustainable (or regenerative or thriving) performance, as distinct from unsustainable (incrementalist or degenerative) performance.

Scoping outward, such performance assessment at the organizational level enables benchmarking at the industry or portfolio or habitat level. And such assessments can then be disaggregated back to the
company, industry / portfolio / habitat, or broader systems level. Integral Information Systems would enable free flow of data and information (knowledge even) between company and national accounts, for example, allowing for reconciliation of Science-Based Targets (at the company level) with Nationally Determined Contributions (NDCs) from national accounts.

**Figure 33: Integral Information Systems (Source: Reporting 3.0)**

**What will you have achieved?**

Ultimately, *Integral Information Systems* enable the determination of system value creation. This concept, first articulated[^158] by the Future Fit Business Benchmark, embeds shareholder (financial) value creation as well as shared (financial & social) value creation to encompass value creation and destruction across economic, social, and ecological systems. *Integral Information Systems* thus create a seamless data flow architecture that spans the full Reporting 3.0 Strategy Continuum, from business as usual to thriving on the horizontal (organizational) axis, and from the micro to the macro level on the vertical (scalability) axis.

4.9. HOW CAN NEW ACCOUNTING SAVE THE WORLD?

“Accountants will save the world,” World Business Council for Sustainable Development President Peter Bakker provocatively proclaimed at the 2012 Rio+20 Conference – provided we “change the accounting rules.” The sentiment caught on, spawning the book Six Capitals, or Can Accountants Save the Planet? that proposed multicapital accounting as the solution to the problems caused by monocapital accounting (think Enron and the fall of Arthur Andersen.) Whether these lofty proclamations are being fulfilled remains an open question.

What’s the issue?

Rewind to 2006, when in response to Enron etc., the heads of the Big Four accounting firms came out with a statement in the Financial Times saying that “the financial reporting model of the 20th century has become redundant.” Two years earlier, The Economist opined that “Non-financial accounting is now too serious to be left to amateurs.”

There has been plenty of debate since the early 2000s on the shortcomings of both financial and non-financial reporting. This should not lead us to forget the enormous progress that has been made in establishing sustainability reporting and expanding non-financial disclosures on matters such as climate since the 1990s. But persistent questions about the impact of reporting, its (un)strategic nature and fragmented make-up highlights ongoing shortcomings at the level of underlying accounting systems. It certainly does not make for integrated thinking.

To help address these shortcomings, Reporting 3.0 convened an international group of accounting experts in 2016, and established its Accounting Working Group (AWG) to imagine what “New Accounting” could look like 20 years onwards. What emerged is an Accounting Blueprint with Recommendations for the evolution of a comprehensive discipline integrating financial accounting, management accounting and sustainability accounting to transform the existing fragmented approaches to accounting into what can be called “Integrated Accounting.”

159 https://hbr.org/2013/03/accountants-will-save-the-world
161 https://books.google.com/books/about/Six_Capitals_Or_Can_Accountants_Save_the.html?id=f3MYBAAQBAJ&printsec=frontcover&source=kp_read_button#v=onepage&q&f=false
162 https://www.economist.com/node/3353315
163 https://reporting3.org/accounting-blueprint/
Why it’s important?

This transformative change includes a facelift to some basic accounting tools, notably accounting statements employed in daily decision-making. The Blueprint considers the findings from experimentation in recent years with alternative statements and measurement tools (including non-financial impact assessment protocols), and suggests how these could logically be linked and integrated with mainstream accounts and statements.

The New Accounting approach and toolkit proposed by the Accounting Blueprint suggests a new, comprehensive and holistic way of looking at business performance and investment analysis. It signals a new way of defining performance and success, using a multi- or intercapital approach that applies key principles such as sustainability context, decision-usefulness and accountability.

Building on principles found in standards and frameworks such as IFRS, GRI, SASB and IIRC, the Blueprint defines a set of twelve Recognised Comprehensive Accounting Principles (RCAP) for New Accounting. We recognize the importance of getting a core, harmonised set of principles in place, highlighting also different interpretations of shared principles and normative gaps that need to be filled.

Figure 34: Integrated Accounting (Cornis Van Der Lugt, Accounting Blueprint, Reporting 3.0, 2018)
How can you tackle it?

The Accounting Blueprint provides thought-provoking ideas on how to deal with dilemmas reporting managers, accountants, analysts and standards setters face in dealing with difficult issues such as weighing diverse capitals, monetization, integrated valuation, external thresholds and bringing intangible assets to book. Our debate on New Accounting pushes the boundaries on how far quantification and monetization in planning, accounting and performance management systems can be taken. It draws lessons from crisis events of the last two decades. These have also illustrated the limitations of conventional financial numbers and the importance of narrative to tell a more strategic and faithful story.

What will you have achieved?

As you embark on a new set of integrated accounting principles and expanded statements, our 3.0 Accounting workstream provides you with ideas on how to improve your qualitative description of key aspects such as value creation model, corporate governance and integrated risk management, and by that also linking to issues discussed earlier in this series.

The Blueprint Recommendations highlight challenges for accounting education and professional development. Do you work in sustainability, management accounting or finance? Do you consider yourself as an accountant? Do you work in teams with fellow accountants from other accounting subdisciplines?

If you can combine qualification in established standards with knowledge of emerging sustainability trends, you may have a bright future. During an online public dialogue on the Exposure Draft of the Blueprint in February this year, former IIRC chief executive Paul Druckman stated:

The sustainability accountants, those that work with the sort of indicators as recommended by GRI and SASB as well as those engaged with the social and natural capital protocols have a bright future as part of the future accounting regime.
4.10. HOW CAN INCOME STATEMENTS BE EXPANDED INTO INTEGRATED P&L ACCOUNTS TO TELL MORE COMPLETE PERFORMANCE STORIES?

“Profit is an opinion,” Alfred Rappaport famously stated in his 1986 classic, Creating Shareholder Value, cautioning against an obsession with profit maximization as reflected on the Income Statement (or Profit & Loss Account). There have been plenty of additional opinions since then on what constitutes real value.

What’s the issue?

Over the last two to three decades, extensive work has been done on different types of impact assessments (such as environmental, social, health, and human rights impact assessments). For example, Baxter has been publishing annual environmental financial statements since the early 1990s. Extensive work has also been done to advance the application of life cycle assessments, and improve our ability to capture and quantify so-called “externalities.” Economists have made good progress in experimenting with different ways of valuing public goods and services provided by ecosystems, for example. New methodologies have been developed to assess different types of capitals, and financial analysts have started to consider new ways of applying valuation techniques. Tools have been applied at the level of products, projects, companies, and value chains.

Why it’s important?

With so much effort expended in developing new measurement tools, standards and different ways of disclosing the results, why have we not seen a radical transformation in business management during the last 20 years? The problem is twofold:

- First, the experts (including economists, analysts, accountants) who work in these respective domains don’t talk to each other. They are passionately engaged in their own silos.
- Second, the findings of these efforts are disclosed and communicated in a fragmented manner (for example through different declarations, statements and reports), non-connected, non-integrated and without a holistic helicopter view.

The result is the absence of a whole that is greater than the sum of its parts: an overall strategic narrative that is appropriately informed and speaks of enlightened executive leadership.

164 http://www.simonandschuster.com/books/Creating-Shareholder-Value/Alfred-Rappaport/9780684844107
How can you tackle it?

How can we profit from this wealth of experimentation over the last two decades? One simple step we can take is to ask: If various estimations of material flows during a certain period are linked together, added up, aggregated and integrated with the mainstream income statement, what would the end-result look like?

The Reporting 3.0 Accounting Blueprint gives you an idea of what this may look like. It takes the conventional income statement, and builds on the financial accounting standards precedent that an additional layer can be added (as is done to reflect Other Comprehensive Income). It then adds:

- Firstly, internalities in the form of the different elements reflected in the Value Added Statements that extractive industry corporates are used to reporting annually. These reflect expenditures and income broken down by stakeholder group, for example employees (wages paid) and government (taxes paid).
- Secondly, externals – the net benefit/loss of impacts on different capitals as determined through the application of the Natural Capital and Social Capital Protocol methodologies, for example. These are the numbers reported by pioneer corporates in Integrated P&Ls or Total Contribution Statements.

What our expanded income statement or Statement of Full Comprehensive Income (FCI) does is to tie the different pieces together in a structure that reflects the logic of the traditional (financial) income statement. It provides a core tool to assess intercapital value, a tool that is no longer simply a “financial statement” but rather an “integrated accounting statement.” It presents financial numbers, but tells you so much more about what is behind those numbers. It illustrates the value drivers behind conventional financial metrics such as EBITDA.

![Figure 36: Statement of Full Comprehensive Income (Cornis Van Der Lugt, Accounting Blueprint, Reporting 3.0, 2018)](image-url)
Some may argue that this is nothing new; it simply lumps together different experimentations that have been developed step-by-step over the years. Some have misgivings about monetization and adding up valuations of different capitals in one statement. In the interpretation of what is presented, there is for example the risk of assumed substitutability. Others would argue that this step is premature and way too radical. The financial accounting profession will never agree to this, too much complexity and uncertainty involved.

The history of financial accounting has shown that there is plenty of uncertainty and subjectivity behind determining what is eventually that “opinion” called “profit”. If you are shocked by complexity and subjectivity, welcome to the real world! This should not prevent us from systematically assessing and valuing impacts in terms of various capitals. Aligning organization-wide and strategic decision-making, this should also not prevent us from connecting the different parts and applying financial methodology in appropriate context to determine long-term consequences.

**What will you have achieved?**

Should we further explore ways in which decision-making on the use of diverse resources or capitals can be strategically aligned on the basis of integrated statements? If we continue to stop short of doing this, we continue with business-as-usual in which relative weighing and trading off is implied, non-transparent, and non-accountable.

