The Five Capitals Model – a framework for sustainability

Why do we need a framework for sustainability?

Many businesses are struggling to understand the vast array of issues that are coming their way. Climate change, poverty, resource depletion, peak oil, overfishing – not only does the list seem to be growing, but the items on it seem to get more complex and bewildering by the minute.

That's why a framework can be handy. It provides a simple way of understanding the full range of seemingly unrelated subjects, which can be handy if you're a busy Chief Executive.

What is the Five Capitals Model?

The Five Capitals Model provides a basis for understanding sustainability in terms of the economic concept of wealth creation or 'capital'. Any organisation will use five types of capital to deliver its products or services. A sustainable organisation will maintain and where possible enhance these stocks of capital assets, rather than deplete or degrade them. The model allows business to broaden its understanding of financial sustainability by allowing business to consider how wider environmental and social issues can affect long-term profitability.

Building a vision and links to existing policies

The Five Capitals Model can be used to allow organisations to develop a vision of what sustainability looks like for its own operations, products and services. The vision is developed by considering what an organisation needs to do in order to maximise the value of each capital. However, an organisation needs to consider the impact of its activities on each of the capitals in an integrated way in order to avoid 'trade-offs'. Using the model in this way for decision-making can lead to more sustainable outcomes.

Natural Capital

What is it?

Natural capital (also sometimes referred to as environmental or ecological capital) is the natural resources (energy and matter) and processes needed by organisations to produce their products and deliver their services. This includes *sinks* that absorb, neutralise or recycle wastes (e.g. forests, oceans); *resources*, some of which are renewable (timber, grain, fish and water), whilst others are not (fossil fuels); and *processes*, such as climate regulation and the carbon cycle, that enable life to continue in a balanced way.

Why it is important to organisations

All organisations rely on natural capital to some degree and have an environmental impact. All organisations consume energy and create waste. Organisations need to be aware of the limits to our use of the natural environment, and operate within them.

Ways organisations can maintain and enhance natural capital[1]

- Substitute naturally scarce materials with those that are more abundant.
- Ensure that all mined materials are used efficiently within cyclic systems and systematically reduce dependence on fossil fuels – use renewable resources instead.
- Eliminate the accumulation of man made substances and products in nature – substitute all persistent and unnatural compounds with substances that can be easily assimilated and broken down by natural systems.
- Eliminate waste, re-use or recycle where possible.
- Protect biodiversity and eco-system functions.
- Use renewable resources only from well-managed and restorative eco-systems.

[1] This bullet pointed list draws heavily on the first three systems conditions of **The Natural Step** – a scientifically based, systematic approach for organisations to sustainably manage its resources and is designed to minimise risk and optimise opportunities

Human Capital

What is it?

Human capital incorporates the health, knowledge, skills, intellectual outputs, motivation and capacity for relationships of the individual. Human Capital is also about joy, passion, empathy and spirituality.

Why it is important to organisations

Organisations depend on individuals to function – they need a healthy, motivated and skilled workforce, for instance. Intellectual capital and knowledge management is increasingly recognised as a key intangible creator of wealth. Damaging human capital by abuse of human or labour rights or compromising health and safety has direct, as well as reputational costs.

Ways that an organisation can enhance its human capital

- Give employees (and where possible other stakeholders) access to training, development and life long learning and capture and sharing knowledge.
- Respect human rights throughout its operations and geographical regions.
- Understand and respect human values and their different cultural contexts.
- Ensure adequate health and safety arrangements, incorporating physical and mental wellbeing
- Use health promotion and education to support a high standard of health.
- Provide a reasonable living wage and fair remuneration for employees and business partners.
- Create opportunities for varied and satisfying work.
- Allow for and enhance recreation time and support individuals' active involvement in society.

Social Capital

What is it?

Social capital is any value added to the activities and economic outputs of an organisation by human relationships, partnerships and co-operation.   For example networks, communication channels, families, communities, businesses, trade unions, schools and voluntary organisations as well as social norms, values and trust.

Why is it important to an organisation

Organisations rely on social relationships and interactions to achieve their objectives. <u>Internally</u>: social capital takes the form of shared values, trust, communications and shared cultural norms which enable people to work cohesively and so enable the organisation to operate effectively.

<u>Externally</u>: Social structures help create a climate of consent, or a licence to operate, in which trade and the wider functions of society are possible. Organisations also rely on wider socio / political structures to create a stable society in which to operate: e.g. Government and public services, effective legal systems, trade unions and other organisations.

Ways an organisation can enhance social capital

- Provide safe, supportive living and working conditions, including family friendly policies.
- Source materials ethically and treat suppliers, customers and citizens fairly.
- Respect and comply with local, national and international law.
- Prompt and full payment of taxes and support of social infrastructure.
- Effective communication systems throughout the organisation, reflecting shared values and objectives.
- Minimisation of the negative social impacts of products and services [or maximisation of the positive…]
- Support the development of the community in which the organisation operates, including economic opportunities).
- Contribute to open, transparent and fair governance systems.

Manufactured capital

What is it?

Manufactured capital is material goods and infrastructure owned, leased or controlled by an organisation that contribute to production or service provision, but do not become part of its output. The main components include buildings, infrastructure (transport networks, communications, waste disposal systems) and technologies (from simple tools and machines to IT and engineering).

Why it is important to organisations

Manufactured capital is important for a sustainable organisation in two ways. Firstly, the efficient use of manufactured capital enables an organisation to be flexible, innovative and increase the speed to market of its products and services. Secondly, manufactured capital and technology can be used to reduce resource use and enhance both efficiency and sustainability.

Ways an organisation can enhance manufactured capital

- Using infrastructure, technologies and processes in a way that uses resources most efficiently.
- Modular manufacturing systems.
- Product to service shifts, for example leasing products on a continual service contract rather than a sell and forget approach.
- Reverse logistics and re-use and re-manufacturing systems.
- Zero-waste and zero emissions production systems.
- Industrial ecology – looking at synergistic production systems where one organisation's waste streams are another's resources.
- Bio mimicry – mimicking nature and natural processes in industrial processes and industrial systems design.
- Improvements in product systems (eco-efficiency and eco-innovation).
- Sustainable construction techniques when looking at new infrastructure or offices.

Financial Capital

What is it?

Those assets of an organisation that exist in a form of currency that can be owned or traded, including (but not limited to) shares, bonds and banknotes. Financial capital (shares, bonds, notes and coin) reflects the productive power of the other types of capital.

Why it is important to organisations

This is the traditional primary measure of business performance and success (the “single bottom line”) in terms of reporting performance to shareholders, investors, regulators and government. Sustainable organisations need a clear understanding of how financial value is created, in particular the dependence on other forms of capital. For measures of financial capital to truly reflect the value of other forms of capital, organisations must understand the importance of a number of other factors and how to assign financial importance to them (see below).

Ways an organisation can enhance financial capital

- Ensure financial measures reflect the value of other capitals.
- Value intangible assets such as brand and reputation.
- Internalise environmental and social costs and assigning an economic value to them.
- Effective management of risk and corporate governance issues.
- Demonstrate a positive stance on, and management of, sustainability issues to improve access to financial capital.
- Ensure the wealth created is fairly distributed.
- Honour relationships with suppliers and customers/citizens.
- Assess the wider economic impacts of the organisations activities, products and services on society e.g. in creating wealth in the communities in which the organisation operates.

For more information please refer to
Capitalism As If The World Matters by Jonathon Porritt, available from Earthscan.