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Sustainable Investing Research Initiative

SUMMARY

Columbia University Sustainable Finance Seminar

SFS8: The Future of Multi-capitalism and Integrated Reporting

Nov 4, 2025

OVERVIEW

This seminar reviewed the theoretical foundations and institutional pathways for multi-capitalism as a model for corporate governance.

This seminar reviewed the parallels and relationship between two key innovations: the evolution on integrated reporting, as a method for gathering, measuring, and disclosing information about the corporate use of multiple forms of capital, and its relationship to multistakeholder governance, in which corporate boards are tasked with advancing and balancing the interests of different stakeholder groups. Though both of these approaches have been in development for nearly twenty years and hold tremendous promise as more sophisticated mechanisms for accounting for the creation of value in a complex ecological interdependent world, they have not yet displaced the older, more simplistic tradition of reporting primarily on financial returns in order to maximize shareholder value.

Through presentations and discussion, participants traced the evolution of integrated reporting from a market-led initiative to its current place in global standard-setting. The dialogue compared South Africa's decades-long implementation of multi-capital governance with the practical board-level obstacles and political headwinds faced in regions such as the United States. The central tension is that organizations need a more holistic, systems-level model of value, but institutional,

political, and technical barriers still block its adoption. These barriers include board-level communication gaps and the challenge of preference aggregation. The seminar closed by considering how emerging technologies, including AI, might help resolve these complexities and support a new architecture of value.

PART I – KEYNOTE PRESENTATIONS

1. From Reporting Framework to Governance Architecture

The first keynote speaker introduced a project to elevate multi-capitalism from a reporting framework to a comprehensive model of corporate governance. This model is positioned as a distinct theoretical alternative to both the shareholder primacy and stakeholder capitalism paradigms. The speaker argued that while profit is a valid outcome, the core purpose of the corporation is not profit maximization. Instead, it is the generation of long-term value through the management of a full spectrum of capitals, including social and natural. This framework inherently provides space for ethical considerations such as "Do No Harm" and the concept of double materiality.

The speaker reconceptualized the firm itself, suggesting a shift from its 20th-century definition as a nexus of contracts to a 21st-century view as a nexus of capitals. This perspective reframes an exclusive focus on financial capital as myopic and counterproductive. A key challenge identified was the intellectual robustness of this model, particularly the issue of preference aggregation, which involves how a board can coherently aggregate and make trade-offs between competing forms of capital. To solve this, the presenter suggested that new technologies, including AI, might be necessary. Finally, the speaker argued that this multi-capital approach offers a more constructive and durable foundation for sustainability. They proposed it as a replacement for the term ESG, which was described as an "unstable molecule" that has become confused, politically charged, and counterproductive. The ultimate goal of this new model is to contribute to a new source code for capitalism.

II. Integrated Reporting: A Trajectory from Movement to Institution

The second keynote speaker provided a historical trajectory of the integrated reporting movement. Recounting its origins in 2012, he noted the IIRC's rapid development of the framework, driven by a market-led vision to address the failures of financial accounting exposed by the global financial crisis. The objective was to shift corporate reporting from a backward-looking system of hindsight to one focused on insight and foresight. The framework's core concept was the six capitals, which gave parity to human, social, intellectual, natural, and manufactured capital alongside financial capital. This was not merely about disclosure, but about understanding the interrelationships and trade-offs between these capitals.

The IIRC's foundational ambition was not to exist in perpetuity, but for its concepts to become a global corporate reporting norm. This led to explorations of the multi-capital model as a potential operating system for entire economies. Today, following its consolidation into the IFRS Foundation, the framework's concepts are being embedded in global standards, and informing projects on human and intangible capital. The speaker concluded by analyzing the central trade-off of this institutionalization: what was gained was the immense scale and jurisdictional reach of the IFRS; what was lost was the speed and ability to campaign for system change that the IIRC possessed as a standalone entity. The key question for the future is whether that original momentum for true system change can be regained from within the new institutional structure.