As Ben Carpenter of Social Value International (SVI) stated during the online public dialogue on the draft Accounting Blueprint this past February:

> If the information is kept in separate places it is seen as different activities and the financial will continue to be seen as more important... if the accounts are integrated, the different sets of information are hardwired into core decision-making.

**4.11. HOW CAN INTEGRATED BALANCE SHEETS BRING INTANGIBLE ASSETS ONTO THE BOOKS?**

“Our people are our greatest asset,” states Goldman Sachs with pride, in a statement echoed by innumerable other companies. One would expect a company’s “greatest asset” to figure prominently on its balance sheet. Strangely, human capital does not appear on Goldman Sachs’ latest balance sheet. Nor does it appear on the balance sheets of those innumerable other companies.

165  http://www.goldmansachs.com/who-we-are/people-and-culture/
What’s the issue?

The role of human capital resources as “intangible assets” is only rising in importance in our increasingly service-based economies today – economies in which the service industries become the leading job creators (versus increasingly automating manufacturing and heavy industries). You may not be able to buy or own employees, but formalizing their recognition as assets will certainly move executive decision-makers and investors to pay closer attention to the working environment and development of employees. Human capital should be hedged by financial capital, not vice versa.

Why it’s important?

Debates on reporting integration in recent years have often highlighted the gap between book value and market value, including the role of intangible assets in making up this difference. While in the 1970’s some 80% of a company’s market value could be traced through to the tangible assets in the financial statements, by 2015 only around 13% of a company’s market value could be accounted for by its financial and physical assets, according to Ocean Tomo.

What is absent from the current-day balance sheet or Statement of Financial Position (in IFRS terms) may be more telling than what appears on it. Textbook accounting and corporate finance holds that the balance sheet presents two balanced sets of figures: on the one hand, there is resources provided (liabilities or debt and equity capital), and on the other hand, there is indication of how those resources have been used (assets, for example property, equipment, financial assets). But what if the listing on how resources have been used is incomplete? What if, for example, investment in employees is not reflected?

Furthermore, market value may be closely related to co-development and dependence on certain shared assets, such as relationships and reputation or a shared natural resource. These assets are also not reflected on the conventional Statement of Financial Position. Can one therefore conclude that the statement provides a faithful representation of the position of the reporting entity?

Evidently, the projected reality on a particular day as reflected by the balance sheet is decidedly unbalanced. As noted by Helen Slinger of Accounting for Sustainability (A4S) during an online public dialogue on our draft Accounting Blueprint earlier this year:

Accounting is currently failing in presenting a true and fair view of the position and performance of companies, and this misrepresents companies’ ability to sustain themselves.

How can you tackle it?

The 3.0 Blueprint for New Accounting took on the challenge and defined what a truly balanced and Comprehensive Statement of Financial Position may look like. It builds on the precedent of multilayered statements in financial accounting. It adds an additional layer to the conventional balance sheet, and inserts on its right-hand side the difference between book value and market value to arrive at a new grand total, namely Total Comprehensive Liabilities and Market Value of Owners Equity.

To balance things on the other side of the statement, the reporting entity is invited to list financial estimations of different resource assets, relative values that it believes fill the gap between book value and market value. This provides an opportunity for the reporting entity to disclose the estimated value of different own capitals (e.g. Human Capital and Intellectual Capital) and shared capitals (e.g. Social &
Relationship Capital and Natural Capital) that are not reflected in the conventional part of its balance sheet.

This proposed expanded balance sheet provides the opportunity to bring intangible assets to book, and to illustrate to investors the relative importance of different capitals in determining the market value of enterprises (based on share price by 31 December, for example).

What will you have achieved?

This proposal, among others, presents the opportunity to finally put human capital on the balance sheet. This can build on the experience of pioneers such as Infosys in India, which since the 2000s has worked with human resources accounting to better understand the value of its employees.

As noted during our 3.0 Accounting Working Group (AWG) discussions by Zimkita Mabindla of the South African Institute of Chartered Accountants (SAICA), it remains puzzling that while national accountant standards (IASB) recognition criteria could be met for human capital (i.e. an entity can measure the value of its workforce, and prove future economic benefit associated with that cost), the value of the workforce is still not capitalised on the balance sheet. The Accounting Blueprint takes that step and suggests a way to experiment with a more complete statement of financial position.

And while the development of impact assessments and non-financial capital protocols in recent years have tended to focus on material flows or impacts during a specified period (e.g. 12 months), the Comprehensive Statement of Financial Position challenges you to also assess the outcomes of these, in the form of the status (stock, health) of different capitals or resources on a specified date.

So, when accounting for the health status of different capital stocks on a certain date, we refer to both internal and external resources or capitals, both own and shared (for example leased) resources of the enterprise. This implies also doing justice to external resources such as natural capitals and a healthy society that may be at risk. It connects with new approaches highlighted in Reporting 3.0’s Reporting, Data, and New Business Models Blueprints to consider sustainability thresholds and allocations for the use of vital capitals that a reporting enterprise may be highly dependent upon.
Table 9: The Comprehensive Statement of Financial Position / Balance Sheet as at 31 December

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th>Current Liabilities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Short-term debt</td>
</tr>
<tr>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Owed to banks</td>
</tr>
<tr>
<td>44</td>
<td>(7)</td>
</tr>
<tr>
<td>Inventories</td>
<td>Current portion of Long-term debt</td>
</tr>
<tr>
<td>52</td>
<td>(8)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>2</td>
<td>37</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>Accrued expenses</td>
</tr>
<tr>
<td>104</td>
<td>2</td>
</tr>
<tr>
<td>Non-current Assets:</td>
<td>Total Current Liabilities:</td>
</tr>
<tr>
<td>Property, plant &amp; equipment:</td>
<td>54</td>
</tr>
<tr>
<td>Land</td>
<td>Non-current Liabilities:</td>
</tr>
<tr>
<td>10</td>
<td>42</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>Total Non-current Liabilities</td>
</tr>
<tr>
<td>50</td>
<td>42</td>
</tr>
<tr>
<td>Equipment</td>
<td>Owners Equity:</td>
</tr>
<tr>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>Common Stock</td>
</tr>
<tr>
<td>(34)</td>
<td>45</td>
</tr>
<tr>
<td>Other non-current assets:</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>Financial Assets &amp; Intangibles</td>
<td>Treasury Stock</td>
</tr>
<tr>
<td>10</td>
<td>(2)</td>
</tr>
<tr>
<td>Less accumulated amortisation</td>
<td>Total Owners Equity</td>
</tr>
<tr>
<td>(1)</td>
<td>73</td>
</tr>
<tr>
<td>Total Non-current Assets</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td></td>
</tr>
<tr>
<td>TOTAL ASSETS:</td>
<td>TOTAL LIABILITIES AND OWNERS EQUITY:</td>
</tr>
<tr>
<td>169</td>
<td>169</td>
</tr>
</tbody>
</table>

Non-Purchased (e.g. self-created or shared) Intangible or Tangible Assets of Indefinite Life
(key factors generating value beyond 1 year, explaining difference between Book Value and Market Value):

<table>
<thead>
<tr>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital – e.g. employee competencies, capabilities and experience</td>
</tr>
<tr>
<td>Intellectual Capital – organisational capital e.g. leadership, tacit knowledge, systems, procedures, governance protocols and brand value</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social and Relationship Capital – reputation, impact value proposition, institutions and the relationships within customers, communities, other stakeholder groups or networks</td>
</tr>
<tr>
<td>Natural Capital – shared (non-owned) renewable and non-renewable natural resources and processes</td>
</tr>
</tbody>
</table>

Total Non-Purchased (e.g. self-created) Intangible or Tangible Assets of Indefinite Life: 73

TOTAL COMPREHENSIVE ASSETS: 242

TOTAL COMPREHENSIVE LIABILITIES AND MARKET VALUE OF OWNERS EQUITY: 242

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Figure 37: Integrated Balance Sheet / Comprehensive Statement of Financial Position (Cornis Van Der Lugt, Accounting Blueprint, Reporting 3.0, 2018)
4.12. HOW CAN STATEMENTS OF LONG-TERM RISK AND OPPORTUNITY HELP SHIFT MINDSETS TO LONG-TERMISM?

During a recent investor call, Wall Street analysts repeatedly asked Tesla CEO Elon Musk about future “capital requirements” as well as “continuing production issues and high cash-burn rate,” according to The New York Times; Musk responded: “Boring bonehead questions are not cool... Sorry, these questions are so dry. They’re killing me.”

The exchange illustrated the obsession among financial analysts with the coming 12 months, versus the vision of an industry leader on what can or should be in the coming years and decades. The challenge of market short-termism is well known. Various studies in recent years have pointed to the risk of earnings manipulation by managers to meet quarterly earnings targets. Institutions such as the Chartered Financial Analysts Institute have recommended that companies stop publishing quarterly earnings guidance.

What’s the issue?

This raises issues such as the frequency of disclosures made by companies, incentives tied to the performance targets included in these, the type of investors involved, as well as the types of investment involved. Presumably institutional investors like pension funds are focused on long-term investments, taking care of the pensions of generations of people. Investment in assets with long lives also highlights the need for a long-term perspective when dealing with things such as infrastructure and public resources.

Yet there remains a surprising disconnect between, on the one hand, the assessment of short-term business (and financial) performance, and on the other hand, business decision-making on capital expenditures that often needs planning ahead for decades. For extractive industry companies or public utilities such as energy or water services companies, planning and capital investment for the coming 50 – 100 years is not uncommon. Why this disconnect between decision-makers or two types of decision-making that may very well sit within the same company?

Why it’s important?

