Reporting and valuation: new metrics will reflect planetary boundaries and wealth distribution

Paul Simpson, Chief Executive Officer of CDP, sits on the advisory panel of Guardian Sustainable Business and the Global Stranded Assets Advisory Council for the Smith School of Enterprise and the Environment at Oxford University. An expert in environmental sustainability, Simpson led CDP from a climate-specific focus into other environmental areas. This article reflects his unique contribution to the discussion on the future of reporting, with edited highlights from his full, one-hour interview.

As companies are often at the center of natural and social capital erosion – or indeed preservation – Simpson believes their value will be defined by a metric derived from a new generation of financial and non-financial performance data, which will be pulled from different places and connected.

Society: the health of nature determines the health of society

“Natural capital is critically important; it underpins all of the health and life of society, so we absolutely have to focus on preserving natural capital,” says Simpson. “But it’s interrelated with the health of society, and therefore I think both of these issues will be at the forefront of our future, as we move forward with an ever greater population on our planet. Do we have enough resources to meet the needs of all the people in the world, enabling them to live a healthy life? And does society remain healthy in preserving and operating a system where everybody can flourish?”

Preserving a healthy system is also important if companies want to flourish. “I think that the CEOs of businesses are already facing these issues, and within 10 years they’re going to be even more prominent,” explains Simpson. “Businesses will have to be asking ‘are we operating sustainably? Are we operating within planetary boundaries?’ The answer is probably no.”

Companies: planetary boundaries, wealth inequality and innovation on the agenda

For Simpson, companies’ business models will have to change to deal with the new and extreme contexts in which they’re operating. Not doing so could mean they’re missing out on big business opportunities, he says.

“Before refrigeration, we used to import ice to the UK from Canada – we got our cooling systems that way, by shipping ice. But as soon as we developed refrigeration, all the companies that shipped ice went bust. Not one of them became a refrigeration company, which I find quite surprising. Will the large oil and gas companies of
today be the energy companies of 2050, or even 2100? It's a big question, and the answer depends on which of them can transform their business models in a changing environment. Some of them will transform and will still be successful. Many big oil and gas companies have already been around for more than 100 years; some of them will be around in 100 years' time, but some of them won't be.”

It’s not just the consideration of how businesses operate on a carbon budget. The erosion of social capital – and with it our ability to interrelate and live together – will force companies to deal with critical issues that they have so far avoided, such as the distribution of wealth throughout the workforce.

“What's our transition plan to be sustainable, and how are we exasperating or solving wealth inequality, a huge growing issue in the world? Every business has to ask itself that question, but traditionally they haven't been – often they are exasperating wealth inequality, but it’s going unnoticed. This represents a new metric that CEOs will have to think about – the dynamics between the lowest salary in the business and the highest salary, and how that is driving, or solving, inequality in society.”

Get ready: data technology will enable new valuation and reporting metrics

According to Simpson, currency is easy to measure; value is not. Nevertheless, he says value – not currency – will be the language of reporting in the future.

“Historically we used to value companies on financial performance alone,” explains Simpson. “I started my career as an analyst – we had spreadsheets with numbers in them. That's how we've been valuing companies for hundreds of years: by looking at their profit. Currency, of course, is still one measure of value – it’s the quantitative value, and it's easy to measure. But we know that, in our rapidly changing world, approaching or exceeding planetary boundaries and reaching a population of 9 billion by 2050, the winning companies of the future will be generating value in different ways.”

It’s a matter of looking closely and asking the right questions, says Simpson. “It's really about looking at their business strategy, asking how they are transforming to deal with, and work within, these planetary boundaries. How are they providing value to society, and solving the problems of today and the future? The companies that can do that will be the most valuable. So for the analyst, working out what new metrics and data they need to put into their evaluation models is critical. Technology will really help enable a revolution in that sense.”

“Technology is making the world a lot faster,” says Simpson. “People want more concise information, for example through Twitter, and they want it more regularly. So businesses have to think about how we can communicate regularly through every interaction we have with a customer or a shareholder, not just about our financial performance but also about our environmental and social performance. So we're seeing a transformation in our use of data: We have enormous amounts of data now – big data. The challenge becomes how can technology enable that data to be mashed, pulled from different places and connected, and then to create value by bringing those different data points together.”