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GENERATING EXTRA VALUE AND BUSINESS RESILIENCE THROUGH THE 'SIX CAPITALS'

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In a world where the interconnected and constantly changing relationships between financial, social and environmental issues are becoming more evident, businesses that remain unaware of their impacts and dependencies on their non-financial relationships attract unnecessary risk. Indeed, these organisations also fail to recognise new opportunities for efficiency, growth, resilience and development.

Resilience is a challenge for many businesses. In this article we look beyond *financial* and *manufacturing* capitals (See Figure 1), and delve into the manner in which the business can leverage the remaining capitals to deliver reliable services to customers and manage their overall resilience.

Business resilience is the ability an organisation has to adapt quickly to any and all forms of business disruption, while maintaining its operations and safeguarding its stakeholders, including its assets and overall reputation. Accordingly, the measure of an organisation's resilience goes beyond mere disaster recovery. Fundamentally, the organisations most likely to survive any form of disruption are those who consistently review their governance processes, including their operational procedures, to ensure these are capable of responding to a change event.

Business continuity strategies must aim to reduce costly downtime, mitigate vulnerabilities, limit damage and restore operations as quickly as possible. The organisation's Corporate Governance Framework® plays a crucial role in strengthening the organisation's resilience by ensuring that business continuity management is prioritized and incorporated into the organisation's risk management frameworks.

Appreciating the capital stocks of value

Environmental stewardship -- being a part of *natural* capital -- is not usually expressed as a form of 'capital' within an organisation's bottom line reporting. This being said, with increasing environmental legislative demands, the organisation's sustainability reporting has become interwoven with its strategic ethos. The increasing occurrence of environmental events such as global warming, ozone depletion, air and water pollution, acid rain and waste management require businesses to be able to adapt, quickly respond and recover from the negative impacts of these change events.

By recognizing the importance of the natural, social and human capital, as well as intellectual capital, organisations have a far greater chance of driving sustainable growth particularly with informed institutional investors and environmental activists increasingly focusing on ethical business and governance practices. These socially and environmentally aware organisations understand the value of linking long term sustainability imperatives to their business values and drivers, making them far more attractive to new generational investors.

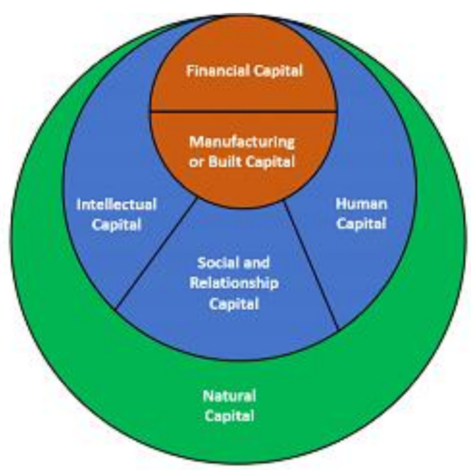


Figure 1

First discussed in the King IV Report on Corporate Governance for South Africa, 2016 ('King IV™'), the six capitals illustrated in Figure 1 form the foundation of the business, and organisations are expected to publicly report on the manner in which these capitals affect, and or are used -- or enhanced -- by the organisation. The organisation's capital 'inputs' must be transformed into 'outputs' which over time deliver value to stakeholders. The process of converting inputs into outputs must be governed in a manner which is ethical, fair and takes into account the reasonable needs and expectations of material stakeholders.

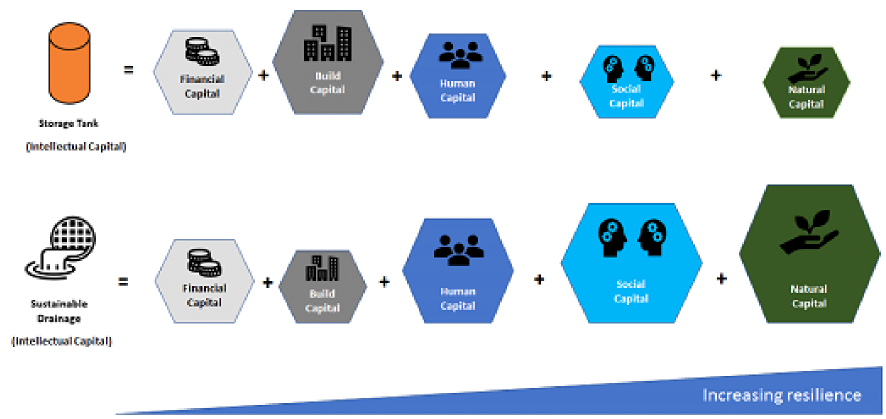
Implementing the capitals

Each type of capital includes assets that provide a flow of benefits to the organisation. By strategically considering and applying the different types of capital, organisations can differentiate themselves from their peers, make better-informed business decisions and ethically and sustainably deliver services and products.

An excellent example of leveraging natural capitals to improve business resilience is found in the OFWAT project (The economic regulator of the water sector in England and Wales) which was conducted by the United Kingdoms' National Audit Office. The OFWAT project achieved audited savings of £1.15 billion in 2014, this mainly being as a result of their recommendations and reports on improved governance practices, thereby assisting their government to improve service delivery. One of OFWAT's four key themes in 2019 was business resilience within the water sector.

To be resilient in times of flooding, a water company might traditionally build a large storage tank or divert excess flows to watercourses to prevent flooding. However, by *also* investing in sustainable drainage measures within urban centres, such as planting grassy verges or creating wetlands, it was possible to store, soak up and slow down the flow of rainfall naturally, thereby reducing pressure on existing drainage systems and the environment.

Making use of natural capital in this way (i.e. the run-off water), OFWAT was able to derive far greater benefits, over and above preventing sewer flooding. The project was also able to create new habitats for wildlife, as well as enhance social and human capital benefits such as improved local air and water quality and enhanced local wellbeing through the creation of green spaces.



Adapted from: www.aecom.com Resilience 6 Capitals Approach

Figure 2

Figure 2 illustrates the positive (sustainable) impact the OFWAT approach had on business resilience.

By leveraging different types of capital to inform investment decisions, organisations can generate additional value and increase their business resilience without necessarily utilising additional financial capital.

To conclude, by holistically considering all the capital inputs in business decision making and investment planning, organisations are more likely to assure investors, regulators and assurance providers that their performance -- be that in terms of service or financial measures -- is resilient and sustainable, and thereby encourage greater investment. **ENDS**

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