No issue demands future, long-term focused decision-making and disclosure more than that of climate change. Zooming in on forward-looking disclosures by heavy industries and financial institutions, for example, the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) has recommended the use of scenario analysis for better understanding of the potential financial implications.
of climate change for business. Encouraging 2 degrees or lower scenarios, it notes that the implications of climate change are without historical precedent.

There are also other historically unprecedented challenges for business today, for example global population growth, resource needs and planetary boundaries. Are the implications of these for large businesses reflected on the representation of assets, liabilities and capital as found on current-day balance sheets?

Think stranded assets. These may be resources that a company either purchased or paid for, including shared ones that it may be very dependent upon but don’t have full control over. How can these be adequately reflected on the balance sheet and its accompanying reporting narrative? How can we help managers and investors take well-informed decisions based on available stocks today and the likely health of available stocks (and their ongoing flows) two or three or more decades from now?

**How can you tackle it?**

Our *Blueprint on New Accounting* proposes a Statement of Long-Term Risks and Estimated Non-Current Asset / Liability Value. You can call it a balance sheet of the future if you like. Partially a Future Balance Sheet addressing future value, the statement presents a combination of quantitative, financial and qualitative, explanatory information.

This proposed forward-looking statement provides the opportunity for a company to provide estimations of what may be the value of its long-term assets and liabilities twenty years from now. For the purposes of facilitating a discussion on long-term risks and opportunities across industries, a period of twenty years should be a good yardstick – mindful that “long-term” has different meanings in different industry sectors. Significant societal, economic and ecological change at systems level plays out over decades. This context is a given.

The statement proposed builds on the recommendations of the TCFD, but links it more closely to the key elements and structure of the balance sheet. And most importantly, it takes the focus beyond just climate change. It means that when a company is asked to disclose a description of key long-term risks and opportunities, valuation, assumptions, and future implications for investment, it is a comprehensive scenario that is involved. Similar to stress tests applied to banks, this may consider various significant developments (climate and other). It will also be mindful, as the World Economic Forum (WEF) has pointed out, that global risks are becoming increasingly systemic.

The above will be applied not only to different assets like land, reserves, buildings and equipment, but also liabilities in the form of long-term debt and leverage.
<table>
<thead>
<tr>
<th>Non-Current Assets in 20 yrs:</th>
<th>Non-Current Liabilities in 20 yrs:</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Forecast value of purchased or paid-for Non-Current Assets at 31 December 2040:</em></td>
<td><em>Forecast value of Long-term Debt at 31 December 2040:</em></td>
</tr>
<tr>
<td>• Land (natural capital)</td>
<td>• Long-term debt</td>
</tr>
<tr>
<td>Brief description of long-term risk, valuation, assumptions, scenario used and possible future implications for investment, restructuring, write-downs, or impairment.</td>
<td>Brief description of value calculation and assumptions, key financial risks involved including expected debt / equity structure / leverage and ability to repay / refinance existing debt or creditworthiness as a result of impact of long-term asset-related risks.</td>
</tr>
<tr>
<td>00</td>
<td>00</td>
</tr>
<tr>
<td>• Reserves (natural capital, recoverable – non-extracted and extracted, e.g. water, minerals, oil for which title rights held).</td>
<td>00</td>
</tr>
<tr>
<td>Brief description of key long-term risk, valuation, assumptions, scenario used and possible future implications for investment, restructuring, write-downs, or impairment.</td>
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<tr>
<td>• Buildings (built capital)</td>
<td>00</td>
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<tr>
<td>Brief description of key long-term risk, valuation, assumptions, scenario used and possible future implications for investment, restructuring, write-downs, or impairment.</td>
<td>00</td>
</tr>
<tr>
<td>• Equipment (manufactured capital)</td>
<td>00</td>
</tr>
<tr>
<td>Brief description of key long-term risk, valuation, assumptions, scenario used and possible future implications for investment, restructuring, write-downs, or impairment.</td>
<td>00</td>
</tr>
<tr>
<td>• Financial assets (financial capital)</td>
<td>00</td>
</tr>
<tr>
<td>Brief description of key long-term risk, valuation, assumptions, scenario used and possible future implications for investment.</td>
<td>00</td>
</tr>
<tr>
<td>• Intangible assets (intellectual capital-based, purchased, with limited / identifiable life – incl patents, copyrights, licences, software, contracts, leaseholds and trademarks).</td>
<td>00</td>
</tr>
<tr>
<td>Brief description of key long-term risk, valuation, assumptions, scenario used and possible future implications for investment, restructuring, write-downs, or impairment.</td>
<td>00</td>
</tr>
</tbody>
</table>

*Figure 38: A Statement of Long-Term Risks and Estimated Non-Current Asset / Liability Value (Cornis Van Der Lugt, Accounting Blueprint, Reporting 3.0)*
What will you have achieved?

Sitting inside a large company, would you be ready to take on the proposed Statement of Long-Term Risks and Estimated Non-Current Asset / Liability Value? You may well have numbers inhouse to work with. If you complete the experiment you may feel uncomfortable going public with the findings. Even if initially only conducting the experiment internally, it will certainly make for a more informed and strategic discussion inhouse. Furthermore, it will enable you to have a more productive discussion with responsible investors.

The Reporting Blueprint starts off with the premise that there is no sustainable business in an unsustainable world. Its recommended Integral Thinking and Integral Materiality Process advance the idea of an organization serving a ‘bigger whole’. This includes business decision-making that more effectively addresses transition risk and systemic risk, as well as transformation risk and root-cause opportunities.

The flip-side of any risk is an opportunity. Looking twenty years and decades ahead leaves a sense of nervousness and excitement. The ability to look far ahead in an intelligent manner requires not only gut feeling but also education, among others of Main Street analysts.

4.13. WHY DO WE NEED NARRATIVE REPORTING?

The first edition of the Carrots & Sticks report by UNEP and KPMG in 2006 noted that sustainability reports – whether based on voluntary or mandatory standards, externally verified or not, issued to fulfil the letter or the spirit of a legal or corporate governance requirement – can never provide an unadulterated, “pure” version of an organisation’s performance. It will always be informed by a particular context, existing organisational positions, policies and perceptions, and will be read by readers with different agendas who will quite often arrive at conflicting interpretations of the same “factual information.”

What’s the issue?

So how can organizations produce a truly relevant and faithful representation of their health, future direction, impacts and dependencies? How do they do this in the “VUCA” world of volatility, uncertainty, complexity and ambiguity? Can they do such representation in purely quantitative and financial terms? And in as far as quantitative disclosures are complemented by qualitative or narrative disclosures, including footnotes, how do they deal with the increasing length and complexity of the resultant disclosures? How do they maintain material focus and reduce the signal-to-noise ratio?

Surveys of investors in the last decade have confirmed how, post financial crisis, investors show increasing interest in non-financial (sustainability, ESG) information in their decision-making. And while there has been frustration with the reliability and comparability of non-financial data that companies disclose, there has also been a growing realization of the critical role of strategic narrative to put performance into proper context. That includes narrative that describes the value creation process and business model of the company, as recommended by the IIRC Framework and emerging national level requirements for annual Management Discussion & Analysis (MD&A) or strategic reviews.

**Why it’s important?**

Professional accountancy associations such as the Association of Chartered Certified Accountants (ACCA) have stated publicly that corporate reporting has to go beyond the financial statements. The suggestion is that corporate reporting needs to provide a more holistic picture of the performance of a business, including its future outlook and prospects, strategy and intentions, as well as performance measured against non-financial operational objectives that are often more leading indicators than the lagging financial indicators.

So, if non-financial information and in particular narrative were to become so critical in providing a more balanced and holistic perspective on the performance and direction of a company, what should be the structure of such a narrative? Is it a free for all, an open “story telling” written by artistic consultants? How could some level of comparability and conciseness be assured in framing narrative reporting?

**How can you tackle it?**

The Reporting 3.0 Accounting Blueprint provides an overview of key content elements and approach to be reflected in narrative reporting by organizations. This highlights progress since the 2000s when the Enhanced Business Reporting Consortium published its Enhanced Business Reporting Framework (2005) with 35 recommended disclosure categories. Today, there is a growing consensus that key items to address in narrative reporting are the business model and value creation process, strategy, governance as well as risks and opportunities.

The background to this includes important contributions made by non-financial reporting standards such as the GRI in requiring "Disclosure on Management Approach (DMA)" since the 2000s. It recognized the shortcoming of quantitative information and the need for more forward-looking narrative. In more recent years the SASB included in its standards "qualitative metrics," underlining the fact that decision-useful and material information also includes qualitative information. Item 303 of Regulation S-K in the USA expects Management’s discussion and analysis (MD&A) to reflect a view of the company from the eyes of management and to provide indication of the context within which the company performance information should be analysed.

175 [https://www.sasb.org/industry-expertise-informs-sasb-topics-metrics/](https://www.sasb.org/industry-expertise-informs-sasb-topics-metrics/)
176 [https://www.ecfr.gov/cgi-bin/text-idx?amp;node=17:3.0.1.1.11&rgn=div5#se17.3.229.1303](https://www.ecfr.gov/cgi-bin/text-idx?amp;node=17:3.0.1.1.11&rgn=div5#se17.3.229.1303)
Which stakeholders are being addressed and the level of context (operating, industry, market, economy, society, ecology) provided remains an open question. While selecting the providers of financial capital as the primary user audience, the IIRC <IR> Framework has also recommended using a multicapital approach. This has resulted in some Integrated Reports using the six capitals as headings for structuring their narrative reporting (e.g. a Human Capital report, a Natural Capital report as chapters in the <IR>). The IIRC implementation feedback process in 2017 highlighted that such a structuring of content also has drawbacks, an important one being the ongoing risk of siloed narratives that fail to reflect the interconnectivity between capitals or different resources.

