

Quarta Vista – Quo Vadis?

What is the contribution of Quarta Vista (QV)¹ to sustainable business?

The project² is a contribution to the challenge of making the actions of companies and other organizations compatible with the principles of sustainable business.

QV wants to define essential parameters of economic activity that contribute to improved sustainability and wants to evaluate these parameters in monetary terms and insert them into the accounting system. This is intended to expand the previously purely financial income statement to include the dimensions of sustainability.

QV would expect organizations that work sustainably on their own responsibility and voluntarily to be able to present these activities in the financial statement. If the accounting rules become legally binding, sustainable organizations could activate them in the balance sheet, write them off and thereby take them into account in calculations and prices. This reasoning is not carried out by QV in this way, but it would have to be part of the considerations. QV restricts itself to demonstrating the accounting practice that would enable the integration of sustainability impacts into the financial statement.

The project came about through the cooperation of SAP, Regionalwert AG and some other partners from applied science and sustainable companies and was completed after two years in February 2021. It was funded with support by the government.

"The research project QuartaVista - Navigation System for Value-Oriented Companies is funded by the Federal Ministry of Labor and Social Affairs as part of the INITIATIVE NEUE QUALITÄT DER ARBEIT (INQA) funding guideline "Sustainable Companies and Administrations in Digital Change".³ S. 9 ibid.

The approach of Quarta Vista

QV's focus is on the harmful and externalized effects of the capitalist economy. Regarding the company's financial results as the sole measure of success is criticized for being too narrowly minded.

"Entrepreneurial activity is always associated with unintended effects on people and nature. Often these changes only become recognizable in their full extent over time. The view of short-term gains ignores the longer-term damage and risks and burdens society with the costs of this damage ("externalized costs")." S. 4 ibid

"In the past, good business practices meant more profit in most cases." S1 ibid

"What's problematic about the traditional notion of profit is that it fails to perceive or devalue anything that can't be valued financially." S. 1 ibid

QV proposes a broader understanding of success and aims to add additional, sustainability-impacting dimensions to the financial view.

1 <https://www.quartavista.de/dashboard>

2 QuartaVista –Die Wertschöpfung der Zukunft steuern und bilanzieren
https://cdn.website-editor.net/aeec33a1594342df8876299b55d6a5d5/files/uploaded/QV-elevator-pitch-public_TWN_251025.pdf

3 The text sections highlighted in yellow are original quotes written in German and translated into English by the author

Quarta Vista – Quo Vadis?

"On the one hand, the concept of profit or the term profit should be understood in a larger way. The limitation to the financial perspective is too narrow minded. ... We propose to balance the profit in a total of four dimensions:

- In the financial dimension, as it has been being done for a long time.
- In the social dimension, which includes a cost and benefit analysis for society.
- In the ecological dimension, in which the effects on nature are integrated.
- In the knowledge dimension, which registers knowledge gains as well as knowledge losses.

On the other hand, accounting practice needs to be expanded in order to enable it to record these profits and possibly losses in the three new dimensions. "

These should be monetized as far as sensible and possible so that they can be presented in the financial balance sheet, the central place in the annual report." S.2 ibid

"Modern software tools should help to understand, evaluate and weigh these dimensions against each other." S.2 ibid

The willingness of SAP to participate here is based on the understandable interest in the business area that will become relevant in the future.

Another description explains the evaluation procedure more in detail⁴

"The first stage is the recording Each activity is linked with an expenditure (time or material expenditure)" S.2

"The second stage is interpretation. Each KPI is assessed by setting limits according to the traffic light principle. The limit values are set on the basis of three levels of interpretation: firstly, objective target values from science and politics (SDGs, planetary boundaries, Paris climate agreement, German sustainability strategy, etc.), secondly, empirical comparative data that is used according to the best-in-class approach, thirdly, subjective experience data that is provided by experts and the companies themselves." S. 2 ibid

"The third stage is monetization." S. 2 Ibid

"The fourth stage is booking and accounting according to QuartaVista The balance is expanded on the assets and liabilities side to include the ecology, knowledge and society accounts. On the assets side, there are the new asset accounts in fixed assets with capitalized services, on the liabilities side with provisions." S. 3 Ibid

The approach of QV wants to show the performed services in the balance sheet. This is a plus on the way to a sustainable economy compared to the similar approach of the Value Balancing Alliance (VBA), which also monetizes sustainability-related impacts. In the VBA, however, actions that have already been completed are not put into numbers, but a hypothetical monetization is made for internal decision-making using the managerial accounting method. It is explicitly not the aim of VBA to compensate for damage or to initiate other really expenditure-effective activities. It is only about the information for the management and parts of this information can make it into the reports.

The Economy for the Common Good (ECG) as an alternative in comparison

A fundamentally different method comes from the Economy for the Common Good (ECG) in this discussion.

⁴ https://www.regionalwert-ag.de/wp-content/uploads/2020/12/Strategiepapier-QuartaVista-Wissenschaft_2020_12_Pub-1.pdf

Quarta Vista – Quo Vadis?

