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The commercial logic to measuring natural capital

**A working paper by the Cambridge Institute for Sustainability
Leadership**

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Executive summary

The launch of the Natural Capital Protocol has led businesses to become more aware of their impacts and dependencies upon the natural environment. However, the metrics that are used to quantify impacts and dependencies across businesses are inconsistent and do not link to commercial drivers.

This working paper sets out the outcomes of a small piece of qualitative research. It explores the use of different metrics for standard business processes by sustainability professionals, and the relationship of these metrics to natural capital measures.

Key findings are:

- There is a lack of consistency across natural capital impacts and dependencies measurements tracked by businesses; this is most marked for dependencies.
- Context is often not considered within natural capital measures.
- The metrics that companies currently use do not link well to commercial drivers; they are more aligned with compliance-based approaches than commercial opportunities.
- There is only limited guidance available to help companies link natural capital metrics to commercial drivers in business.
- Simple metrics are needed to enable companies to demonstrate their progress on securing natural capital, which also need to link to commercial business decisions.

To obtain buy-in across departments, natural capital projects must be able to show a solid business case for action based on financial savings and/or new revenue streams, and also be able to link them to relevant natural capital metrics. With these metrics in place, it will be easier for internal decision-makers and potentially other investors to recognise the value of including natural capital considerations in decision-making and to help finance those that can demonstrate progress in this area.

1. Introduction

Since the launch of the Natural Capital Protocol in 2016, several governments have endorsed the implementation and use of the Protocol; it has also been recognised by the Council of the European Union (October 2016). Since its launch, the Protocol has been downloaded approximately 5,000 times from its website. However, this figure is likely to be an underestimate as the document is available from several different online channels. The Natural Capital Coalition¹ (Coalition) has launched an implementation programme and is engaging with over 100 business participants (run by CISL) to support them with their application of the Protocol. The Protocol is also recognised among civil society and conservation groups; it was presented at the Convention on Biological Diversity's (CBD) Conference of the Parties in Cancun, Mexico (November/December 2016).²

Since the end of 2016, several initiatives have reported their own results in the field of Natural Capital Accounting, for example the EU Business and Biodiversity platform using their own accounting framework. In addition, the Coalition is involved with the development of additional sector guidance and research, including the Finance Sector Supplement, a review of tools to support company implementation of the Protocol (currently being led by the World Business Council for Sustainable Development (WBCSD)) and a piece of work to address the data gaps associated with current information on natural capital (led by the World Conservation Monitoring Centre (WCMC)). Another workstream will also explore the articulation of biodiversity as a fundamental element underpinning natural capital, and how this is represented in the Protocol (led by the Cambridge Conservation Initiative (CCI)).

To help support the implementation and scaling up of the Natural Capital Protocol, CISL has continued its research into the integration of natural capital indicators into mainstream business decision-making. The goal of this scoping work is to help to develop a market-focused hypothesis that identifies and evaluates the value business can generate from its activities around natural capital.

This paper reports the outcomes of some qualitative research focusing on the use of different metrics for standard business processes by sustainability professionals, and the relationship of these metrics to measures relating to natural capital.

¹ The Natural Capital Coalition is the author of the Natural Capital Protocol

² (CBD) Conference of the Parties www.cbd.int/business/projects/natcap/info.shtml

2. Business voice

Businesses across different networks are engaging with the Protocol and asking for more examples of the commercial benefits associated with taking action on natural capital. In parallel, funds supporting private sector investment have also been emerging in the area. In this paper, the commercial drivers that sustainability professionals are tasked with supporting are explored, and demonstrate where natural capital indicators can be integrated to further these aims.

2.1 What commercial metrics should sustainability professionals use?

A series of short surveys were conducted with businesses to explore the commercial activities and business processes supported by sustainability professionals in their day-to-day roles. An initial survey was undertaken with participants of a Natural Capital Leadership Lab³ to understand the relationship between mainstream business decision-making and *the potential* metrics needed when supporting different business processes. Over 30 different measurements were suggested; these were grouped into different themes including: environmental performance (eg footprinting and valuation), monetary savings, spending, new revenues and brand value, employee-based measures (retention/new talent), other supply chain considerations and other savings (eg time).

