

CAPITALS
COALITION

Towards a new economic paradigm:

The role of integrated
decision-making across nature,
people, society and the economy



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Foreword



In today's ever-changing economic landscape, organizations find themselves at a critical crossroads.

Global value chains are drastically changing driven by climate change, social inequity and the erosion of Earth's natural systems. This threatens the foundations of traditional business models and challenges the conventional measures of progress and success.

The magnitude of the challenges for business cannot be overstated. We stand at the precipice of a new normal, where adapting and thriving requires operating within ecological boundaries while enhancing and safeguarding the well-being of billions of people on our planet.

We know that conventional measures of economic success are insufficient if we wish to thrive in this uncharted territory. To mitigate the impacts of climate change, reverse the loss of natural ecosystems, eradicate extreme social inequity, and enhance global well-being, a radical shift in our approach is required. We must embrace a new economic paradigm that recognizes and acts upon the fundamental interconnections between the health of nature, the well-being of people, and the success of global financial markets and economic activity.

Capitals Coalition has an essential role to play in delivering this transformative change. We have long championed for a comprehensive overhaul of business-as-usual practices and existing measures of economic success. Together with our global partners, we are developing the tools and frameworks that will support businesses in charting this new course.

This paper sets out the progress so far in the thinking and development of our new flagship framework, the Capitals Protocol. Building upon the guidance set out in the Natural Capital Protocol (2016) and the Social & Human Capital Protocol (2019), the Capitals Protocol will provide businesses with a unified framework to identify, measure and value their impacts and dependencies on natural, social, human, and produced capital to inform their decision-making and deliver positive outcomes for nature, people and economies.

It is important to acknowledge that we are still in the early stages of this transformative journey. In this paper we explore the core concepts of integrated decision-making and set out the journey that lays ahead. It builds on the 400+ comments received on an early draft of the Capitals Protocol, as well as drawing on the work of the [UNDP's SDG Impact Standards](#), [SustainValue](#), [r3.0's work on multicapitalism](#), [IDEEA Group](#), and others.

While the challenges ahead may seem daunting, we cannot lose sight of the immense possibilities that lie within our grasp. By maintaining a steadfast commitment to this transformative path, and collaborating with others, we have the power to shape a more holistic, just, and sustainable economic system – one that values nature, people, and society alongside economic success.

Martin Lok

Executive Director, Capitals Coalition



What is the integrated capitals approach?

The success of organizations around the world is dependent on the value they receive from the capitals; natural capital, social capital, human capital and produced capital.

A capitals approach enables organizations to understand how their success is directly or indirectly underpinned by these forms of capital, how their actions impact the capitals and how these capitals interact with each other, to highlights previously unseen risks and opportunities and inform decisions that offer positive outcomes for nature, people, society and the economy (see Figure 1).

