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A corporate balance sheet with a little added love

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Fresh path: Antje von Dewitz, chief executive of mountain sports clothing maker Vaude

What is the purpose of business? Many executives would say their task is to maximise returns for shareholders by serving the needs of customers, perhaps with social benefits as a byproduct.

However, a growing number of companies believe their fundamental purpose is to serve the common good – and the way they report their activities to the outside world needs to change to reflect this function.

One of these idealists is Vaude, a family-owned maker of mountain sports clothing based in southern Germany, near the idyllic shores of Lake Constance. It has 1,600 employees and aspires to become the most sustainable outdoor brand in Europe.

“I’m totally critical of the system and the way economics is taught – this notion of a homo-economicus that strives only to maximise profits is such a one dimensional way of thinking about business,” says Antje von Dewitz, chief executive. “Enterprises must take responsibility for their actions towards their employees, the community or the environment.”

To live its ideals more completely, Vaude is about to produce its first “common good balance sheet” in addition to a conventional balance sheet listing its assets and liabilities.

This reporting innovation is perhaps better described as a scorecard. It awards participating companies points based on the extent to which they have acted in a humane, co-operative, sustainable, just and democratic manner. There are minus points for violating labour standards, pollution, unequal pay for women and using tax havens.

An external auditor assesses the company’s dealings with suppliers, investors, staff, customers and the community according to a prescribed matrix of criteria, then awards an overall score – the maximum is 1,000 points.

All of this does not mean abandoning a for-profit mentality, insists Ms von Dewitz: “Of course, I can never make a decision without considering the economic implications – we’re a business, not an NGO.”

She adds: “We work very hard to achieve excellent financial figures as that gives us the freedom to be sustainable and meet our social responsibilities.”

The common good balance sheet was developed by Christian Felber, an Austrian activist and founder of Economy for the Common Good. He says it pinpoints the most ethical companies and hopes it will one day take precedence over traditional financial reporting.

About 1,700 companies, primarily from Germany, Austria and Switzerland, have declared their support. More than 200 have produced one and had it assessed externally. ECG has held informal talks with four listed companies about joining the scheme. Mr Felber declines to name them but says the biggest employs 350,000.

“Money is only the means, it is not the goal,” he says over a cup of coffee at a mid-market hotel a couple of kilometres from Frankfurt’s towering glass and concrete monuments to financial capitalism. “The present system’s slogan is: the business of business is business. My alternative vision says the purpose of business is the common good.”

Mr Felber, a strawberry-blond, bearded activist who practises contemporary dance in his spare time and sprinkles his conversation with references to Aristotle and Adam Smith, might once have been dismissed as an eccentric.

But talk of a triple bottom line of “people, planet and profits” is no longer confined to the radical fringe.

One in seven of all business start-ups in the UK are social enterprises and in the US for-profit “benefit corporations”, which commit to creating a positive impact on society and the environment, are becoming more common.

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A growing number of thinkers, led by Joseph Stiglitz, the Nobel Prize winning economist, argue that gross domestic product is a poor yardstick of societal wellbeing because it fails to differentiate between social goods and “bads”.

The same could be said of return on equity. Various initiatives that promote a more comprehensive and transparent approach to corporate sustainability reporting have therefore moved to fill this vacuum. They include the Global Reporting Initiative, which Vaude also supports, the Sustainability Accounting Standards Board and the International Integrated Reporting Committee. The ECG is arguably the most radical.

The co-operative Sparda-Bank Munich was one of the first adopters of its common good balance sheet, producing one in 2011. This was not so unusual for the bank and its 750 employees as it shares the movement’s core values, explains chief executive Helmut Lind. “We planned on publishing a sustainability report for a long time. But I was not convinced until I became aware of the common good economy.”

Sparda-Bank Munich is a local bank focused on bread and butter financial products. It believes contributing to the welfare of the co-operative’s members is more important than maximising profits. Its slogan is “friendly and fair”.

“A few of our staff asked at first whether their job would be safe if we focused on looking after the common good, but meanwhile all of the employees are convinced and the reactions are very positive,” says Mr Lind.

He adds: “It’s hard work – you can’t make a common good balance sheet in two hours – but it is worth it for companies who take their responsibility towards society seriously.”

ECG’s aims are radical: it wants to bring about a comprehensive overhaul of our current economic system.

Mr Felber would like to see limits on private property and earnings, and a ban on hostile takeovers, dividends and financial speculation. He also believes ethical companies should get cheaper loans, pay lower taxes and receive priority in public procurement.

There is a limit to the extent mainstream capitalism will embrace such goals. Not all of this agenda is backed by followers of the common good balance sheet idea either. Vaude has no plans to make employees owners of the company, for instance.

By stressing co-operation over competition, will ECG not rob the economy of its essential dynamism, while adding yet another layer of burdensome paperwork to companies’ statutory disclosure obligations? Is Mr Felber a communist at heart?

No, he says – he does not advocate central planning but rather an ethical market economy based on private initiative. The movement’s supporters are all entrepreneurs.

“They know the essential role of profit. Profit is like the blood, without it, an organism is dead within a short period of time. But blood is not the meaning of life. And no one needs more than seven litres of blood,” he says.

At its core, ECG wants to apply the standards of human relationships to the world of business, he concludes.

“In the economy we learn to behave in an ethically different way than in our private lives. It’s a kind of ethical schizophrenia . . . In business life if you behave in a reckless or egoistic way, the probability of being successful gets higher.

“In my view that is a system error. Because in your private life you will never make a friend if you behave strategically in an egoistic or greedy way.”

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