



CAPITALS
COALITION

Towards A New Economic Paradigm 2.0:

Innovating to integrate decision-making across
nature, people, society, and the economy



Foreword



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Dear Reader,

The global economy is undergoing a rapid transformation. Fluctuating global value chains grapple with climate change, biodiversity loss, and persistent social inequities.

The Fourth Industrial Revolution, the most significant economic restructuring in 250 years, is underway. Advances in tech, from Artificial Intelligence and robotics to the Internet of Things and biotechnology, are changing industries and everyday life. Growing awareness from investors and consumers, along with regulatory pressures, resource limitations, extreme weather events, and supply chain vulnerabilities, all impact organizations. Declining social trust in many countries further complicates the picture, leading to political instability and supporting an increase in populist movements around the globe.

We have reached a turning point in which, after centuries of continuous growth, we are learning that we cannot indefinitely borrow natural resources from other geographies and future generations (or, for that matter, current generations). The planet, as well as the tolerance of people who live upon it, has limits. The traditional way of treating economics in financial capital terms alone, is now too risky and fundamentally incomplete.

But there is good news. Capturing our natural, social, human capital alongside produced (including financial) capital is

a growing trend among business leaders, investors and policymakers. These capitals honour what we really care about: nature and people. When these capitals are valued and accounted for at the core of every government and business, not just pushed aside as externalities, they completely change the way decision making happens. This is how we protect the people, places and institutions we cherish from harm.

The Capitals Coalition was created to redefine economic and business performance, and to achieve this through good collaboration. We have championed an evolution of business practice and measures of economic success to move beyond financial value and towards a holistic understanding of value, using systems thinking.

This paper builds upon the vision of a holistic understanding of value by sharing innovation that brings together systems-thinking and valuation of impacts and dependencies as primary tools. It covers what needs to happen to embed this innovation into practice by economic actors, and what you can do to contribute.

Change is uncomfortable and the context we're in operating in is complex. However, the possibilities from trying to understand that complexity are hugely exciting. Together, we have the power to evolve towards a new paradigm — one that values what really matters to us, operates within the limits of our planet and meets the needs of all.

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What is Integrated Decision Making?

Humanity is entangled in a poly-crisis in which several challenges are interdependent.

Climate change, biodiversity loss and persistent social inequities alongside the disruption of the fourth industrial revolution are creating a perfect storm that is challenging us all.

This is leading investors and consumers to expect greater action on environmental and social issues from companies. There are increasing disclosure and regulatory pressures on companies across a range of sustainability related areas including emissions, waste and labor practices. As natural resources become more scarce, and we experience a higher frequency of extreme weather events (and more recently a global pandemic), companies' supply chains are at significant risk of disruption.

Further complicating the picture is the continuing decline in social trust in political institutions, leading to divisions and shocks in political landscapes. This is particularly of concern, as without the social capital and trust we do not have the ability to address the other challenges we face.


With this bleak backdrop, it is easy to feel overwhelmed and disheartened.

But there is hope.

We have the tools and technologies to meet the world's needs within safe and sustainable limits. To apply them we must unleash human creativity and ingenuity – and we do that by redefining success.

Success has long been understood in financial terms. Economics defines the production and consumption of goods and services by only accounting for financial and physical assets. However, this narrow view neglects the critical roles of natural, social, and human resources, leading to an incomplete understanding of economic systems. This limited approach has contributed to many of the global challenges we face today. If a business consumed its capital and called it profit, it would eventually go bankrupt. Yet, on a larger scale, our economic system often depletes one form of capital while treating the financial gains as profits. This is merely shifting assets on a balance sheet, often resulting in a net loss of value for society and the environment.

Companies depend on natural, social and human relationships and resources. Externalised up until now, they are now growing in importance in business and finance decision-making, as they present significant risks to be managed and compelling opportunities of which to take advantage. To integrate the different values of these relationships and resources to companies and societies, a common framing of 'capital' is used. In the same way that financial capital is already applied to understand the stock of assets that can provide returns, we can think about nature, people and society as other, more holistic, forms of value.