The Economy for the Common Good method also evaluates the performance of corporate activities in the Common Good Balance Sheet. This creates a 360-degree view and in future developments, the activities that have the best effects for the company and its stakeholders can be strengthened or weakened.

The ECG works with a point-procedure that ranges from -3600 points for harmful effects to +1000 points for positive effects for the Common Good. Only achievements that have already been completed are assessed. There is no need to redesign the accounting system, the ECG takes effect immediately. The Common Good balance sheet should stand next to the financial balance sheet, as an accountability report on the ethical performance of the company. As the values of the ECG refer to ethical foundations, which are also anchored in constitutions, a connection is established between the individual well-being of the organization and the Common Good. All activities that improve the sustainability of the organization have a positive effect on the sustainability of society.

QV creates a different connection to the Common Good. In this method, the sustainability performance is included in the financial accounting, so that companies that achieve a good sustainability performance achieve a more positive financial balance. QV thus integrates sustainability into the logic of the financial analysis.

The hoped-for effect of this procedure is not carried out further by QV. It can be speculated that advantages in company valuation from the point of view of investors and banks and advantages in pricing as a result of the capitalizable and depreciable services are expected by the creators of QV. It remains to be seen whether investors and customers are willing to appreciate these reported services. Ultimately, this cannot be achieved by the QV method or forecast, because these relationships are subject to market forces.

In order to insert the non-financial events into the financial perspective, QV uses auxiliary constructions that are “monetized as far as sensible and possible” S.2. The restriction is quickly abandoned in the following, because only auxiliary constructions that can be monetized are selected. The disadvantage of the method is that essential events that cannot be monetized, such as human rights issues or democratic participation rights, are not considered.

The selected KPIs are⁵:

On the one hand, this scope is somehow arbitrary⁶ and, on the other hand, it is incomplete from the perspective of the ECG.

It could be said sympathetically that it may be sufficient to value only part of the non-financial activities in monetary terms and thus integrate them into the accounts. Because this process is based on the ethical attitude that the non-financial effects of the business model should be visible and assessable. It could be assumed that a company that adopts this attitude will address the ecological and social impacts across the board. Also in the topics that are not accessible to a monetary evaluation, such as loss of biodiversity.

Since QV determines the KPIs very specifically, the KPIs would have to be redefined in each industry in order to capture the most important (side) effects of the different business models.

5 <https://www.quartavista.de/videos> Methodik hinter Quarta Vista – Ausführliche Version, 13:15min. Letzter Zugriff 6.6.2021

6 “As this is a project funded by the Federal Ministry of Labor and Social Affairs and the New Quality of Work Initiative (INQA), the focus was on quality of work and knowledge.” S3.
https://www.regionalwert-ag.de/wp-content/uploads/2020/12/Strategiepapier-QuartaVista-Wissenschaft_2020_12_Pub-1.pdf letzter Zugriff 6.6.21

Quarta Vista – Quo Vadis?

In addition, QV would have to change the accounting standards, which previously only recorded actual expenses/income. The framework of accounts would have to be expanded to include sustainability dimensions on the assets and liabilities side. The recording of the monetary values would have to be defined and standardized.

That would set in motion a complex set of regularization instruments that require government power, a high degree of influence on international specialist bodies and a minimum of social consensus regarding the method. This means that the hurdles for general validity and applicability are very high.

The future role of Quarta Vista and outlook

QV could be used in model projects in order to be able to record and understand the long-term effects in companies and society. The reaction of market forces on the investor and customer side in particular should be explored. The calculations could have a high information value for the social debate. But even that has not yet been delivered by QV. It does not go beyond a thought model with selectively demonstrated practical application.

But how could the QV approach be brought to the breadth of companies?

The broad application requires an understanding of system change. Without generalizing the accounting rules, QV remains a model of thought.

The fundamentally limited effect of QV lies in the endeavor to create an evaluation method that corresponds to the prevailing capitalist logic: there, the success evaluation is seen exclusively in monetary financial values and QV wants to insert sustainability performance into this logic. However, as before, sustainability is subordinated to capital accumulation.

Capitalism is ultimately a belief system, because other measures of success can be used for the prosperity of a company in the market economy than maximum capital growth, as the Common Good Economy argues and as companies with ECG balance sheets exemplify. Achieving profit in the market-based competitive order is certainly necessary for private companies, the priority of profit maximization over other ethical values is harmful. ECG and QV agree on this.

The competition of ideas for the transformation of the capitalist economy into a humane and nature-serving economic order is important and necessary. The fact that a federal ministry of the current CDU/CSU/SPD coalition, which unfortunately had to be ordered by the Federal Constitutional Court to create credible climate legislation, is funding the QV project is gratifying.

So far, the ECG has not received any significant support from tax revenues to further develop the method. The ECG is still thought of as a hostile alternative to capitalism. If the crises of economic logic, which considers ecological and social impacts as side effects, become even more evident, the willingness to accept the Common Good Economy as a pathfinder to sincere sustainability will probably increase.