Our Accounting Blueprint suggests ways of dealing with these dilemmas of developing a relevant and faithful representation through narrative disclosures. It recommends a set of 12 Recognized Comprehensive Accounting Principles (RCAP) to serve as a foundation. One of these is being a Responsive Entity, producing entity-specific disclosure but being open, transparent and responding to all categories of stakeholders or rightsholders as well call them in Reporting 3.0.

The Blueprint also provides advice on dealing with the time frame of historical and forward-looking information being disclosed, the frequency of disclosures, comprehensiveness and conciseness, as well as aggregation of information and segmented reporting in appropriate context. The principle of Sustainability Context implies that the decision about (dis)aggregation of information is substantively important and not simply a methodological technicality.

What will you have achieved?

Prepare yourself, join our Transformation Journey and map a path for your organization towards New Accounting. In the future, Multicapital / Integrated Accounting systems and procedures will enable (i) new ways of packaging and disclosing timely information, (ii) more useful, strategic narrative for decision-makers, and (iii) more comparable, structured narrative combined with quantitative information in hybrid statements such as a Statement of Long-term Risks that includes reference to scenarios and financial estimations.

Building on digital technology innovations in for example artificial intelligence (AI) and distributed ledger technology (DLT, also known as “blockchain”), accounting systems in the future will enable information packages tailored for different stakeholder groups. Online and mobile disclosures and exchanges will be the norm. Furthermore, boilerplate legalistic text on risks will be replaced by more meaningful narrative on risks and opportunities, providing for more productive exchange through various media and personal interactions. The processes behind this will include narrative shaped by interdisciplinary teams from reporting organizations, including involvement of top and senior level management. Finally, the Statement of Long-term Risks and Estimated Value of Non-Current Assets & Liabilities 20 years onwards – as proposed by our Accounting Blueprint – will make for a more comparable and structured combination of narrative and quantitative information in a concise format.

Integrated Accounting, as advocated by the Accounting Blueprint, ultimately pulls together all quantitative information from the multilayered / multicapital income statements, balance sheets, and long-term statements and synthesizes them with narrative reporting to create a truly integral account of organizational impact and system value creation.
The Climb

Figure 39: Multilayered / Multicapital Income Statements, Balance Sheets, and Statements of Long-Term Risk and Value Creation (Source: Cornis van der Lugt, Accounting Blueprint, Reporting 3.0, 2018)
5. THE MOUNTAIN TOP

You have reached the Mountain Top – hooray! Hearkening back to Ray Anderson’s “Mount Sustainability” metaphor, you have achieved sustainable impacts and balance with the systems you operate in, all through collaboration with your own team of Positive Mavericks and those climbing in tandem. Now, you have the opportunity to spread the word more widely, and invite others to the challenge and scale up sustainability across all organizations, industries, portfolios, and habitats to add up to bigger transformations in our economic, social and ecological systems. This scaling also creates opportunity to continue progression from sustainability into regeneration and ultimately into thriving for all, and for generations to come. So, now that you’ve climbed the mountain, you have the opportunity to step deeper into leadership to help others scale the incline!

Section 1

5.1. WHAT DOES ADVOCATION AND LEADERSHIP FOR A GREEN, INCLUSIVE, AND OPEN ECONOMY LOOK LIKE?

This subchapter rounds up our practical tools and recommendations in the Reporting 3.0 Work Ecosystem that supports mindset and paradigm shifts. We have presented basic exercises to understand our transformational challenge and strategic and operational step-by-step guidance to become future-ready by aligning with the needs of a Green, Inclusive and Open Economy. Switched-on leaders that enable the
necessary shifts in thinking and doing enable organizations to close the sustainability context gap, the organizational transformation gap and the socio-cultural leadership gap.

What’s the issue?

The Ultimate End of our society is wellbeing for all within the Ultimate Means of earth’s bounty, a set of bounded goals that our current economic system transgresses on both ends, clearly necessitating economic system transformation. Triggering such change requires nano (personal) level insights and mindset shifts that lead to micro (organizational) level reformation that scales up to meso (industry, habitat or portfolio) level transitions that create pull effects on macro (economic, social, and ecological system) level transformation.

This pull will only come through ‘irresistibility’ of sustainable economics, and understanding of the need to transform. Scalable change doesn’t happen automatically; it needs leadership and advocacy to become reality. ‘Yes, but...’ arguments abound, and can all be dismissed by calculating the ROI of humanity’s survival – and the realization that only sustainable business models will survive the transitions into the new economy.

Why it’s important?

Throughout this Synthesis Blueprint, we have clearly established the need for scalable transformation, but we see insufficient evidence of planning and activation by current leaders. The “mainstreaming” of sustainability lags the pace and scale needed, through a combination of denialism by incumbents and incrementalism by progressives. Predatory delay, as Alex Steffen points out, encompasses not only insidious blocking of needed change, but also well-intentioned gradualism that similarly props up “unsustainable, unjust systems” (as he calls them) because faster, broader change would disrupt the continuity of career plans, entrenched business models, portfolio returns, and economic “stability.”

What’s lacking is a “North Star” or “Southern Cross” to guide the integration of reporting, accounting, and data in support of the emergence of new, integral business models that scale up to sustainable, regenerative and thriveable economies. To help fill this gap, Reporting 3.0’s four Blueprints advances a “minimum viable product” approach to an interrelated work ecosystem designed to scale transformation.

Now, how to get everyone behind it? Necessity and irresistibility. On the former, climate change and other megatrends are locking seismic changes into our systems, requiring inevitable, fit-to-task responses. Lagging leaders cling to outmoded approaches that only serve to solidify failing systems; visionary leaders grasp the path to 2050 and beyond, framing attractive new avenues to prosperity reconciled within ecological and social imperatives.

How can you tackle it?

This Synthesis Blueprint on the Transformation Journey initiates with mindset-shifting at the nano/personal level, then outlines the necessary steps for transformation at the micro level. Meso level shifts are the key step for scaling up toward macro level transformation in support of the emergence of a Green, Inclusive and Open Economy. So, we outline the needed meso and macro level shifts here:

- **Meso: Industry sectors** are collectives of players with similar business models. While each competes to outperform the others, they all face common threats and challenges that operate outside the realm of competitive advantage. Survival and thriving in the 21st Century increasingly requires collective action, lest all suffer. The responsibility of each individual leader is to create collective
followership towards that necessary transformation. Industry federations often act from a "lowest common denominator" approach, with the weakest setting the bar and the federation as a whole defending the status quo. Now, such retroactive approaches need to be augmented (if not replaced) by forward-looking perspectives that keep your industry at the forefront of change. We recommend taking the lead in a couple of federation-based activities:

◦ Create new benchmarks that set industry-level thresholds and allocations, to clearly define the "safe and just operating space" at the industry level, and thereby identify the "playing field" for competitive advantage. Individual players can then follow the Transformation Journey to set sustainability maturation pathways and corresponding roadmaps using the r3.0 Strategy Continuum.

◦ Support initiatives that create collective consciousness in your industry sector. Learning from each other and then collectively advocating for change to level playing fields at the industry level will help all players. Your industry will thrive or fail together. As we say ‘there is no sustainable business in an unsustainable world.’

- Meso: Habitats, bioregions and cities are the geographic places where impact and contribution to system value really happen, in connected ways. Stocks and flows of vital resources (the multiple capitals) are deployed, transformed, or destroyed here. While "economies of scale" may help companies optimize their very own products and services, they often simply "offshore" negative impacts elsewhere geographically. The Transformation Journey calls for taking a more holistic approach that recognizes the interconnectedness of habitats, and seeks to build "economies of reciprocity" in value cycles (as opposed to value chains) where system value can be generated in ways that scale mutually beneficial positive impact. Given that this geographic scale is where market and state meet the commons, this is a vital space for innovation that generates collective benefits, transcending the monocapitalist approach of "enclosing" and "privatizing" value while socializing costs, the Transformation Journey calls for a more harmonized approach that justly distributes value and engineers "costs" into regenerative cycles.

  ◦ As with industry sectors, new benchmarks can be developed at the bioregional / habitat level. For example, Economic Democracy Advocates is developing a thresholds & allocations-based approach to agriculture at the bioregion of the San Francisco Bay Watershed. It identifies the thermodynamic "biocapacity" of the bioregion, and then sets allocations based on the nutrition needs of the population, to assess the degree that human need can be met more efficiently and effectively at the bioregional level than through global agricultural supply chains.

  ◦ Bioregional habitats also represent a coherent sphere for system value creation, tapping into cooperative business models that prioritize the wellbeing of its members, not the extraction of wealth for a superset (as the doctrine of shareholder primacy dictates). These collectives can collaborate across regional boundaries for mutual support.

- Meso: Portfolios represent a third category of meso level scaling potential, as they aggregate micro level companies into a "basket." However, investors’ focus on "portfolio risk" has blinded them to the emergence of "systemic risk" that comes when incremental negative impacts at the micro level (which often seem negligible) aggregate at the meso level into outcomes that overshoot ecological carrying capacities, for example, thus creating threats at the systemic level (that are now aggregating to threats at the existential level that call into question the ongoing viability of human systems as we know them.)

  ◦ We address this opportunity in much more depth in the next subchapter (5.2), immediately below, so we direct you there for more insight.

- Macro: Advocation by leaders is necessary to enable economic system incentive change. In chapter 2, we described the four main areas of change needed. All these need governments to help implement them, but the basic advocacy of this necessary change needs to come from a collective consciousness in industries, habitats and portfolios.
What will you have achieved?

The Transformation Journey from nano through micro and meso to macro will take time, possibly a whole generation. But every journey starts with the first step, and those steps are needed now (if not even yesterday). Advocation is fuelled by the shift from envisioning “The Future We Want” to activating “The Future We Design.” This requires backcasting from this desired future to connect with the needs of today in order to build out a proper advocation infrastructure to serve as guidance. Such steps remedy the “action for the sake of action” conundrum, replacing it with action vetted against desired outcomes.