Most respondents suggested measures relating to different types of monetary savings; brand value and increasing revenue streams also featured highly (Figure 1).

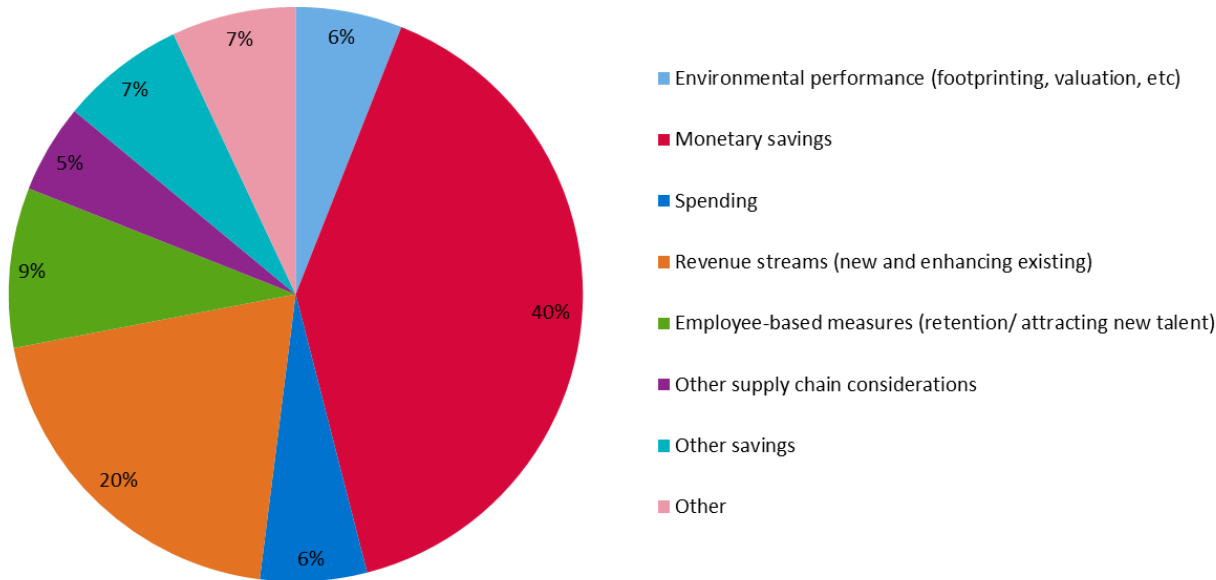


Figure 1: Summary of potential metrics for sustainability professionals to support business processes

³ Short two-day leadership lab on natural capital conducted by CISL in October 2016

These initial findings were used to develop a second questionnaire to inform the relationship between business processes, commercial drivers and the natural environment. The questionnaire was split into three sections on:

- the business processes that are supported by sustainability professionals
- the commercial drivers that are supported by sustainability professionals
- the main impacts and dependencies on the natural environment for each company.

2.2 What business processes and commercial drivers do sustainability professionals support?

Sustainability professionals are involved in a range of business processes as part of their day-to-day role, as set out in Table 1.

Table 1: Business processes that sustainability professionals may support

Business process	Description
Planning (organisation wide)	<ul style="list-style-type: none"> • Inputting into the company’s business planning for the near to medium term
Procurement (organisation wide)	<ul style="list-style-type: none"> • Supporting the development of company procurement processes
Capital investment	<ul style="list-style-type: none"> • Helping to consider capital investments that lead to impacts on the environment • Ensuring that capital investment decision-making takes the environment into account
Brand enhancement	<ul style="list-style-type: none"> • Market leadership and contributing to this through the day job
Mergers and acquisitions	<ul style="list-style-type: none"> • Understanding the implications of mergers and acquisitions • Ensuring that environmental issues are considered as part of merger and acquisition processes
Research and development	<ul style="list-style-type: none"> • Helping to enhance sustainable ways of working • To input into the R&D process and/or to embed the results of R&D into day-to-day practices

The commercial drivers associated with supporting the natural environment also varied, as set out in Table 2.

