

# FIT FOR THE FUTURE

## MAKING EXTRA-FINANCIAL REPORTING

Over the past 250 years, our global economy has evolved to value financial performance ahead of societal and planetary well-being. No one designed it this way, but it is where classical economics led us – not least because of the assumption that infinite growth is both possible and desirable on a finite planet. As a result, the basic needs of billions of people around the world are not being met, inequality is growing, and we are rapidly undermining Earth’s ability to support humanity.

By Geoff Kendall

This state of affairs is unlikely to be “news” to you. Indeed, sustainability reporting was a response to this very problem. The theory was that we can correct the economy’s pursuit of profit-at-any-price if we supplement the financial information companies publish with extra-financial information relating to environmental and social impacts. This theory of change made sense for two reasons. First, for a company to report on its environmental and social impacts, it would have to measure – and would then seek to manage – those impacts. Second, the assumption was that the best-performing companies would be recognized and rewarded by a growing number of concerned investors, customers, and employees. The hope was that as sustainability reporting became widespread, healthy competition among peers would lead to ever-greater improvements in environmental and social performance over time.

### Companies must rethink how and what they report

In principle this all sounds reasonable, but progress has not nearly been fast enough in the 25 years since John Elkington first coined the term Triple Bottom Line and sustainability reporting entered the mainstream. In fact, in the last quarter century many of humanity’s systemic problems have become truly existential threats. Were we naive, then, to believe that extra-financial reporting could

ever catalyze meaningful change at scale? The team at Future-Fit Foundation doesn’t think so – but we do believe companies must fundamentally rethink how and what they report. To respond to today’s systemic challenges, companies must manage their environmental and social performance in a holistic way, seeking to increase the good in the context of striving to completely eliminate the bad. And extra-financial reporting must support and highlight this systems-based approach, by explaining all of the ways in which the business is both helping and hindering progress toward a socially just, environmentally restorative, and economically inclusive future. Furthermore, such information must be presented in a concise, credible and comparable way, if we are to expect investors and other stakeholders to understand and act on it.

Put simply, instead of dwelling on recent successes and short-term commitments, companies must succinctly describe the gaps between where they are now and where they need to be – and how they’re evolving their core business models to close those gaps. Of course, focusing on the journey ahead means we need a clear destination to aim for. But what should that destination be?

### The extra-financial break-even point for business

In terms of financial performance, the goal for business has always been clear: a company might get away with making a loss for a while, but to survive in the long term it must make at least as much money as it spends. The more profit it produces the better, but the minimum threshold of acceptable performance is to break even. When it comes to the environmental and social dimensions of the Triple Bottom Line, the business world has been lacking a clear understanding of what it means to break even. In other words, what are the minimum thresholds of social and environmental performance every company must strive to reach?

That’s where the Future-Fit Business Benchmark comes in ([futurefitbusiness.org](http://futurefitbusiness.org)). It’s a free-to-use management tool, co-created with global companies and institutional investors. It identifies the extra-financial break even point for business, by translating leading systems science into a set of 23 Break-Even Goals. These goals collectively define the line in the sand that all companies must reach, no matter what their size or sector. A suite of Action Guide documents, which reference and build upon dozens of the best third-party resources, help companies to take action, self-assess and report on their progress toward each goal in a concise, consistent way. The Benchmark also identifies a set of Positive Pursuits that help companies pursue and report on actions that go beyond break even, for example by meeting the basic needs of underserved customers, or by helping suppliers restore damaged ecosystems.

Extra-financial reporting will not transform our economic system on its own, but it can drive more change than it has done to date. By switching emphasis to focus on progress toward a clear destination, we at Future-Fit believe that companies can provide far more relevant information about how they are adapting to an ever-more uncertain world, with a view to creating enduring value both for themselves and society as a whole. And that is something we believe all investors – and many other stakeholders – will respond to.



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\* Mehr unter [www.gbrating.ch](http://www.gbrating.ch)

# Die Guten sind vorn.

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