At this point of the Journey, we now reflect back from the “mountaintop” on how those who have made “the climb” can pivot to advocate for all others to join the Journey and accelerate Transformation.

Section 2

5.2. HOW CAN INVESTORS HELP CREATE SYSTEM VALUE?

“To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society,” stated177 BlackRock CEO Larry Fink in his annual letter to CEOs in January 2018, which was described by Forbes178 as “electrifying.” The world’s largest asset manager subsequently issued commentaries179 on how it engages with portfolio companies around five key societal issues: climate risk;180 diversity;181 executive compensation;182 human capital;183 and purpose & culture.184 Such leadership heralds a sea change for the positive role of investors in promoting priorities aligned with necessary transformative change.

177 https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter
What's the issue?

Before endorsing this proclamation, it's necessary to assess the walk / talk ratio to discern the alignment between aspiration and action. The month before, Preventable Surprises had issued its Missing 55% report examining how the ten largest investors voted on 2017 shareholder resolutions asking nine utility companies to issue climate risk reports on their exposure to the forces driving a 2°C transition. BlackRock voted against all nine resolutions. And when factoring in the size of its holdings BlackRock scored second-worst. In other words, BlackRock used the booming volume of its voice to deliver a message rubber stamping the entrenchment of climate risk instead of transforming it.

<table>
<thead>
<tr>
<th>The Power Players in the Power Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Voting score</strong></td>
</tr>
<tr>
<td>Vanguard</td>
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<tr>
<td>BlackRock</td>
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<tr>
<td>BNY Mellon</td>
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<tr>
<td>Invesco</td>
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<td>Geode</td>
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<td>FranklinTempleton</td>
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<td>GoldmanSachs</td>
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<tr>
<td>Fidelity</td>
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<tr>
<td>Northern Trust</td>
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<td>StateStreet</td>
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</tbody>
</table>

Invited to rationalize the seeming disconnect between BlackRock’s public support for climate action, and its actual voting record on climate resolutions, Michelle Edkins of BlackRock skirted the core issues:

BlackRock believes that engagement is the best way to drive change on important environmental, social and governance issues because we are often engaging with companies on these issues in the absence of shareholder proposals. As a long-term investor, we are willing to be patient with companies when our engagement affirms they are working to address our concerns. However, our patience is not infinite—when we do not see progress despite ongoing engagement, or companies are insufficiently responsive, we will vote against management. We view a vote against management as a sign of a failed engagement not as the start of the process.

Reasonable people would view a vote against management on a proposal meriting support – such as common sense transparency on an issue as core to utilities’ operating environment as the emerging climate transition – to be the core duty of fiduciaries. The political calculus of engagement does not obviate the duties of care and loyalty. Aspin pointed out in a 2018 blog post that “no public accounting exists” for behind-closed-doors engagement, leaving companies and asset managers unaccountable.

Asset owners – and the public at large – have no line of sight to the terms of engagement, but they do see asset managers’ voting records.

Why it’s important?

Stepping back, the BlackRock case is emblematic of emerging expectations that companies – and the investors who finance them – transcend making a positive contribution to society, and extend to eradicating negative impacts on society. Investors – particularly so-called universal owners\(^{187}\) whose portfolios contain holdings across entire economies – now exert society-shaping force. So, investors can reinforce systemic stasis, or enforce systemic change.

When systems are demonstrably degenerative (as the red in Figure 2 below shows), then such institutional investors can direct capital in ways that reinforce this degeneration, or deploy capital toward regenerative systems. Perhaps more importantly, mega asset owners – and the asset managers who conduct the actual transactions – exert significant leverage on the scale and pace of change – or the relative degree of stasis.

![Figure 41: Overshooting Ecological Ceilings and Shortfalling Social Foundations (Source: Kate Raworth, “Meet the doughnut: the new economic model that could help end inequality”\(^{188}\), World Economic Forum, 2017)](https://www.stmarys-ca.edu/sites/default/files/attachments/files/Corporate_Environmental_Strategy.pdf)

\(^{187}\) [https://www.stmarys-ca.edu/sites/default/files/attachments/files/Corporate_Environmental_Strategy.pdf](https://www.stmarys-ca.edu/sites/default/files/attachments/files/Corporate_Environmental_Strategy.pdf)

To state it more clearly: incremental change in the general right direction may still be insufficient to solve the super wicked problems society faces. Alex Steffen labels such insufficiency “predatory delay” – or “the blocking or slowing of needed change, in order to make money off unsustainable, unjust systems in the meantime.”

How can you tackle it?

Addressing super wicked problems such as climate change requires expanding the scope of risk. Investors’ traditional risk assessment focuses on the enterprise level for companies and the portfolio level for baskets of holdings. However, risk now aggregates to the next level of systemic risk (which actually transcends the common definition focused on the financial system to encompass social and ecological systems as well). Indeed, climate scientists have introduced the idea that climate change poses “existential threats to the survival of humanity” that “could include species extinctions and major threats to human water and food supplies in addition to the health risks posed by exposing over 7 billion people worldwide to deadly heat.”

We at Reporting 3.0 also extend the risk continuum in the other direction as well – to the nano level of career risk faced by individuals. We propose that Positive Mavericks must confront career risk (what one of our commentators called the “risk of being ousted, ridiculed, scapegoated, downplayed or eliminated”) in order to advocate for tackling existential risk.

Figure 42: The New Risk Continuum (Reporting 3.0)

189 https://en.wikipedia.org/wiki/Wicked_problem#Super_wicked_problems
190 http://www.systemicrisk.ac.uk/systemic-risk
Risk at the individual level also now extends to fiduciaries, who are increasingly exposed to vulnerability of legal accountability for failing to fulfill their strategic duty to create “durable, long-term wealth” – and even “societal wealth,” according to Delaware Chief Justice Leo Strine.

What will you have achieved?

This framing aligns with Reporting 3.0’s call for creating system value, embracing the concept proposed by the Future Fit Foundation. We believe that the urgencies of 21st Century mega trends compel 21st Century investors to respond in kind by transcending and including shareholder value and shared value, in order to create value for all systems within which companies and investors operate. As one investor we work with stated, failure to address systems-level imperatives simply creates opportunity costs of delaying this inevitable necessity. We look forward to working with more investors who recognize the need to create system value as the new strategic duty of fiduciaries.

5.3. HOW CAN GOVERNMENTS, MULTILATERALS AND FOUNDATIONS LEARN FROM REPORTING 3.0’S WORK ECOSYSTEM?

Do you know your TMDL? Of course not, as this is a fairly obscure acronym that stands for “Total Maximum Daily Load,” an element of US Clean Water Act enforced by the Environmental Protection Agency:

A TMDL is the calculation of the maximum amount of a pollutant allowed to enter a waterbody so that the waterbody will meet and continue to meet water quality standards for that particular pollutant. A TMDL determines a pollutant reduction target and allocates load reductions necessary to the source(s) of the pollutant.

Why are we pointing this out? As you can tell from the emphasis added to the above quote, TMDLs enact a thresholds and allocations approach, essentially flipping the traditional Sustainability Context application.
on its head. The Global Reporting Initiative (GRI) articulated this Principle (that plays such a central role in Reporting 3.0’s work) in a bottom-up (micro → macro) framing of “the organization’s performance in the wider context of sustainability”; TMDLs reverse this framing to work from top-down (macro → micro) approaches, with government stewarding resources from a broader systems perspective that cascades down to the impact level.

What’s the issue?

We start thus to point out that governments, multilaterals, and foundations tend to operate at higher leverage points than companies – more at the meso to macro level. These players thus hold significant sway in triggering the kinds of transformative change needed to address our super wicked problems by spurring a shift to a Green, Inclusive, and Open Economy. Furthermore, governments, multilaterals, and foundations primarily represent not just market interests, but advocate for the interests of humans and our fellow species in the earth’s ecosystems.

Why it’s important?

However, Context-Based approaches such as TMDL are more of an exception than the rule for governments, multilaterals, and foundations alike. Often, governments, multilaterals, and foundations approach problem-solving in stove-pipe / symptoms-based ways, instead of integral / holistic / root-cause ways.

For example, Reporting 3.0 has worked with a foundation that focuses on entrepreneurs creating new sustainable business models, which is clearly a worthy approach; we at Reporting 3.0 have continually advocated for augmenting this with a focus on intrapreneurs transforming existing business models within large companies to tap into larger-scale impact. The foundation continually responded that this approach does not fall into any of their program areas.

While we lamented the ability to tap into further funding for ourselves, we had a much deeper concern about this foundation’s theory of change falling short on the scalability front. And we find that this is not an isolated case amongst foundations; the standard foundation model focuses on specific issues for program-based funding with accountability metrics that often remove the issue from its larger context.

And this critique can be applied to the government and multilateral worlds as well. This is precisely why the United Nations Environment Programme launched the Science-Policy-Business Forum198: to “strengthen the interface between science, policy, business and society by tearing down traditional sectoral barriers and building consensus around key issues.” UNEP invited Reporting 3.0 to present on our Global Thresholds & Allocations Council work at the First Scoping Meeting of the Forum at UNHQ in New York in May 2018.

How can you tackle this?

Reporting 3.0 is establishing a Governments, Multilaterals, and Foundations Support Group199, with the goal of support flowing mutually. Specifically, we at Reporting 3.0 frame our Blueprint Recommendations broadly to apply to governments, multilaterals, and foundations as well as corporates, investors, NGOs, etc... As well, our overall transformational approach is applicable for implementation by governments, multilaterals, and foundations.