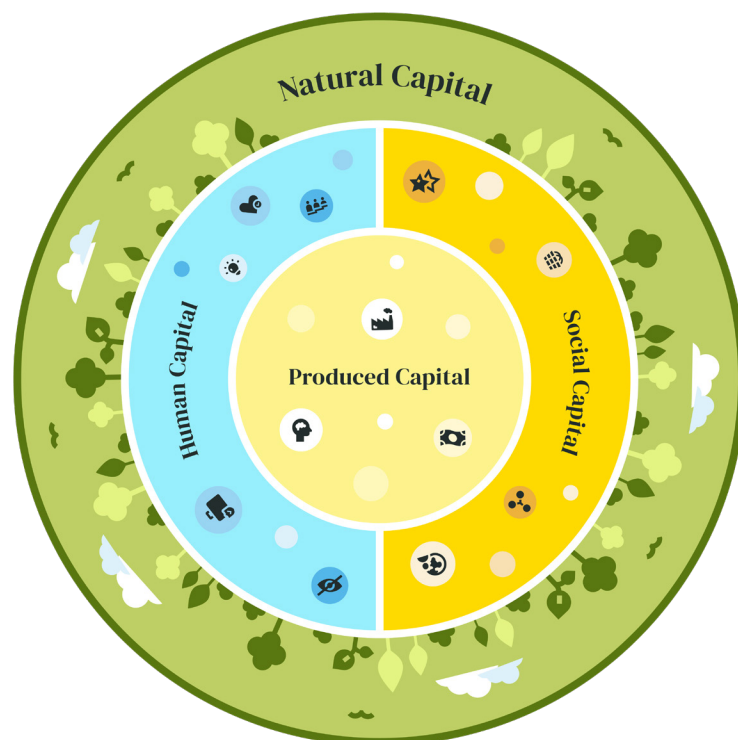


Figure 1 The four interconnected capitals

Table 1 Working definitions of the four capitals

Capital	Working definition
Natural	The stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people ¹
Human	Human capital refers to an individual's knowledge, skills, competencies and attributes
Social	Social capital refers to networks and their shared norms, values and understanding (social and human capital protocol, 2019) ²
Produced	The human-made goods and financial assets that are used to produce goods and services consumed by society.

¹<https://capitalscoalition.org/capitals-approach/natural-capital-protocol>

²<https://capitalscoalition.org/capitals-approach/social-human-capital-protocol>



The Capitals Protocol builds on the work of the Natural Capital Protocol (2016) and the Social & Human Capital Protocol (2019). These Protocols harmonized existing approaches to identify, measure and value impacts and dependencies across the capitals. Nature includes biodiversity that underpins its ability to function, the Capitals Protocol will consider explicitly how biodiversity should be integrated into sustainable outcomes, drawing on the outputs of the [Align project](#). Together they promote three key characteristics of a 'capitals approach':

1. Moving beyond understanding impacts to also managing dependencies