Table 2: Commercial drivers that sustainability professionals may support

Commercial driver	Description
Security of supply	<ul style="list-style-type: none"> • Ensuring that the company has access to specific commodities important to its business in the future
Saving money	<ul style="list-style-type: none"> • Contributing to cost savings in the business
Market leadership	<ul style="list-style-type: none"> • Ensuring that the business is seen as a market leader
New revenue streams	<ul style="list-style-type: none"> • Developing new revenue streams
Innovation	<ul style="list-style-type: none"> • Innovating/developing new ways of conducting business or modifying business processes
Other	<ul style="list-style-type: none"> • All other potential commercial drivers

The sustainability professionals identified several connections between their work and the commercial drivers for their business. The top connections were **brand enhancement** and **research**

and development. Many also expressed strong engagement with decisions around **risk management, market development** and **strategy**. The commercial drivers that were most frequently reported were **market leadership** followed by **saving money**.

Sustainability professionals mapped commercial drivers to business processes. The results of this mapping showed that **research and development** followed by **procurement** and **brand enhancement** supported commercial drivers most strongly (see Figure 2a). It is worth noting that **saving money** underpinned nearly all business processes, and that the commercial driver most reported on was the money saved from environmental enhancements (Figure 2b).

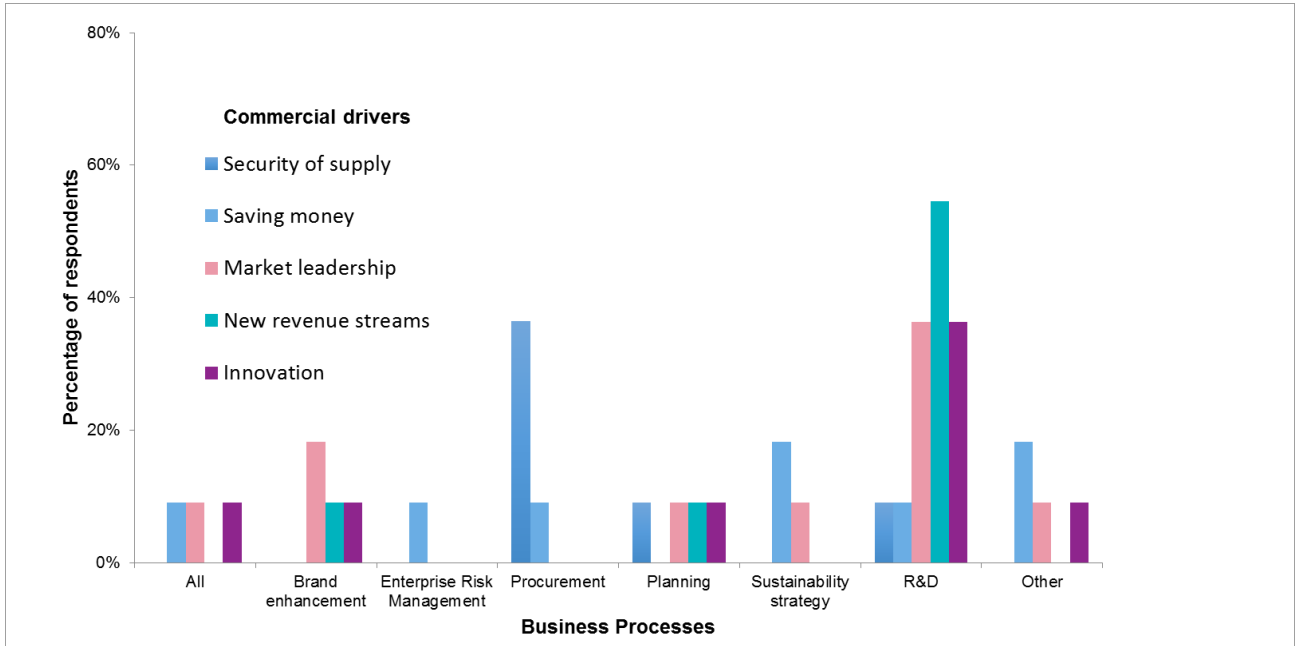


Figure 2a Commercial drivers aligned with different business processes

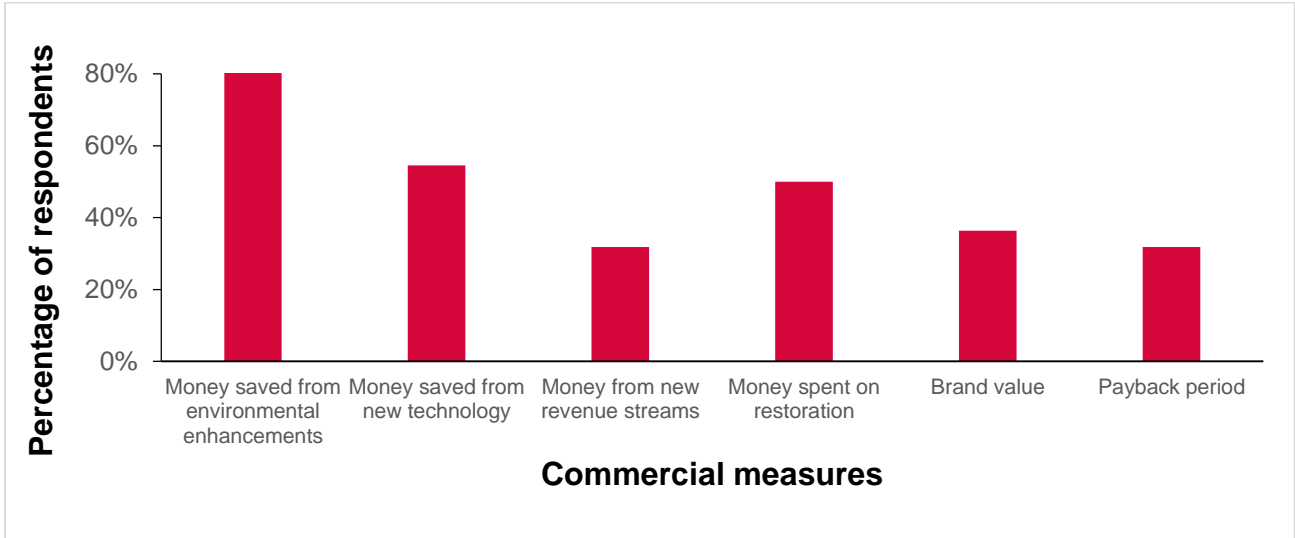


Figure 2b: Commercial measures that sustainability professionals currently report on

2.3 What natural capital metrics should sustainability professionals use?

The top natural capital dependencies identified by respondents included:

- fresh water sources
- mineral resources
- land
- specific commodities
- protection from nature and access to renewables.

Businesses are using metrics to assess these dependencies; however, the metrics that are being used to track these issues vary. Some companies measure the absolute quantities of natural resources used, for example the amount of water used, whereas others track the amounts of a particular commodity or resource purchased by financial flows (see Figure 3). The metrics listed here do not include any references to where sourcing takes place, providing no context as to the level of dependency faced by a company. As seen in Figure 3, there is little consistency across metrics between companies. A lack of context-based metrics suggests that it may be difficult to obtain a full picture of natural capital.