An aerial photograph of a coastal town at dusk. The town is built on a hillside overlooking a harbor, with numerous buildings illuminated by warm lights. The sky is a mix of blue and orange, and the water reflects the lights. A large white quote is overlaid on the right side of the image.

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The way that value is accounted for and the conversation about impact and value is changing

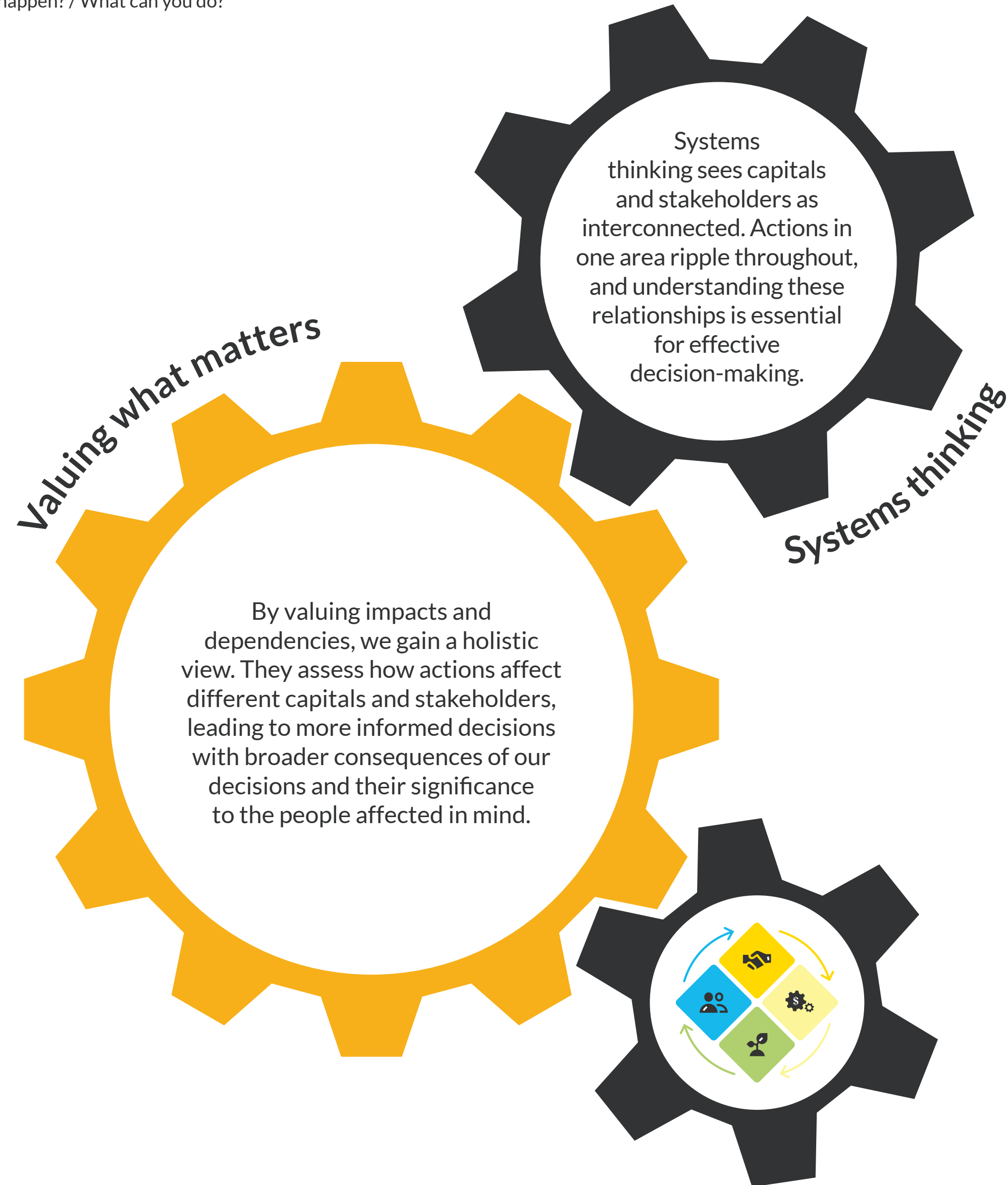
Since 2012, the Capitals Coalition and its predecessors¹ have convened front running organizations that want to broaden the definition of success by including the value of all four capitals. Together, this movement has harmonized approaches, increased understanding and application, and supported one other's work. Indeed, the international frameworks and guidance this community has created have changed the way performance is understood and talked about in companies and among investors and policymakers - notably the Natural Capital Protocol (2016) and the Social & Human Capital Protocol (2019). These frameworks, with their accompanying guidance and supplementary documents, have ignited a transformation in what constitutes good decision-making.