A capitals approach moves beyond understanding only our impacts on the capitals to also highlighting how business and society are dependent on them. This shift in thinking contextualizes organizational relationships with the capitals and can illustrate unseen risks or exposures.

2. Moving from measuring outputs to valuing outcomes

Capitals thinking moves beyond measurement to also include valuation to express the relative importance of the capitals for stakeholders. Understanding the value provided to organizations by the capitals further highlights the significance of their dependencies, reinforcing the business case for investing in the health of the capitals and enabling us to include their value in decision-making. The value illuminated by a capitals approach can be economic, social, environmental, cultural or spiritual, and can be expressed in qualitative, quantitative or monetary terms.

3. Moving from assessing performance in siloed issues to across systems

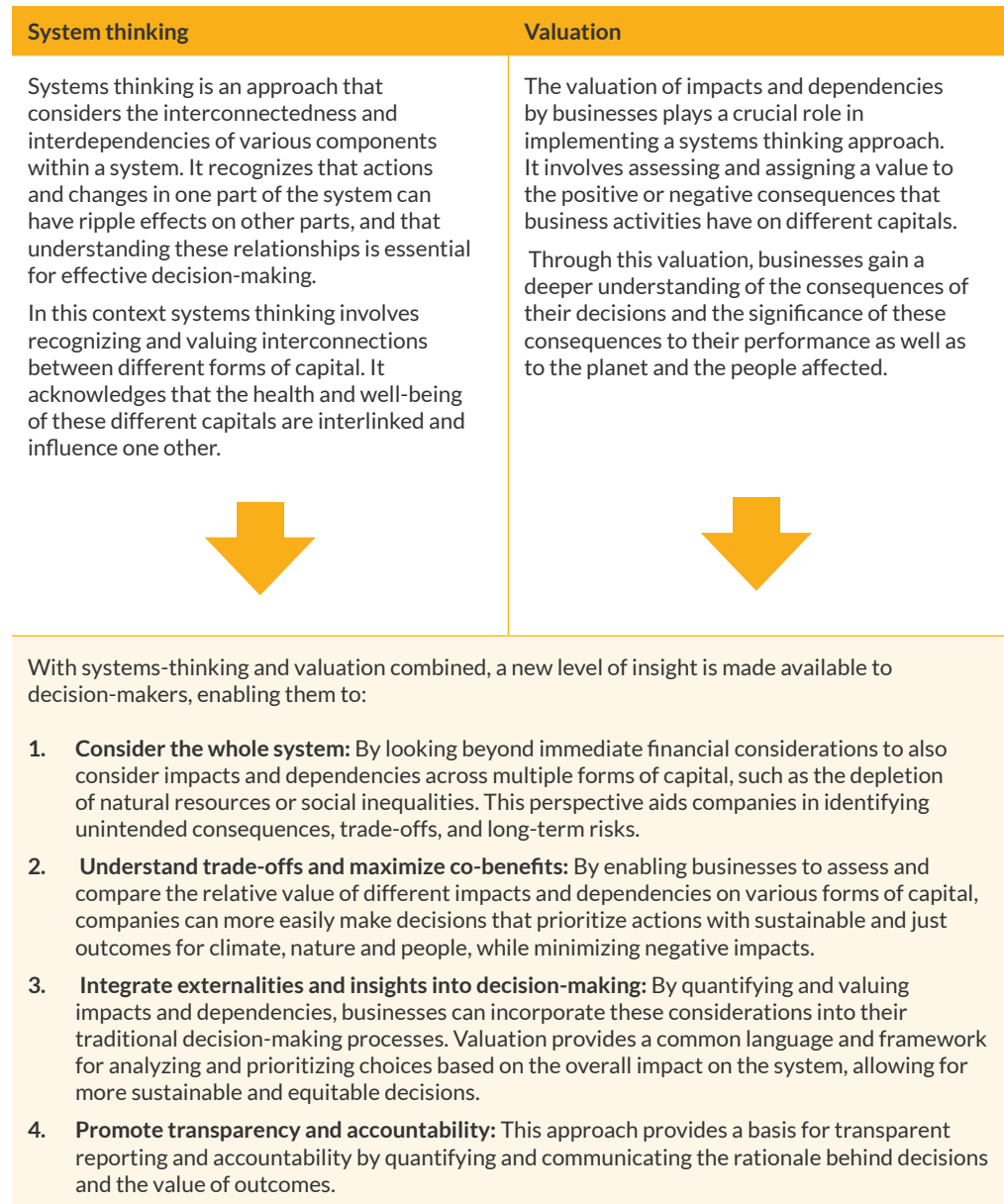
A systems approach sits at the core of the capitals approach. Actions taken in one part of the system cannot be understood in isolation. To reduce unsustainable impacts on the capitals and secure a flow of value from those that businesses are dependent on, organizations must understand the consequences of their decision-making across the capitals.

