21st Century System Value Creation: Key insights from mono-capitalism to multi-capitalism

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For more than half a Millennium – since Franciscan friar, Luca Pacioli's publication of the first full account of double-entry bookkeeping in 1494 – business and investment have calculated value by focusing predominantly on a sole capital: financial. With such single-minded thinking, one could call this the era of ***mono-capitalism***.

Precisely 500 years later, in 1994, John Elkington coined the term "*Triple Bottom Line*" (TBL) and expanded attention to the environmental and social impact of business, spurring the emergence of ***sustainability reporting*** which focuses thinking on the non-financial performance of companies.

From the sustainability perspective, we recognise the ***integral*** impact of the inter-relationship between the company and the context in which it operates in a world of complex supply chains and business relationships, profound technological change, and in recognition of societal '*mega-trends*' and ***planetary boundaries***.

We identify six capitals. Each presents risks and opportunities for business. Business and investors – and society at large – benefit by broadening the palette of value generation opportunities, enabling a more ***holistic*** understanding of how organisations can and will create value.

On the risk side, multi-capitalist thinking also opens decision-makers' eyes to often overlooked inter-capital impacts. Integrated ***multi-capitalist*** thinking brings benefits to the business in terms of a better understanding of value creation. It provides a way of thinking that ensures both positive and negative impacts are understood in the context of value creation by the company.

The highest demonstration of this argument is shown at the heart of the ***UN Sustainable Development Goals***, whose preamble underlines this thinking whereby each SDG is '*integral*' to the other and whose Target 12.6 calls explicitly for integration in reporting.

The Six Capitals Model from Forum for the Future.

http://www.forumforthefuture.org/project/five-capitals/overview

Shifting to multi-capitalist thinking requires an emphasis on integration in ***business models*** and thus, strategy. Each capital needs to be measured to be effectively managed. This belies the need to ***measure what matters***. Standards for measurement vary and therein lies some common concerns regarding the ***values-based*** approach. How do investors, business leaders and consumers navigating the world of reporting, assess the real impact on the capitals within the ***context*** at an aggregate sector or regional ***meso level*** as well as at the micro-business level?

Organisations such as Reporting 3.0 are working on this in terms of ecological ceilings and social foundations through the Global Thresholds and Allocations Council (GTAC). The World Benchmarking Alliance (WBA) is also developing targets on a sector by sector basis. These targets will serve as denominator values in ***THRIVE SPS*** assessments alongside actual performance as the numerator.

System value-creation requires ***systems thinking*** approach, characterised as a shift from the concept of '*shareholder value*' to one of '*shared value*'. There is much merit in this approach, but also a necessary caution understands that unless the information has investor confidence, it will never be fully embraced by capital markets. Aiming to make ***integrated reporting*** the global norm for mainstream corporate reporting, requires us to put it in the context of '*systems thinking*' – not just for individual businesses but for global markets. Once again, it is multi-capitalism that fulfils the application of systems thinking to capital markets.

Thus systems thinking shifts the focus and ultimate purpose of business and finance to system value creation – which harmonises financial value creation with the maintenance and enhancement of social and ecological systems in which the market and the economy operate. The shift from mono-capitalism to multi-capitalism heralds the ***maturation*** to an economic doctrine that is fit for managing ***21st-century risks and opportunities***. It is a new approach to ***enterprise risk***, rolling up portfolio risk with systemic risk, thus generating positive value at the enterprise, portfolio, systemic, and ***existential levels***.

The TBL was initially designed to provoke deeper thinking. Now, 25yrs and dozens of reporting schemes later, the need for an ***integrated, context, science and values-based reporting*** is more accurate than ever. Social businesses such as ***B corps*** currently numbering 2788 across 150 industries offers hope in this regard, although the aim is for all enterprises to provide integrated reports and act sustainably. The feeling is that although necessary change is happening, it is not at the ***scope, scale, and speed*** sufficient to effect ***radical innovation*** and seize the $12 trillion market opportunity at hand as forecast by the UN Sustainable Development Goals (SDGs).

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