199 https://reporting3.org/governmental-multilateral-support-group/
For example, in April 2018, we convened a workshop in The Hague for a handful of Dutch Ministries where we plotted their programs on the Strategy Continuum, and identified a number of ways to enhance their approaches. Generalizing this more broadly, other governments, multilaterals, and foundations can benefit by looking at their work through the r3.0 lens to:

- Clarify the effectiveness of policies vis-à-vis the system value creation challenge;
- Position programs and their targets within the nano / micro / meso / macro continuum;
- Design success measurements that transcend incremental solutions in favour of necessarily transformative, scalable solutions;
- Right-size ambition levels, lest solutions remain too narrow to create system value;
- Reward Positive Maverick thinking that questions your organization's own unconscious biases, hidden agendas, hierarchical obstacles, and organizational shadows;
- Take a context-based approach to sustainability that sets thresholds & allocations to respect capital resources that are vital to creating wellbeing.

Of course, Reporting 3.0 welcomes support of our programs, including:

- Support for updating and writing of more Reporting 3.0 Blueprints to expand benefits for all (that you can also benefit from);
- Support for various dissemination programs that Reporting 3.0 is offering, within your region, within your industry, within your focus group;
- Becoming a member of the Reporting 3.0 Transformation Journey Program, which has a specific workstream for governments, multilaterals and foundations. Here we work with you to make best use of the Reporting 3.0 tools in a generic program, and help you applying the use of the instruments for your own benefit.

What will you have learned afterwards?

Governments, multilaterals, and foundations are indeed major amplifiers for change. Often their focus is too limited, on just one part of the world, one area of concern, one industry or supply chain. Reporting 3.0 applies the "transcend and include" approach of building off existing approaches while also introducing a broader context and mindset.

5.4. HOW CAN CIVIL SOCIETY TAP INTO THE NEW COLLECTIVE CONSCIOUSNESS TO SPUR SYSTEMIC TRANSFORMATION?

Civil society plays a vital role in promoting dynamic balance between environmental, social, and economic progress. As a nongovernmental organization (NGO) ourselves, however, Reporting 3.0 readily acknowledges some of the pitfalls of our sector.
What’s the issue?

Here’s a sampling:

- **Competition:** Cut-throat competition is not the sole provenance of the for-profit sector; non-profits often perceive themselves as competing for limited resources, whether it’s foundation funding or stakeholder support;
- **Silo-ing:** NGOs specialize in specializing, focusing on specific issues, often at the expense of the kind of holistic analyses and action needed to solve intertwining problems;
- **Incremental Ambition:** Many NGOs seek to create progress, measuring success against incremental yardsticks, instead of identifying the totality of a problem and targeting its overall solution – which often takes more than “progress in the right direction” but rather requires transformation at a specific pace and scale.

Why it’s important?

Thankfully, we at Reporting 3.0 have discerned what we call a “new collective consciousness” arising over the past year. We see a cohort of NGOs focused on transformative change who are moving beyond elbowing each other into more strategic collaboration. And we see established NGOs shifting from threatened to more receptive responses. We believe this is a key maturation for civil society, becoming more civil.

We believe it is vitally important for civil society to transition more comprehensively from supporting incremental progress to supporting the transformative change that’s necessary. The WWF / IUCN-Netherlands partnership on the One Planet Thinking ([OPT](http://www.oneplanetthinking.org/)) demonstrates this point particularly well. OPT calls explicitly for:

> a fundamental transformation that involves a **paradigm shift** towards an economy that uses natural resources in an efficient and fair manner, in order to preserve the habitability and resilience of this planet for future generations. Unfortunately, even though we see many positive developments towards sustainable consumption and production, a **crucial economic transition still awaits**. One reason for this is that **incremental changes** made by many different actors cumulatively do not accomplish the changes needed to reverse the breach of our planetary boundaries. We need to measure success against the boundaries of our planet and transform the way we manage natural resources from what is workable to what is necessary (emphasis added).

Of course, even this level of ambition has room for maturation, adding the social foundations to ecological ceilings as the design imperatives of a truly sustainable economy, and hence representing a more holistic solution that integrates environmental and social elements.

How can you tackle this?

We at Reporting 3.0 advocate for a number of ways that civil society NGOs can fulfil their potential to exert outsized influence.
• **Collaborative Innovation:** Current challenges defy isolated solutions; they require radical collaboration and radical innovation. So, NGOs need to set aside their turf wars and work with fellow NGOs who may be perceived as rivals; and NGOs also may need to collaborate with partners previously perceived as “bad actors” in order to help them transform (with sufficient accountability mechanisms to avoid greenwash);

• **Holistic Solutions:** We encourage NGOs to adopt multicapital approaches that assess inter-capital impacts across the entire triple bottom line. Often, solutions for one capitals have cascading effects on other capitals that need to be addressed in designing effective solutions;

• **Transformative Ambition:** NGOs must transcend incrementalist solutions and commit to the level of transformative change necessary. This requires a shift from “necessary but not sufficient” initiatives to “necessary and sufficient” initiatives;

• **Scalable Impact:** NGOs must shift focus to impact that can readily scale up, aligning the level of solutions to the level of the problems. Solutions at the micro level that leave problems at the meso and macro level unresolved are no longer an option; impactful solutions must span the scales from nano to micro to meso to macro.

Reporting 3.0 has purposefully been designed to offer pre-competitive and market-making collaboration opportunities. We invite NGOs to join the Transformation Journey program, offering a platform for assessing your own position, developing maturation pathways from micro into meso and macro thinking and action. It spurs collaboration in supporting the necessary information infrastructure that serves all NGOs, for example through instigating collaboration around the Global Thresholds & Allocations Council, the need for that was described in subchapter 4.2. The aim is to help all NGOs involved to prosper in their own area while being connected to the ‘bigger whole’ in a much more coordinated and structured way.

**What will you have achieved afterwards?**

While many NGOs call for mindset shifts in their target constituents, it may be more important for NGOs themselves to shift mindsets into the emerging new collective consciousness that recognizes that inter-relationship amongst actors is intimately related to the interconnectedness of outcomes and impacts. Creating system value requires consciousness of disparate parts in systems, and of disparate players who contribute to systems solutions.
6. THE REPORTING 3.0 TRANSFORMATION JOURNEY PROGRAM

Reporting 3.0 aims to support you on your individual and collective climb to the mountaintop. Based on the four Blueprints of the Reporting 3.0 Work Ecosystem and this Transformation Journey Blueprint serving as a step-by-step approach, we have developed this Program for everyone joining the Reporting 3.0 Community. Here’s how:

6.1. MODULES

Reporting 3.0 has developed a modularized offer to everyone interested, wherever you stand in your own development towards aligning to a Green, Inclusive and Open Economy, and whatever level you represent in the nano-micro-meso-macro clustering. The following matrix shows a first broad overview:

<table>
<thead>
<tr>
<th>Modules / Levels</th>
<th>The Basecamp</th>
<th>Planning the Route</th>
<th>The Climb</th>
<th>The Mountain Top</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDUCATE: Nano level personal development agenda; Positive Maverick coaching</td>
<td>4 Modules; audience: everyone</td>
<td>2 Modules; audience: everyone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMPLEMENT: Micro level organizational development enabling cultural &amp; mindset shifts</td>
<td>2 Modules; audience: CSOs, strategy and change management experts</td>
<td>13 Modules in 4 Sections, each cluster can be done separately from others; audience: sustainability experts; function experts; accountants</td>
<td>4 Modules in 2 Sections, each cluster can be done separately from others; audience: sustainability experts; leadership function; other constituencies</td>
<td></td>
</tr>
<tr>
<td>ACCELERATE: Meso level support for industries, habitats &amp; portfolios</td>
<td>2 Modules; audience: representatives of meso level organisations</td>
<td>5 Modules audience: representatives of meso level organisations; additional modules at a later stage</td>
<td>4 Modules in 2 Sections, each cluster can be done separately from others; audience: representatives of meso level organisations</td>
<td></td>
</tr>
<tr>
<td>ADVOCATE: Macro level systemic change support towards Green, Inclusive &amp; Open Economy, closing a feedback loop to the nano, micro and meso level</td>
<td>4 Modules; audience: macro level representatives</td>
<td></td>
<td>Modules to be offered at a later stage</td>
<td></td>
</tr>
</tbody>
</table>
The advantage of this clustering is that you can start your journey individually on the EDUCATE level or collectively on the IMPLEMENT, ACCELERATE and ADVOCATE levels.

Some of the parts of the clusters remain in grey. This is to indicate a) Reporting 3.0 needs to develop additional experience before moving into these parts of the matrix, and b) we’re aiming to do first things first. The more Advocation Partners who join and the more experience we have in the delivery of the Transformation Journey Program, the more we can fill in these parts.