The integrated Capitals Protocol dives explicitly into this final point.



Combining systems thinking with the valuation of impacts and dependencies

The Capitals Protocol will provide a foundational tool for those exploring systems thinking and valuation within business.



Why capitals?

The conventional definition of "capital" has focused on financial and physical assets employed in the production of goods and services. However, this narrow perspective overlooks the fundamental contributions of natural, social, and human resources, obscuring a comprehensive understanding of economic systems, by addressing these only as 'externalities', outside the narrow economic system itself.

This prevailing approach has caused many of the systemic challenges we now face as well as a substantial portion of economic activity generating questionable "value." Any business that consumed its capital and called it profit would eventually go bankrupt, but this is how we run our economic system on a much larger scale. By expanding the notion of capital to encompass nature, communities, people, social norms and trust, we open the door to genuine value creation across natural, social and economic systems by investing in all forms of capital. This is the innovation of the capitals approach and the shift that the Capitals Protocol aims to facilitate (see Figure 2).

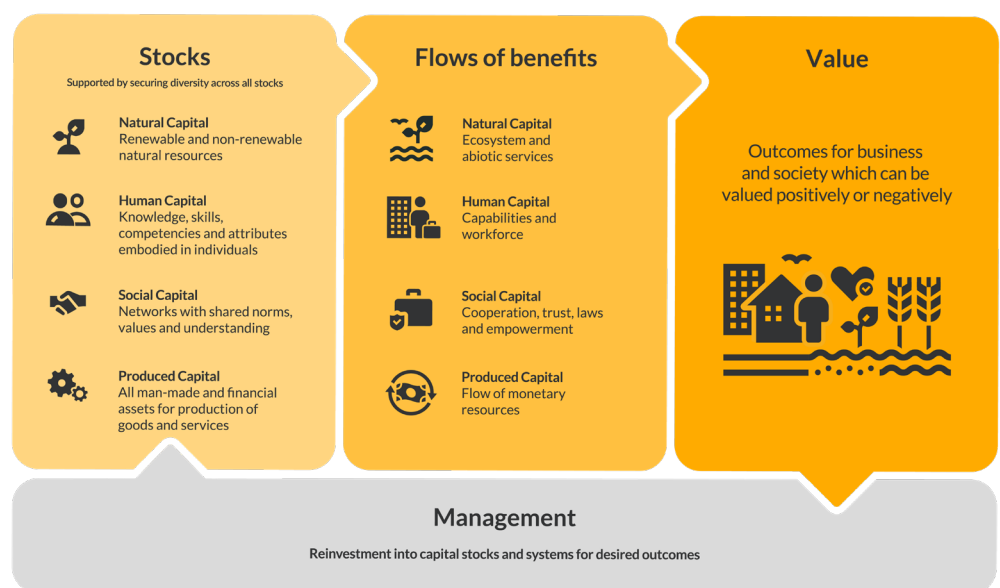


Figure 2 Capital stocks, flows, and values

By re-imagining capital and capitalism, we unlock the potential to foster a more sustainable, just, and prosperous future. Embracing a comprehensive understanding of value creation and adopting strategies that invest in and leverage all forms of capital will pave the way for a more resilient and equitable economic system.

Challenges in the integrated capitals approach

The integrated capitals approach brings the valuation of impacts and dependencies, and systems-thinking together into one framework. Achieving this requires addressing a number of challenges head-on.

Challenge 1: Ethics in capitals

Framing nature, people, social norms and trust as stocks of capital is a tool to be used sensitively and always in context. The capitals approach is inherently anthropocentric and exclusively looks at the values directly or indirectly experienced by people.

The approach serves as a valuable tool for identifying and measuring this value within often rigid and opaque decision-making and accounting processes, but it is essential to emphasize that the intention is never to diminish or reduce these values through quantification and to accept that certain values cannot be captured in this way.

The Coalition is delving into the definitions of natural, social, human, and produced capital and examining how we can distinguish the stocks of each from the benefits they generate. Although reality seldom fits neatly into predefined categories, we must pay attention to these technical nuances. Neglecting them can lead to misconceptions and misinterpretations that hinder progress. By addressing and future-proofing these nuances, we can ensure a more accurate understanding of the intricate relationships between capitals and the flow of benefits they provide.

Achieving confidence in decision-making also necessitates a shared understanding of how to responsibly apply valuation as a decision-making tool. It involves interpreting diverse forms of value and comprehending what these values represent to stakeholders while navigating the range of ethical issues this may highlight; the Capitals Protocol will discuss these issues and offer recommendations for decision-makers.

Challenge 2: Purpose

The Natural and the Social & Human Capital Protocols were designed on the assumption that equipping decision-makers with better information about a business' interactions with its surrounding systems would yield more sustainable and just outcomes. However, we recognize the need to test this assumption further as we move into this next stage.

Defining sustainable and just decisions

As a starting point we must explore the innate nature of a sustainable and just decision. This extends beyond the scope of individual choices and delves into the very essence of a business's purpose, whether it revolves around profit maximization, carbon neutrality, contributing to reversing nature loss, and/or enhancing societal well-being. The Capitals Protocol process acknowledges the diversity of purposes guiding businesses today and offer paths forward for all of them.

Prioritizing interventions

Achieving win-win-win-win situations across all four capitals is an unrealistic expectation in the current economic model. The integrated capitals approach aims instead to bring visibility to losses and enable the prioritization of interventions based on societal and business needs for both short and long term. Approaching decision-making through this lens can guide decision-makers through the challenging terrain of trade-offs, impact distribution, and adherence to critical thresholds.



Challenge 3: Doing what is needed

In the realm of decision-making, it is essential to recognize the crucial distinction between "doing better" and "doing what is needed." Valuation is a powerful tool for comparing and prioritizing interventions based on interpretations of what is just and sustainable. But global challenges grow increasingly urgent, and merely "doing better" falls short of what is required. The outcomes of a capitals approach then cannot focus only on "doing better" but must focus on delivering outcomes at the level of "what is needed".

By embracing valuation as a foundational tool within the capitals approach, businesses can move beyond incremental progress and start taking essential action. This empowers organizations to align their decisions and efforts with what is truly necessary, unlocking the potential for transformative outcomes and substantial impact.