Today, the way that value is accounted for and the conversation about impact and value is changing. Front running organizations are now acting on these assumptions and governments are increasingly acknowledging the importance of integrated policy making whilst starting to set out necessary updates to regulations and incentives. To date, there are multiple approaches emerging that require the inclusion of the value that nature and people provides, e.g., the Kunming-Montreal Global Biodiversity Framework (2022), ILO's fundamental principle and right to a safe and healthy working environment is a at work (2022), the Taskforce for Nature-related Financial Disclosure Framework (2023), the European Sustainability Reporting Standards (2023), the emerging Taskforce on Inequality and Social-related Financial Disclosures (2024).



The realization that simply considering one capital in isolation – be it produced (financial), natural, human, or social – will lead to unintended consequences is becoming more and more understood.

Notwithstanding all this progress, there is still a long way to go before all relevant value is truly taken into account. This is at the core of integrated decision-making, which brings a systems lens together with and understanding of what really matters to us all.



What innovation has to happen?

As is often the case, turbulent times provide the building blocks for innovation.

Whilst there have been steps made in addressing individual issues such as climate, there has been very little work done at a holistic scale.

In the past twelve months the Capitals Coalition's global community has been advancing three important systems-level innovations to make integrated decision-making practical and accessible, see Figure 1.

1. Guidance for thinking in systems

The Capitals Protocol is a systems thinking framework for business. It guides decision-makers on how to identify, measure and value impacts and dependencies on all the capitals. Recognizing and acting on tipping points, trade-offs and unintended consequences of the

interdependencies between the capitals will enable a holistic understanding of value. Successor to the Natural and Social & Human Capital Protocols, it is organized around a triple 'A' structure of Assemble, Assess and Act.

2. Governance for valuation

The Value Commission, composed of 30 Commissioners from around the world, is developing the governance framework to ensure transparency and confidence on the valuation of impacts and dependencies. The Governance Framework for Valuation outlines how methodological decisions should be disclosed and how they affect decision-makers' confidence. It consists of Transparency Requirements, Confidence Criteria and Value Notes. As part of this process, importantly, the perspectives of those affected by valuation, are incorporated.

3. Actions for integrated decisions

To make the guidance for systems thinking and governance for valuation practical for decision-makers to use, clear actions are needed. Requirements for Integrated Decision-Making presents the seven practical steps a company or investor can take to appropriately consider all forms of value in the decisions they make.

Together, the Capitals Protocol, the Governance Framework for Valuation and the Requirements for Integrated Decision-Making deliver the foundations to embed systems thinking and the value of what matters in the decisions that we make, see Figure 2.