Here’s a breakdown of the modules:

- **On the EDUCATE level:**

<table>
<thead>
<tr>
<th>The Basecamp</th>
<th>Ambition: Are the SDGs, the Paris Climate Treaty and the TCFD enough to break through 'predatory delay' in corporate strategy?</th>
<th>New Economy: What is a Green, Inclusive and Open Economy really? And why is it good for us?</th>
<th>Economic System Design: what is it really that needs to change?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Context Gap: Why is sustainability as implemented in the majority of companies, industries, habitats or portfolios still failing?</td>
<td>The Pain Point: Wait, sustainability requires ambition beyond CSR and ESG? And that the incrementalism of CSR and ESG create reputational as well as physical risks?</td>
<td>The Pain Point: I didn’t realize that my own sustainability efforts are moot if we don’t collectively trigger a Green, Inclusive and Open Economy.</td>
<td>The Pain Point: I didn’t think I could play a role in Economic System Design change...</td>
</tr>
<tr>
<td>Audience: Everyone</td>
<td>The Pain Point: Might my response be legitimately perceived &quot;predatory delay&quot;? And I thought Paris, the SDGs, and TCFD were the end-goals – they’re not?</td>
<td>The Gain Point: Understanding ‘predatory delay’ and the shortcomings of Paris, TCFD and SDGs to position and communicate better</td>
<td>The Gain Point: I now know how Economic System Design Incentives work and what needs to change and what I can do to help!</td>
</tr>
<tr>
<td>The Gain Point: Aligning performance to Context-Based Sustainability thresholds reduces reputational and physical risks.</td>
<td></td>
<td>The Gain Point: Without my interventions (and that of many others), a Green, Inclusive and Open Economy isn’t possible. I understand the concept and what I need to contribute!</td>
<td></td>
</tr>
</tbody>
</table>


### Planning the Route

<table>
<thead>
<tr>
<th>Strategy: How can I assess the effectiveness of our current strategy when it comes to future readiness?</th>
<th>Transformative Change: What are essential process requirements to instigate change?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience: Everyone</td>
<td>Audience: CSOs &amp; Strategy, Change Management Experts</td>
</tr>
<tr>
<td>The Pain Point: CSR, ESG, Shared Value? What is really useful, gimme a break ;-)</td>
<td>The Pain Point: How can I best integrate all my learning about r3.0 into a coherent, stable process for myself and my organization?</td>
</tr>
<tr>
<td>The Gain Point: I have learned about the r3.0 Strategy Continuum and now see and interpret my interventions so far. I can now clearly position my role and my ambition level.</td>
<td>The Gain Point: The Integral Materiality Process is a great P-D-C-A-based implementation mechanism that gives me a strong backbone to work from. I am ready for the next module!</td>
</tr>
</tbody>
</table>

### On the IMPLEMENT level:

<table>
<thead>
<tr>
<th>Strategy: How can I assess the effectiveness of our current strategy when it comes to future readiness?</th>
<th>Transformative Change: What are essential process requirements to instigate change?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience: Everyone</td>
<td>Audience: CSOs &amp; Strategy, Change Management Experts</td>
</tr>
<tr>
<td>The Pain Point: How can I implement the r3.0 Strategy Continuum in my organisation and what can I do with this tool?</td>
<td>The Pain Point: What would be a stable, reliable and future-ready approach to implement an integral strategy design?</td>
</tr>
<tr>
<td>The Gain Point: I can use the Strategy Continuum for positioning, defining pathways, defining roadmaps and evaluation purposes for my own organization.</td>
<td>The Gain Point: The Integral Materiality Process of r3.0 is a full P-D-C-A-based management approach for a strategy design and implementation that is future-ready!</td>
</tr>
</tbody>
</table>
### The Climb – Section 1

<table>
<thead>
<tr>
<th>Rightsholders: Why is a shift to rightsholders necessary?</th>
<th>Thresholds &amp; Allocations: Why do I need thresholds &amp; allocations to understand impact?</th>
<th>Risk: What needs to change in risk management?</th>
<th>Governance: What needs to change in the governance approach?</th>
<th>Leadership: How would leadership education be different?</th>
</tr>
</thead>
</table>

**The Pain Point:** Why are shareholder perspectives too limiting for achieving a Green, Inclusive and Open Economy?

**The Gain Point:** Enlarging the view about duties and obligations owed to rightsholders to enhance understanding of the role of the company in a Green, Inclusive and Open Economy.

---

**The Pain Point:** Why are thresholds & allocation essential to sustainability context?

**The Gain Point:** Building on the nano-level coaching module, we learn the technical details around Thresholds & Allocations and their implementation (part of the Integral Materiality Process).

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**The Pain Point:** Why is the current COSO interpretation of risk too limiting?

**The Gain Point:** We gain a better understanding about the spectrum from career risk (building upon the nano module) up to system risk and existential risk and how to implement it.

---

**The Pain Point:** Why is there a need to reframe corporate governance from ESG Push to GSE Pull?

**The Gain Point:** Implementing a GSE-Pull based ethical management governance system can actually instigate transformation.

---

**The Pain Point:** How do we need to address leadership challenges to implement an integral business approach? Are leaders not doing their job well enough?

**The Gain Point:** A deeper dive into integral and spiral dynamics, work levels and instigating a readiness of transformational change (continuing from the nano module), overcoming the 3-gap problem of integral business management.
<table>
<thead>
<tr>
<th>The Climb – Section 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Model Innovation: How to change existing business models and innovate for more thriving?</strong></td>
</tr>
</tbody>
</table>
| **Audience:**  
  Sustainability Experts, Innovation Experts |
| **The Pain Point:** Why do we need to go further and broader for the creation of Integral Business Models? What’s wrong with current canvasses and innovation practices? |
| **The Gain Point:** Getting used to the Integral Business Model design thinking of r3.0 helps to generate pull-based approaches for the necessary information infrastructure that needs to be in place. |

<table>
<thead>
<tr>
<th>The Climb – Section 3</th>
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</thead>
<tbody>
<tr>
<td><strong>The New Impetus: How to report purpose, success and scalability?</strong></td>
</tr>
<tr>
<td><strong>Integral Information Systems: How to create a generic data architecture that takes into account thriving?</strong></td>
</tr>
</tbody>
</table>
| **Audience:**  
  Sustainability Experts, Reporting Experts |
| **Audience:**  
  Sustainability Experts, IT Experts |
<p>| <strong>The Pain Point:</strong> Why are current standards &amp; frameworks not fit for purpose to disclose the right level of information need to serve a Green, Inclusive and Open Economy? |
| <strong>The Pain Point:</strong> We can’t use most of today’s industry and/or macro information to determine our own sustainability – or the sustainability of the systems we operate in. |
| <strong>The Gain Point:</strong> We learn about purpose, integral success measurement and scalability and the three new pillars of disclosure needs and how to implement them while using parts of the existing approaches. |
| <strong>The Gain Point:</strong> Based on the Daly Hourglass we learn how to create a data architecture that tells us how to best measure sustainability, regeneration and thriving of our organisation and the systems we operate in. |</p>
<table>
<thead>
<tr>
<th>The Climb – Section 4</th>
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</thead>
<tbody>
<tr>
<td><strong>New Accounting:</strong></td>
</tr>
<tr>
<td>What are the</td>
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<tr>
<td>best ways to</td>
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<tr>
<td>better account</td>
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<tr>
<td>for success?</td>
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<tr>
<td>Extending P/L:</td>
</tr>
<tr>
<td>Why is my current</td>
</tr>
<tr>
<td>p/l insufficient?</td>
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<tr>
<td><strong>Balance Sheets:</strong></td>
</tr>
<tr>
<td>How can I create a</td>
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<tr>
<td>balance sheet that</td>
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<tr>
<td>explains the</td>
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<tr>
<td>ability to thrive?</td>
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<tr>
<td><strong>Long-Termism:</strong></td>
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<tr>
<td>Why would we</td>
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<tr>
<td>benefit from a</td>
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<tr>
<td>Statement of</td>
</tr>
<tr>
<td>Long-Term Risk</td>
</tr>
<tr>
<td>and Opportunity?</td>
</tr>
<tr>
<td><strong>Why is Narrative</strong></td>
</tr>
<tr>
<td>Reporting needed for a</td>
</tr>
</tbody>
</table>
| better understanding of intReceived

| **Audience:**  |
| Accountants |
| Accountants |
| Accountants |
| Accountants |
| Accountants |

| **The Pain Point:**  |
| Current accounting principles aren't enough to be future-ready? Why? |
| The integrated profit and loss account concept of r3.0 prepares the organisation to get a total contribution overview of an organisation's performance. |
| The multi-layered integrated balance sheet approach of r3.0 allows for a better understanding of how an organisations plays into new forms of the economy like circular or shared concepts, and explains a variation of difference between book value and market value. |
| The r3.0 Statement On Long-Term Risk and Opportunities is a valuable additional tool in an organisations transition planning towards a serving function in a Green, Inclusive and Open Economy. |
| The r3.0’s approach to principles – the 12 Recognised Comprehensive Accounting Principles (RCAP) – set the scene for necessary changes in accounting that is future-ready. |
| The multi-layered integrated balance sheet approach of r3.0 allows for a better understanding of how an organisations plays into new forms of the economy like circular or shared concepts, and explains a variation of difference between book value and market value. |
| The r3.0 Statement On Long-Term Risk and Opportunities is a valuable additional tool in an organisations transition planning towards a serving function in a Green, Inclusive and Open Economy. |
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| The r3.0 Statement On Long-Term Risk and Opportunities is a valuable additional tool in an organisations transition planning towards a serving function in a Green, Inclusive and Open Economy. |

| **The Gain Point:**  |
| r3.0’s approach to principles – the 12 Recognised Comprehensive Accounting Principles (RCAP) – set the scene for necessary changes in accounting that is future-ready. |
| The integrated profit and loss account concept of r3.0 prepares the organisation to get a total contribution overview of an organisation's performance. |
| The multi-layered integrated balance sheet approach of r3.0 allows for a better understanding of how an organisations plays into new forms of the economy like circular or shared concepts, and explains a variation of difference between book value and market value. |
| The r3.0 Statement On Long-Term Risk and Opportunities is a valuable additional tool in an organisations transition planning towards a serving function in a Green, Inclusive and Open Economy. |
| We have learned how narrative reporting can support the storytelling of the various formats around the integrated p/l, balance sheet and statement for long-term risk and opportunity. |
The Mountain Top – Section 1

What does advocation and leadership look like in a Green, Inclusive and Open Economy?

Audience:
Boards, Leadership Functions, Sustainability Experts

The Pain Point: What is exactly expected by our leadership when it comes to Economic System Design change?

The Gain Point: We have a clear idea about education, collaboration and advocation that’s needed to achieve Economic System Design Change! As a company we can now act towards that change.