Defining critical thresholds

The first step is to look at the science and broad, internationally accepted moral and social agreements. Numerous initiatives and frameworks are diligently working to establish thresholds across critical domains. The UN Framework on Human Rights, the Sustainable Development Goals, the Science Based Targets Network as guided by the Earth Commission's work on safe and just boundaries, and the Paris Agreement draw clear lines around safe operating boundaries. Businesses must validate their efforts against these defined thresholds to ensure they are not only doing better but also doing what is needed.

Navigating uncertainty and contextual sensitivity

The Coalition aligns with initiatives like the SDG Impact Standards³, recognizing that thresholds can be either scientifically or societally defined. In certain sensitive contexts or areas where thresholds have not been precisely defined, valuation offers businesses a means to operate within thresholds determined by the affected stakeholders themselves.

Challenge 4: Accessibility

Assessing and navigating the complex relationships among multiple capitals (natural, social, human, and produced) requires a comprehensive understanding of how these capitals interconnect and influence one another and can be a complicated undertaking for businesses, already compiling information for numerous other needs.

To address this challenge, we need to alleviate the burden of complexity. The Capitals Protocol aims to offer practical approaches that are accessible to businesses regardless of their resourcing or valuation experience, while also instilling the confidence needed for effective decision-making. As part of this drive, we intend to reinforce the credibility and applicability of qualitative valuation methods as well as quantitative metrics.

This requires more than technical perfection in valuation methodologies, and also asks for a broader emphasis on the insights that value conveys and highlighting practical opportunities for their application to decision-making.

We also aim to enhance user experience, streamlining the application of frameworks and methodologies. This includes developing user-friendly tools and guidance that support decision-makers in navigating complexities, with tangible links to other frameworks. By providing accessible resources, we can support a wider range of companies to effectively integrate a capitals approach into their decision-making processes at all levels.

Collaboration is key in this endeavour. We will actively engage with diverse stakeholders, including businesses, policymakers, and technical experts to co-create solutions that promote simplicity, reliability, and transparency.

³https://sdgimpact.undp.org/assets/20220318_UNDP_SDG_Impact_Standards_Guidance_for_Enterprise_Standards.pdf



Challenge 5: Confidence and validation

Just as businesses navigate uncertainties and projections in financial forecasts, the capitals approach necessitates embracing a similar mindset. It requires recognizing that no dataset can provide a complete and definitive picture of the complex interdependencies between natural, social, and human capital. Instead, it encourages decision-makers to work with the available information, acknowledging its limitations, seeking validation to identify what information can be trusted, and making informed choices to produce sustainable and just outcomes.

Embracing imperfect information as a shared characteristic between financial forecasts and the capitals approach, enables decision-makers to view them on an equal footing. It promotes a holistic decision-making framework that integrates both financial and capitals-related considerations, ensuring that businesses can navigate the complexities of a rapidly evolving world with confidence.

Challenge 6: Timeframes

The integrated capitals approach requires striking a delicate balance between rigorous information gathering and maintaining an accessible and practical approach for decision-making timeframes.

While financial timeframes often influence decisions, the essence of systems thinking demands a broader perspective and sufficient time to observe trends and interconnections. The Coalition envisions the application of the capitals approach evolving beyond isolated operational decisions and progressing towards strategic risk assessment cycles and visionary planning.

Recognizing the complexity involved, our aim is to ensure that information is gathered with enough rigor to warrant confidence, while also making it practical and relevant within the time constraints of decision-making processes. By embracing a wide-angle lens and adopting long-term thinking, businesses can effectively navigate the intricate web of interdependencies across capitals opening doors for comprehensive risk assessment, and forward-thinking strategic planning.



The Value Commission

The Value Commission is a time-bound three-year, collaborative project, hosted by Capitals Coalition, which brings together expert Commissioners from around the world to drive transparency and accountability across the application and use of value factors by organizations.

A value factor is used by businesses to measure the flow of services and disservices that come from natural, social, human, and produced capital into qualitative or monetary value.

The Commission is co-designing and developing a set of clear and transparent global criteria spanning the creation and use of value factors and consolidating existing efforts into an open-access platform.



The Capitals Protocol and The Value Commission

The Capitals Protocol and The Value Commission are both designed to advance the application of the capitals approach, focusing on systems thinking and valuation approaches. Both connect back to the four-stage process of Frame, Scope, Measure and Value, and Apply within the existing Protocols.