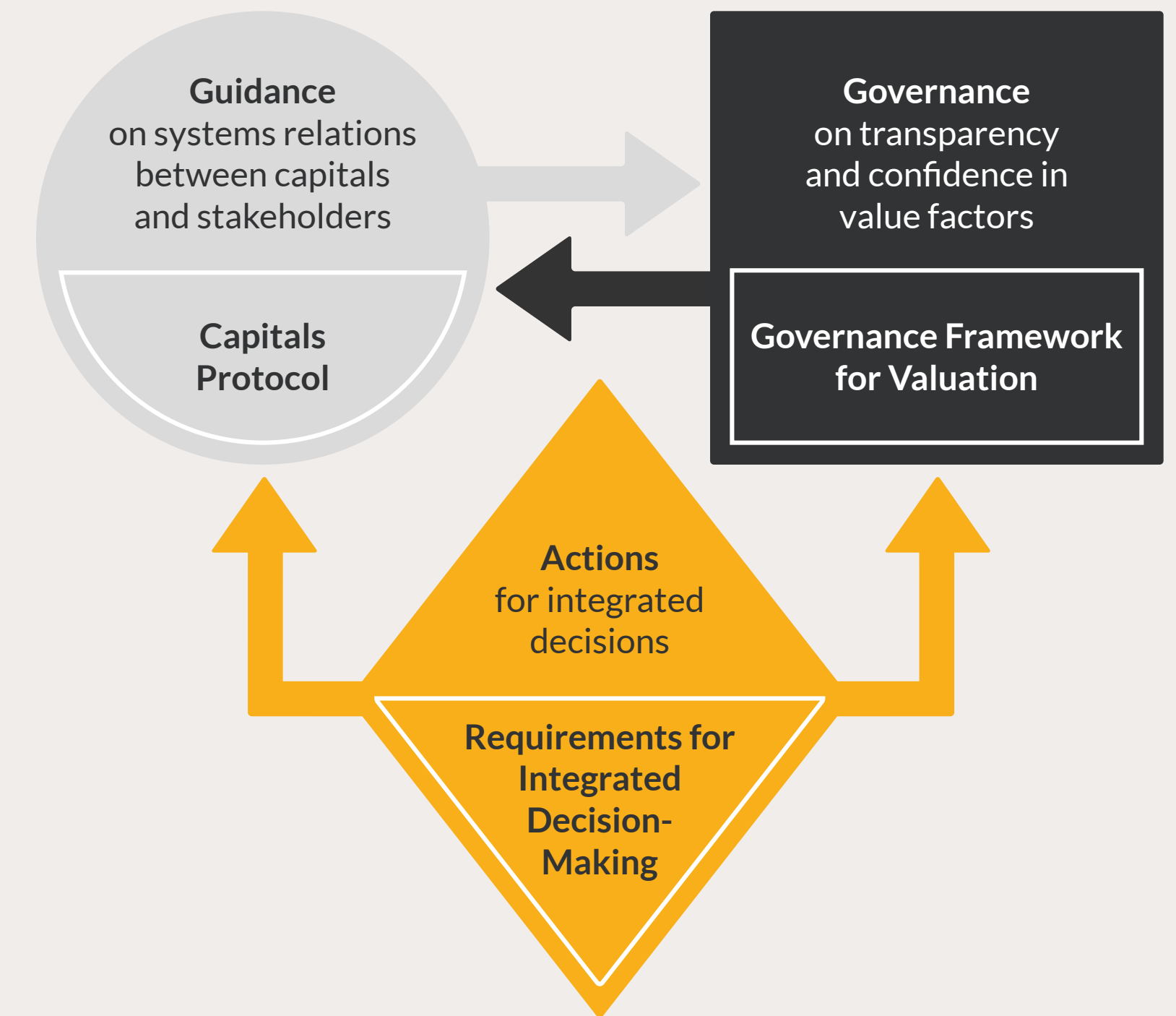


Figure 1: Trio of Integration

In our complex world, systems-thinking provides the framework to understand complexity, rather than ignoring it, while valuing what matters helps assign the relative importance and allows us to make informed decisions.

Combining systems-thinking and valuation is an essential innovation to move towards measures of success that balance nature, people, society and the economy.

Using these frameworks and governance, decision makers will be able to consider the whole system, identifying unintended consequences, tipping points, trade-offs, and long-term risks. Impacts and dependencies on elements previously considered external to how businesses operate, can be integrated in a common language and confidence in valuation will increase.

Essentially, this approach moves us beyond the risky focus on financial capital towards a holistic approach that allows decisions to be beneficial for the long-term. It opens opportunities for further innovation, paving the way for new products, new companies, new markets.

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Figure 2 – How Requirements for Integrated Decision-Making are supported by the Capitals Protocol and Governance Framework for Valuation

What can you do?