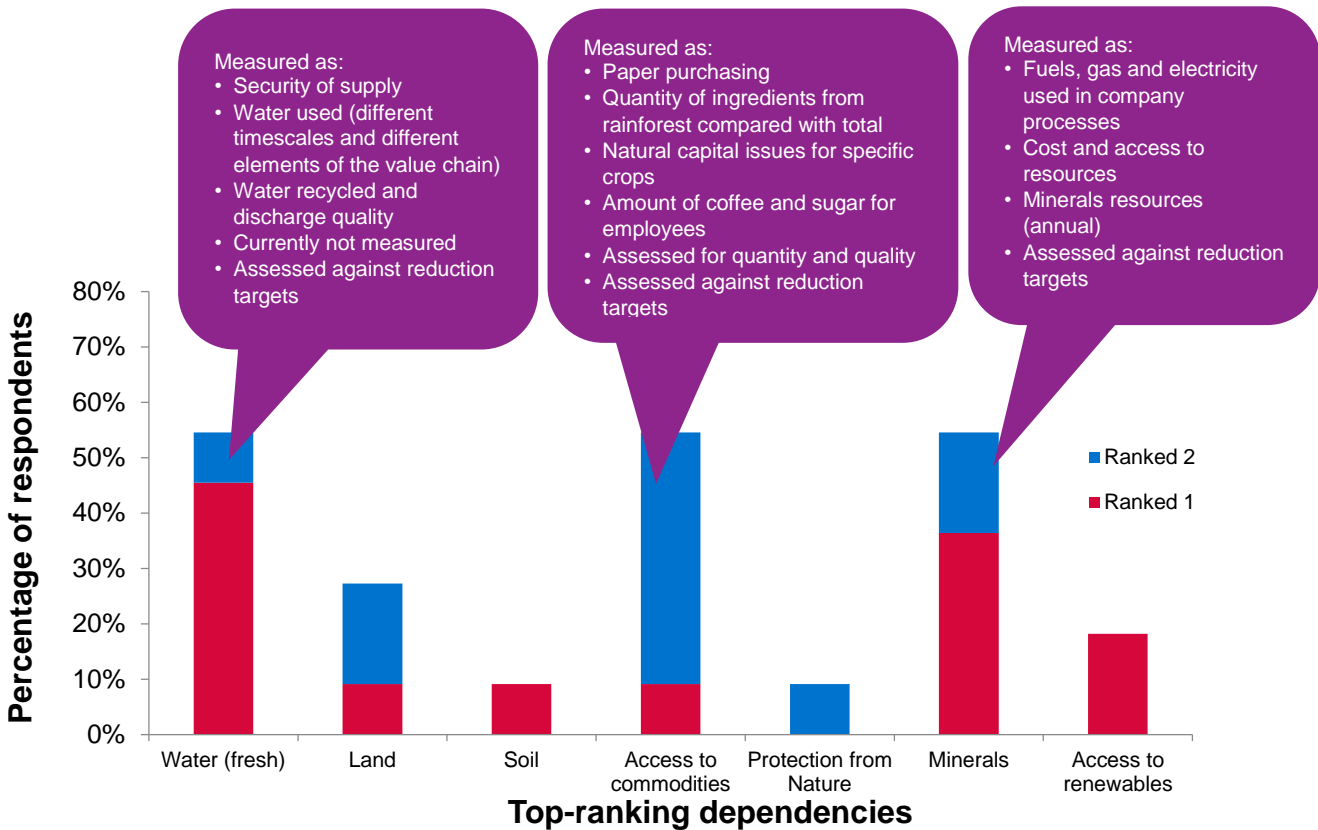


Figure 3: Natural capital dependencies considered of most importance to sustainability professionals and associated metrics

The top five natural capital impacts identified by business practitioners were:

- The generation of waste (all types excluding liquid and from land use)
- Emissions to air
- Habitat restoration
- The management of land holdings
- Liquid waste generation