III. A Case Study in Practice: Governance and Reporting in South Africa

The third presenter detailed South Africa's journey as a "pocket of excellence" in multi-capital governance, offering a practical model of successful implementation. This evolution has been guided by the King Codes of Corporate Governance, from King 1 (1994) to the newly released King 5 (2025). A central, and often misunderstood, principle is stakeholder inclusivity. The speaker clarified that this does not elevate stakeholder needs above shareholders. Rather, it codifies the board's duty to consider significant stakeholder interests as an integral part of acting in the long-term best interests of the company, forcing a case-by-case judgment of trade-offs.

The codes also formalized the six capitals (from the IR framework) and the mandate for integrated thinking, which is defined by two essential aspects: considering the six capitals and analyzing inputs and impacts over the short, medium, and long term. King 5 has progressed this concept further, moving from shareholder value to shared value, and now to systems value. This new

concept posits that a corporation's long-term viability is inseparable from the health of the broader societal and environmental systems in which it operates. Regarding reporting, the presenter highlighted South Africa's well-known 'Octopus' model. She explained this architecture as a concise, high-level integrated report (the 'head') that connects to more granular, detailed reports (the 'arms'). The speaker concluded that the primary benefit is not just the report itself; rather, it is the process of preparing the report that successfully embeds integrated thinking throughout the organization.

IV. The Institutional Realities: Obstacles to Board-Level Adoption

The fourth speaker focused on the institutional practicality obstacles that boards and management face when attempting to implement a multi-capital approach. Drawing from an OECD project surveying directors in Latin America, the speaker outlined three primary challenges.

First, a governance-management tension, described as “management won't let go of the wheel.” In many non-financial areas, such as human or natural capital, management possesses deep subject-matter expertise that part-time directors lack, making it difficult for the board to move from a passive oversight role to active strategic guidance.

Second, a profound communications gap between the sustainability teams and the directors. These two groups speak different languages and operate with different incentives. While directors are often blamed for lacking sustainability literacy, the speaker argued it is equally a failure of sustainability teams to understand the language, incentives, and core role of a board.

Third, the speaker identified "committee and process confusion." When new, complex issues (such as sustainability or AI) emerge, the institutional reflex is to relegate the matter to an existing committee or to create a new, siloed one. This siloization prevents the board from having a holistic, strategic discussion about the issue, fragmenting its impact. The presenter concluded that as intellectual and reporting standards for multi-capitalism advance, they must be co-developed with a realistic understanding of the institutional behaviors and practical barriers that will determine their ultimate success or failure at the board level.

Political and Institutional Barriers

Participants contrasted global progress with the uniquely restrictive environment in the United States. It was noted that the nation's "finance-first" legal and corporate culture demands that any multi-capital initiative be framed exclusively in the language of long-term financial value. Any deviation from this narrative invites immediate political and legal hostility. This backlash is not just rhetorical; participants pointed to state-level legislation and lawsuits that have led to a fracturing of industry coalitions, as major financial institutions retreat in fear of litigation.

This creates a structural impasse, particularly for investors. It was noted that while integrated thinking can be framed as "good management" at a company level—improving efficiency and managing risk—it becomes a complex collective action problem at the investor level. A single, diversified investor acting alone to mitigate systemic risk cannot capture the full financial benefits of that action, a dilemma the current U.S. legal framework fails to solve. This environment has made it difficult to even discuss, let alone act upon, material non-financial risks.

Legal Innovation and the Fiduciary Duty Debate

Given these legal barriers, the discussion turned to innovating the concept of fiduciary duty. The core argument was that the legal standard of "prudence" must evolve. While 20th-century risks were often company-specific, 21st-century risks such as climate change and inequality are systemic and interconnected. A truly "prudent" fiduciary in the modern era, it was argued, must be forward-looking and manage these systemic risks to protect long-term portfolio viability.

The failure to do so, one participant framed, creates a deep intergenerational conflict, where short-term incentives benefiting older beneficiaries actively undermine the conditions for long-term prosperity for younger ones. This perspective opens the door to new legal theories. The group explored the potential for lawsuits based on a novel theory of harm: not immediate financial loss, but a fiduciary's contribution to biosphere instability. This systemic degradation, it was argued, is a direct and material threat to the future of younger beneficiaries, creating a new, though as-yet untested, legal basis for accountability.