The Mountain Top – Section 2

<table>
<thead>
<tr>
<th>I am an investor - how can I make best use of the Reporting 3.0 thinking?</th>
<th>Governments, Ministries, Agencies, Multilateral Organizations, Foundations - how can you make best use of the Reporting 3.0 thinking?</th>
<th>NGOs - how can you make best use of the Reporting 3.0 thinking?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Pain Point: How can I use the r3.0 tools for the sake of sustainability investments and portfolios?</td>
<td>The Pain Point: How can we use the r3.0 tooling to design effective policies, programs and initiatives?</td>
<td>The Pain Point: How can we use the r3.0 tooling for the proper setup and efficient implementation of our campaigning, while also positioning us within the r3.0 theory of change and work ecosystem?</td>
</tr>
<tr>
<td>The Gain Point: The r3.0 tooling is giving us the right framework to decide upon investments and portfolio creation that truly serve a Green, Inclusive and Open Economy!</td>
<td>The Gain Point: The r3.0 tooling is giving us the right framework to frame policies, programs and initiatives effectively, serving a Green, Inclusive and Open Economy!</td>
<td>The Gain Point: The r3.0 tooling gives us great feedback and planning security for the design and implementation of our campaigning. We now know much better what we are actually contributing to a Green, Inclusive and Open Economy.</td>
</tr>
</tbody>
</table>
- **On the ACCELERATE level:**

<table>
<thead>
<tr>
<th>Planning the Route</th>
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<tbody>
<tr>
<td><strong>Strategy:</strong> How can I assess the effectiveness of our current strategy when it comes to future readiness?</td>
<td><strong>Transformative Change:</strong> What are essential process requirements to instigate change?</td>
</tr>
<tr>
<td><strong>Audience:</strong> Everyone working at meso level</td>
<td><strong>Audience:</strong> Everyone working at meso level</td>
</tr>
<tr>
<td><strong>The Pain Point:</strong> We need to learn how the r3.0 Strategy Continuum can serve our industry, our habitat or our investment portfolio to make the right decisions.</td>
<td><strong>The Pain Point:</strong> We need to learn how industries, habitats and investment portfolios can benefit from the r3.0 Integral Materiality Process applied on meso levels.</td>
</tr>
<tr>
<td><strong>The Gain Point:</strong> We understand how the r3.0 Strategy Continuum helps to frame industry strategies, habitat development and investment portfolios to transform from incremental improvement to regeneration and thriving.</td>
<td><strong>The Gain Point:</strong> If the r3.0 Integral Materiality Process is applied at industry, habitat or investment portfolio members we can evaluate the sustainability, regeneration or thriveability of our constituency.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Climb – Section 1</th>
<th></th>
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<tbody>
<tr>
<td><strong>Rightsholders:</strong> Why is a shift to rightsholders necessary?</td>
<td><strong>Thresholds &amp; Allocations:</strong> Why do I need thresholds &amp; allocations to understand impact?</td>
</tr>
<tr>
<td><strong>Audience:</strong> Sustainability Experts at meso level</td>
<td><strong>Audience:</strong> Sustainability Experts at meso level</td>
</tr>
<tr>
<td>The Pain Point: How will a rightsholders perspective change our industry perspective, habitat development and portfolio setup?</td>
<td>The Pain Point: How can we support the setup of thresholds &amp; allocations for our industries, habitats and portfolios</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>The Gain Point: The perspective on rightsholders instead of just shareholders and stakeholders gives a greater understanding how to collectively understand duties and obligations in our industry strategies, habitat policies and decision making as well as portfolio designs.</td>
<td></td>
</tr>
<tr>
<td>The Gain Point: We are able to support the idea of thresholds and allocations through the GTAC approach r3.0 instigates. We are envisioning our support for our industry, a habitat or portfolio.</td>
<td></td>
</tr>
<tr>
<td>The Gain Point: The r3.0 focus on systemic risk and existential risk are eye-openers in the collective risk awareness for our industry, our habitat or our portfolio design.</td>
<td></td>
</tr>
<tr>
<td>The Gain Point: Building on the generic advice to change governance from ESG Push to GSE Pull, we can now support this on industry, habitat or portfolio level!</td>
<td></td>
</tr>
<tr>
<td>The Gain Point: Organizing collective leadership for sustaining, regenerating and thriving through joint visioning using r3.0 tools will add to the scalability of necessary processes.</td>
<td></td>
</tr>
</tbody>
</table>

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### The Mountain Top – Section 1

**What does advocation and leadership look like in a Green, Inclusive and Open Economy?**

**Audience:** Boards, Leadership Functions, Sustainability Experts at meso level

**The Pain Point:** How can active advocation be organized for industries, habitats and portfolio design?

**The Gain Point:** Industries, habitats and portfolios are conglomerates of individual performance, but also need collective advocation toward meso and macro level change and messaging. We are able to raise a collective voice and describe our readiness for meso level change that inspires macro level change and enforcement!
<table>
<thead>
<tr>
<th>The Mountain Top – Section 2</th>
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<tr>
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<tr>
<td>NGOs - how can you make best use of the Reporting 3.0 thinking?</td>
</tr>
<tr>
<td><strong>Audience:</strong> Investors, sell side &amp; buy side, asset managers, trustees at meso level</td>
</tr>
<tr>
<td>Audience: Government Officials, Government Agency Officials, Policy Makers, Program Leads at meso level</td>
</tr>
<tr>
<td>Audience: NGO Representatives, Program Leads, Campaigners at meso level</td>
</tr>
<tr>
<td><strong>The Pain Point:</strong> How can we use the r3.0 tools for the sake of sustainability investments and portfolios and together create a minimum requirement for alignment?</td>
</tr>
<tr>
<td>The Pain Point: How can we collectively use the r3.0 tooling to design effective policies, programs and initiatives?</td>
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<tr>
<td>The Pain Point: How can we collectively use the r3.0 tooling for the proper setup and efficient implementation of our campaigning, while also positioning us within the r3.0 theory of change and work ecosystem?</td>
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<tr>
<td><strong>The Gain Point:</strong> The r3.0 tooling gives us the right framework to decide upon investments and portfolio creation requirements that we can jointly use to truly serve a Green, Inclusive and Open Economy!</td>
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<td>The Gain Point: The r3.0 tooling gives us the right framework to collectively frame policies, programs and initiatives effectively, serving a Green, Inclusive and Open Economy!</td>
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<td>The Gain Point: The r3.0 tooling gives us great feedback and planning security for the collective design and implementation of our campaigning. We now know much better what we are actually contributing to a Green, Inclusive and Open Economy!</td>
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• On the ADVOCATE level:

<table>
<thead>
<tr>
<th>The Basecamp</th>
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<tbody>
<tr>
<td><strong>Context Gap:</strong> Why is sustainability as implemented in the majority of companies, industries, habitats or portfolios still today failing?</td>
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<td><strong>Ambition:</strong> Are the SDGs, the Paris Climate Treaties and the TCFD enough to break through ‘predatory delay’ in corporate strategy?</td>
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<tr>
<td><strong>New Economy:</strong> What is a Green, Inclusive and Open Economy really? And why is it good for us?</td>
</tr>
<tr>
<td><strong>Economic System Design:</strong> What is it really that needs to change?</td>
</tr>
</tbody>
</table>

| Audience: Everybody working on macro level |
| The Pain Point: How can I use context gap closure to explain the need to change economic system incentives? |
| The Pain Point: Why do results from international political negotiations by current institutions are not enough to transform the economic system incentives? |
| The Pain Point: Why is it necessary that I become a spokesperson for the need to for changes on the micro and meso level that leads to macro level change? |
| The Pain Point: I need to understand how the different changes in costing, benefiting, pricing and taxation can positively influence sustainable behavior. |

| The Gain Point: My example will help changing economic system incentives; united we can transform the world! |
| The Gain Point: I now understand the need for precompetitive new initiatives that feed into the collective consciousness to break through political and institutional conundrums! |
| The Gain Point: Through my advocacy on the micro and meso level we can now join forces to jointly change market incentives and advocate for economic system incentive changes! |
| The Gain Point: The learning helps me to design active advocacy strategies with within my value cycle and towards authorities that need to implement these changes! |
6.2. WORKING WITH REPORTING 3.0 AND R3.0 ADVOCATION PARTNERS

For these modules and clusters we are offering three main methods of delivery:

- **Webcasts:** These are meant to give an overview of what the modules cover and show useful first empowerment tools to start immersing into the specific theme of the module. These can be accessed from everywhere in the world, but it may mean to listen to them early or late in the day, depending on where you call in from. These webcasts are a low budgetary burden as the fee is just between 50 Euros and 100 Euros. We may also offer them on demand at a later stage.

- **Generic workshops:** Reporting 3.0 will offer workshops for diverse groups of participants. They are organised to cover a full cluster of related themes and are normally 2-day workshops. We are aiming to offer these workshops starting in the second half of 2018 on different continents. The pricing for these workshops will range between 295 Euros and 595 Euros per person and module, depending on the amount of modules covered and the locally feasible pricing for similar workshops; access to these workshops under local circumstances is crucial for us in delivering our global public goods. The maximum amount of people for a workshop is limited in order to allow maximum benefit for all participants. A whole cluster workshop might be offered at special rates.

- **Inhouse coaching, delivered by Reporting 3.0 Advocation Partners:** Reporting 3.0 itself doesn’t do consulting due to its not-for-profit status. Our Advocation Partners will be able to deliver individual coaching, training or consulting. Based on a 1:1 contractual relationship you can negotiate with any of them. Please have a look at the [Advocation Partner site](https://reporting3.org/advocation-partners/) on our website in case you are interested. Reporting 3.0 has a partnership agreement with these Advocation Partners and will benefit from those projects through a certain percentage of the revenue.

202 [https://reporting3.org/advocation-partners/]