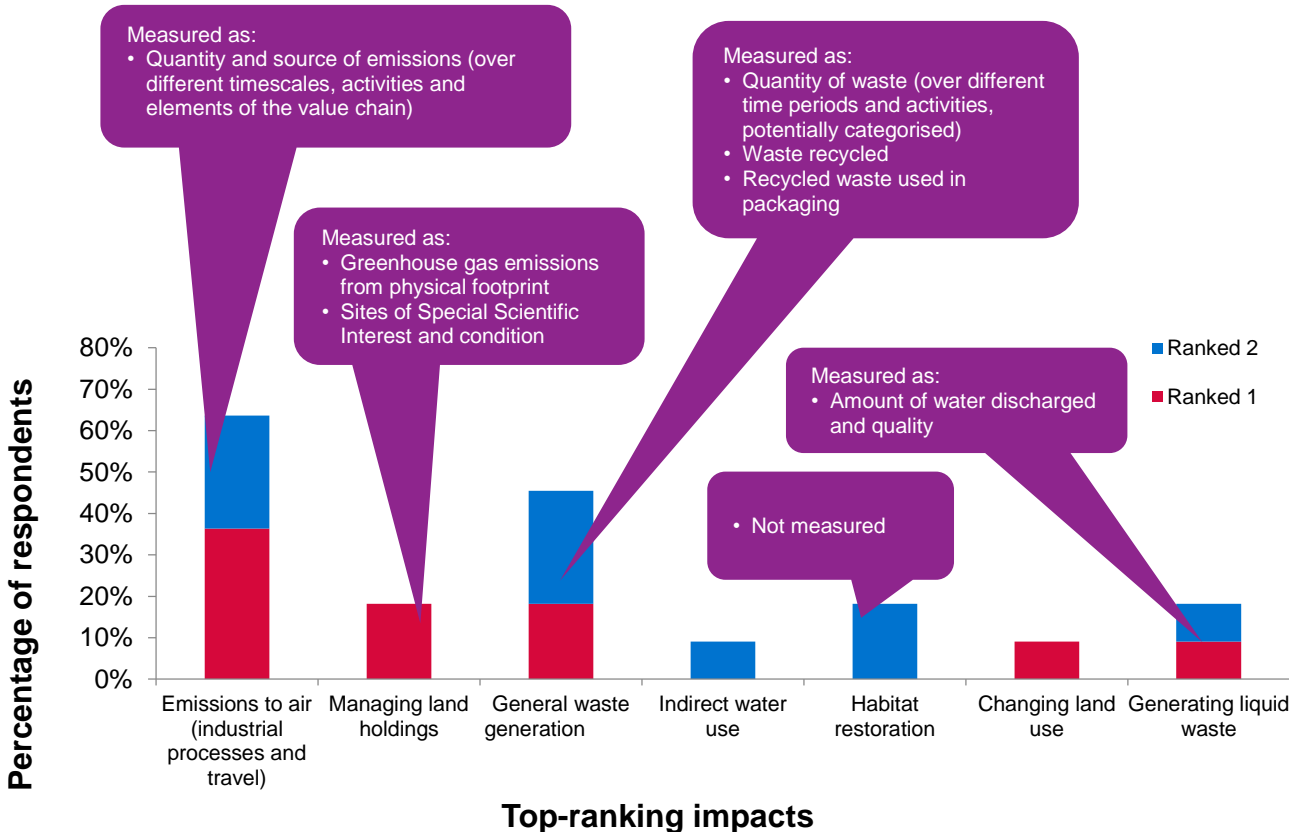


Figure 4: Natural capital impacts considered of most importance to sustainability professionals and currently associated metrics

The metrics used to track impacts are less varied between businesses than those associated with dependencies. They tend to focus on the absolute quantities of outputs from industrial processes, for example water discharge and greenhouse gas emissions; and there is less of a link to financial flows. This may be because companies are currently driven by regulatory compliance rather than the potential commercial opportunities associated with protecting the natural environment (see Figure 4).

3. Concluding remarks

The results of our short surveys show that the linking of environmental metrics to commercial metrics is still an area that has not been fully developed for internal business decision-making or investment purposes. The need for metrics that link to commercial objectives is illustrated well in the conservation finance community; here, the internal rate of expected return that mainstream investors average is 5.0–9.9 per cent across investments,⁴ but investors are often faced with a lack of standardised and consistent metrics.

Sustainability professionals may face similar issues in relation to the lack of standardised natural capital metrics and their misalignment to the commercial drivers that they are supporting. For companies and investors alike, buy-in across departments is needed for natural capital projects to be successful; they must be able to show a solid business case for action based on financial savings and/or new revenue streams and link them to relevant natural capital metrics.

Although businesses do measure natural capital impacts and dependencies to some extent, it is difficult to link current commercial metrics to changes in the status of natural capital.

Sustainability professionals face several challenges in this space, including:

- Saving money, new revenue streams and brand value appear to be the main commercial drivers that sustainability professionals support; however, it is difficult to determine the links between them and natural capital impacts and dependencies.
- Metrics used for dependencies lack consistency across companies.
- Dependency metrics tend to be absolute rather than contextual; it is difficult for companies to understand whether their dependency on a natural resource is being managed in a sustainable way or if there is any monetary value at risk.
- Metrics for impacts are far more replicable and standardised; however, this may be due to a focus upon compliance rather than on commercial opportunities.
- Limited guidance is available to help companies link natural capital metrics to commercial drivers in business.

⁴ Investing in conservation report

www.naturevesttnc.org/pdf/InvestingInConservation_Ex_Summary.pdf