Technology as the Key to Complexity

A central theme was technology's potential to solve the complexity that has historically reinforced single-metric financial models. A foundational question was posed: Was shareholder primacy merely an oversimplification born of necessity in an era that lacked modern computational power? If so, artificial intelligence may finally enable the multivariate decision-making that a true multi-capital model demands.

Participants suggested AI could help solve long-standing theoretical challenges, such as preference aggregation, by modeling optimal trade-offs between competing goals (e.g., profit versus water quality). This is not just theoretical. One participant brought up "AI+", which is the combination of AI with satellite, drone, and bioacoustic sensors, is close to making this a reality. It was estimated that these tools are two to five years from being able to independently monitor and report on corporate impacts, such as real-time factory emissions or biodiversity in supply chains. The clear consensus was that technology is rapidly solving the monitoring problem, separate from corporate self-disclosure.

The New Frontier: Valuation vs. Materiality

With technology poised to solve the monitoring challenge, the group identified the next major bottleneck: valuation and regulation. Participants anticipated an imminent "flood of data" on corporate impacts, but noted there are no agreed-upon accounting standards to value this data or integrate it into financial models. This lack of standards is the primary barrier to its use.

This challenge sparked a central debate. One path forward is the development of formal impact accounting standards to build market confidence and give non-financial data the same rigor as financial data. However, this pursuit of quantification was met with a critical counter-argument: Is precise financial valuation a necessary prerequisite for action? A significant UK legal finding was cited, which established that climate risk did not need to be quantified to be considered legally material and require fiduciary action. This highlighted a crucial distinction. The consensus was that materiality must remain a broad legal and strategic concept that includes subjective yet critical risks, not a purely mathematical one, lest the quest for a perfect number paralyze necessary action.

The seminar concluded that multi-capitalism is a sound theory facing practical barriers, prompting a shift from discussion to identifying action priorities to bridge this gap:

Develop Robust Valuation Methodologies

Accelerate the creation of "impact accounting standards" to build market confidence in non-financial data. This involves establishing standardized methods to value social and natural capital impacts, which are often dismissed as "soft." The new standards must make this data as rigorous, auditable, and decision useful as traditional financial accounting. This parity is essential for boards and investors to integrate these non-financial values into their core strategic and financial calculations.

Bridge the Board-Level Communication Gap

Actively work to close the gap between sustainability teams and directors. This requires a conscious effort to translate specialized multi-capital concepts out of technical jargon and into the pragmatic language of the board. To be effective, this communication must frame sustainability issues not as an ethical aside, but as fundamental drivers of strategic risk, financial performance, and long-term enterprise value. This translation is the key to gaining board-level traction.

Harness Technology for Governance

For decades, governance was often limited to a single financial metric, mainly because old technology could not handle more. We can now use AI, machine learning, and new sensors to overcome this limitation. This new tech can help solve the "preference aggregation" problem: the complex challenge of how a board can rationally balance and trade off multiple, competing objectives. This enables a genuine shift to data-driven governance, empowering boards to model and optimize for many different goals at once.

Innovate Legal Frameworks

Challenge and evolve the restrictive 20th-century legal interpretation of fiduciary duty, particularly in the U.S. This requires developing new legal theories that are fit for 21st-century systemic risks.

Examples include concepts such as intergenerational duty, which holds fiduciaries accountable to future beneficiaries, and biosphere instability, which frames systemic environmental harm as a material financial risk. These efforts would legally align fiduciary action with long-term systemic health.

Disentangle Materiality from Quantification

Advance the legal and regulatory understanding that a risk does not need a precise dollar value to be material. Fiduciaries must be empowered to act on critical issues, such as climate change or human rights violations, even if those risks cannot be perfectly or precisely quantified in a financial model. This requires moving beyond a purely mathematical definition of materiality. This approach establishes that a qualitative, yet strategically significant, risk still requires fiduciary consideration and action.

Rebuild Collective Action

Find new pathways to rebuild investor and corporate coalitions that have fractured due to political fragmentation. Systemic risks cannot be solved by individual actors, so this coordinated action is essential. This priority involves developing new, resilient narratives and structures for collaboration that can withstand political headwinds. The ultimate goal is to re-establish the collective momentum necessary to overcome the current gridlock and drive meaningful, system-level change that no single entity can achieve alone.