The Capitals Protocol, Governance Framework for Valuation and Requirements for Integrated Decision Making require our collective ingenuity and skills.

You can help.

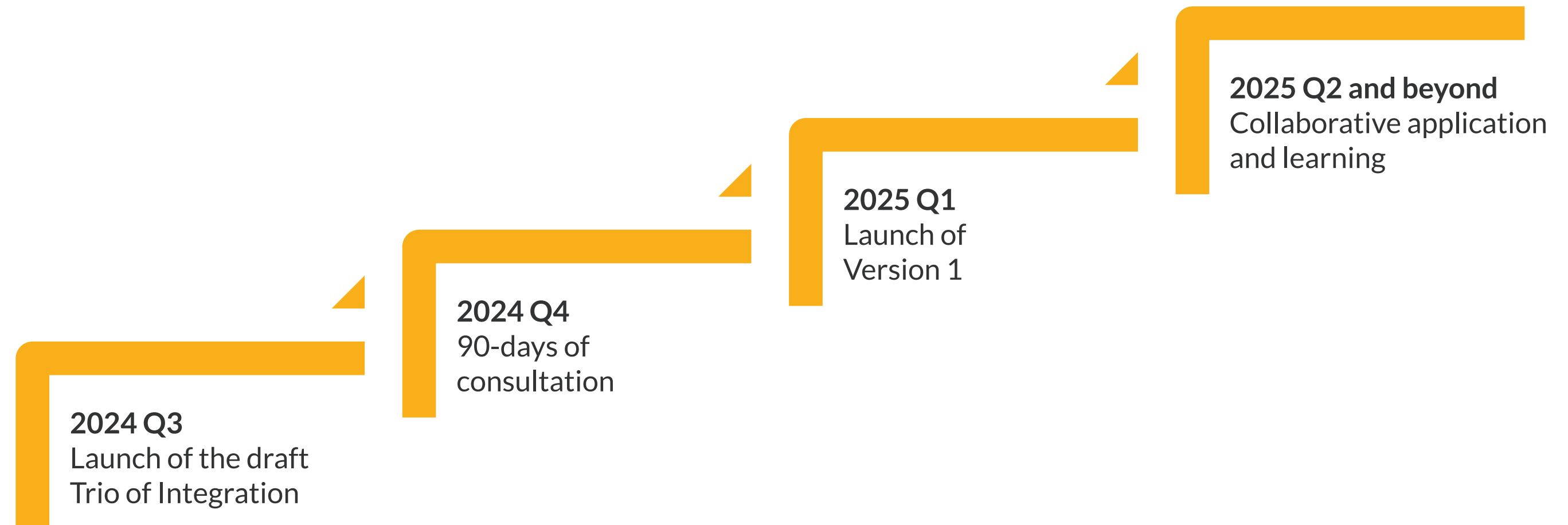
The Capitals Coalition seeks your feedback on these systems-level innovations.

Drafts of each innovation will be published in September 2024 followed by a 90-day public consultation period. The drafts will be updated with the feedback from the consultation and final versions will be published and launched in March 2025.

Following publication, the Capitals Coalition will continue to engage and work closely with early adopters. Building on their experiences, the Capitals Protocol, Governance Framework for Valuation and Requirements for Integrated Decision Making will be kept updated with learnings to reflect progress in this fast-moving landscape.

Understanding our individual and collective contribution is key to tackling the complex challenges humanity faces. You can contribute to these systems-level innovations by:

- Sharing your reflections and suggestions on the draft documents during the consultation periods.
- Exploring if your organization would like to partner in the deep dive pilot-testing in 2025.
- Engaging with the Capitals Coalition to evolve our economy's measures of success.



A final thought

A new economic paradigm is underway.

These systems-level innovations are essential contributions; but alone they are insufficient.

It will also take courageous leadership to build on the momentum happening – to shape and mainstream a redefinition of success that values what matters to us all – before more disruptive changes are forced upon us.

The Capitals Coalition is here to support that leadership because we are confident that by accounting for and valuing all capitals equally, we will move towards a new economic paradigm today that safeguards all our futures tomorrow.

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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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