- ◆ The Capitals Protocol strengthens the consideration of systems-thinking and ethical considerations on the capitals approach throughout the assessment process, focusing primarily on the Frame, Scope and Apply stages.
- ◆ The Value Commission focuses specifically on the integrity of the Measure and Value stage of the Protocols by recommending more inclusive, rigorous, and transparent criteria for how valuation estimates are produced.

The two projects will consult on core principles and technical details will align across both. The Capitals Protocol is a shorter-term effort to establish the logical framework and raise accessibility of the integrated capitals approach, while The Value Commission is a longer-term investment in transparency control and representation in the practice of valuation and the decisions made using this information.



Next steps: Developing the Capitals Protocol

The Coalition is committed to tackling challenges highlighted above in the development of the Capitals Protocol as we work to deliver a practical framework that facilitates the consideration of integrated capitals and communicates the intricate interconnections between them to decision-makers.

While businesses remain the primary audience, the Capitals Protocol will be developed to accommodate organizations of all types and sizes, ensuring that they can embrace integrated decision-making regardless of the resources at their disposal.

Our commitment to inclusivity and adaptability will enable a broader range of organizations to actively engage in sustainable and integrated decision-making, fostering positive impacts on both their own performance and the well-being of society as a whole.

This reflective process allows us to refine and strengthen the capitals approach, making it more inclusive, adaptable, and responsive to the evolving dynamics of our interconnected world.



It is a journey

In 2021, while exploring the concept of integration we collaborated with Sustain Value to develop the Principles of Integrated Capitals Assessments⁴. These principles brought attention to the crucial role of systems thinking in integrating capitals, understanding multi-stakeholder impacts, and striking a balance between aggregation and granularity

In 2022, we applied these principles within the established nine-step framework of the Natural, and the Social & Human Capital Protocols. The incorporation of systems thinking became particularly relevant during the Scope and Apply stages of the Protocol. This draft underwent a comprehensive review process, involving members of the Coalition's Advisory Panel and subject-matter experts from our community. The valuable feedback received amounted to over 400 comments.

The review highlighted the need for updates to the nine-step framework to accommodate the introduction of new concepts. It also underscored the importance of integrating capitals not as an additional layer but as an intrinsic part of a unified document.

Building a fit-for-purpose structure is now our priority.

The next stage is to open for public consultation to revisit the assumptions and address the challenges in this paper.

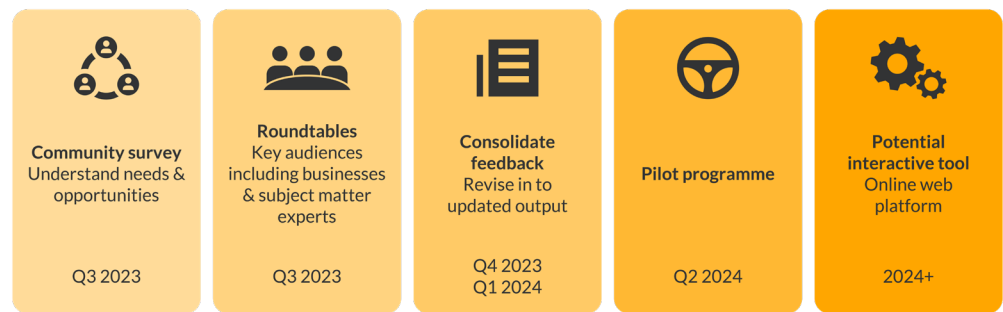


Figure 3 Engagement process for the Capitals Protocol

The path towards a new economic paradigm that embraces the value of natural, social, and human capital alongside financial capital will be complex. The scale of change required is vast, and the path ahead will not always be straightforward. But we are not alone in this journey. The aspirations and dedication of countless individuals, organizations, and stakeholders around the globe fuel our collective momentum.

By aligning our efforts, we can overcome the complexities that lie ahead and forge a path towards a truly transformative sustainable and equitable future.

⁴<https://capitalscoalition.org/publication/principles-of-integrated-capitals-assessments/>



**CAPITALS
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www.capitalscoalition.org

Capitals Coalition is a global collaboration transforming the way decisions are made by including the value provided by nature, people and society. Our ambition is that by 2030 the majority of business, finance and government will include all capitals in their decision-making, and that this will deliver a fairer, more just and more sustainable world.

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