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# Valuing natural capital helps companies make better business decisions

The world consumes 50% more natural capital resources per year than the Earth can replenish, creating huge risks in business supply chains

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Gemma Cranston

[Guardian Professional](#), Wednesday 15 October 2014 18.18 BST[Jump to comments \(0\)](#)

Businesses are reliant on natural capital resources such as soil and water. Photograph: Hotli Simanjuntak/EPA

In an increasingly resource-constrained world, business needs to account for its natural capital dependencies and impacts in the same way it does for financial capital. The key question is: how?

A new game Evaluate, produced by the Cambridge-



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hosted [Natural Capital Leaders Platform](#), introduces natural capital valuation and shows how it can inform commercial decisions that mitigate risk, reduce negative environmental impacts, and create value.

According to the recently published [Living Planet Report](#), we are already consuming 50% more natural capital resources per year than the Earth can replenish, and the rate of depletion is accelerating. Translating this into financial terms - we are no longer living off the dividends of natural capital, but off the capital itself. This creates significant risks in supply chains.

Businesses are heavily dependent on natural capital. Food and agri-businesses, for example, rely on healthy soils, water availability and pollinators. By negatively affecting just one of these elements, the risk of both productivity losses and price volatility rises.

It is in the interest of businesses to begin factoring their impacts and dependencies upon natural capital into their decision-making processes; they can start off by properly valuing them. The problem is that current economic systems do not value things like soil quality and water properly.

There are many ways of placing a value on impacts and improvements, but these are often criticised for not being consistent or comparable, and for producing numbers that are difficult for business to relate to.

A Trucost [report](#) highlighted that the world's 100 biggest risks are costing the economy around \$4.7tn per year. This is a huge number which, although illustrating the severity of the problem, is so large it makes it intangible for business to know how to deal with it, let alone understand where the figure came from.

It is time to demystify the intricacies of valuation. Business can value its impacts on the environment by considering the effect it has on human wellbeing. For example, operational impacts on water quality have major implications for drinking water. Those who do not have access to clean drinking water place enormous value on water as a critical resource; such worth can be evaluated. It is through these relationships that business can assess the scale and impact of their decisions.

Valuation has the benefit of using a single, common metric, which enables businesses to compare their impacts upon different elements such as the availability of water and the fertility of soil. All of these underpin, albeit often indirectly, their own productivity and revenue streams.

The [Cambridge Institute for Sustainability Leadership](#) has just released an online game that deciphers the complexity of valuation. [Evaluate: the Game](#) challenges



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players to manage their business risks by making strategic decisions around a limited budget and bank the value created by reducing environmental impact.

Those who play the game can not only increase their understanding of how valuation can help make better business decisions but it can also give them confidence to explore the business trade-offs that can be informed by valuation.

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