Including Sustainability in the Risk Framework

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Sustainability has become increasingly important to organisations across the world in recent years, as both a business objective and a necessary constraint. But what does it mean? And how should it be included in the risk process?

The word sustainability has changed its meaning significantly over time in the business world. At first it only referred to impact on the environment. Then in 1995 John Elkington from British consultancy *SustainAbility* introduced the idea of the "triple bottom line" of "Profit/People/Planet", suggesting that an organisation needs to be sustainable financially, socially and environmentally.

More recently, work on sustainability in 2007 by the *Forum for the Future* expanded this further, identifying five areas that contribute to the production of value by an organisation, and which need to be managed sustainably. They call these The Five Capitals of Sustainability.* They are:

1. **Natural Capital**. This represents the environmental and ecological resources that are needed to produce goods or deliver services. They include energy, water, fuels, raw materials and other natural resources, as well as the ecosystems from which these are taken.

2. **Human Capital**. This is not just about individuals as resources, but it also covers their energy, health and wellbeing, knowledge and skills, motivations and emotions.

3. **Social Capital**. This describes the way that people interact in the various teams within organisations. It is also about how people relate through other networks, partnerships and less formal groupings.

4. **Manufactured Capital**. This covers material goods and infrastructure used by an organisation to generate its products and services, but which are not part of the delivered output. It includes buildings, machines, tools, communications networks, IT systems etc.

5. **Financial Capital**. These are assets that exist in currency form, including cash, shares, bonds and loans.

Each of these Five Capitals forms part of the value chain which an organisation uses to generate its goods and services. The challenge is to use these different types of capital in a way that is wise, efficient, effective and sustainable.

The Five Capitals of Sustainability can also help us to identify and assess risks, because they describe elements that are required in order to create value. Too often we only consider risks that affect time and cost, with the possible addition of performance or quality impacts in some cases. But if risk is "*uncertainty that matters*", then there are many other things that matter in addition to schedule and budget, especially when we are considering risk outside the project or programme context.

In order to take a sufficiently wide view of "*uncertainty that matters*", we should ensure that our risk approach considers risks to each of the Five Capitals, because any uncertainty that affects one of them would have a direct impact on our ability to create value through our products and services. This is particularly important at strategic or corporate level, if we wish to ensure sustainable value creation for the future success of our organisation or business.

* See http://www.forumforthefuture.org/project/five-capitals/overview for more details on the Five Capitals

To provide feedback on this Briefing Note, or for more details on how to develop effective risk management, contact the Risk Doctor (info@risk-doctor.com), or visit the Risk Doctor website (www.risk-doctor.com).

About the Author

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Dr David Hillson CMgr FRSA FIRM FCMI HonFAPM PMI-Fellow is The Risk Doctor (www.risk-doctor.com). As an international risk consultant, David is recognised as a leading thinker and expert practitioner in risk management. He consults, writes and speaks widely on the topic and he has made several innovative contributions to the field. David's motto is "Understand profoundly so you can explain simply", ensuring that his work represents both sound thinking and practical application.

David Hillson has over 25 years' experience in risk consulting and he has worked in more than 40 countries, providing support to clients in every major industry sector, including construction, mining, telecommunications, pharmaceutical, financial services, transport, fast-moving consumer goods, energy, IT, defence and government. David's input includes strategic direction to organisations facing major risk challenges, as well as tactical advice on achieving value and competitive advantage from effectively managing risk.

David's contributions to the risk discipline over many years have been recognised by a range of awards, including "Risk Personality of the Year" in 2010-11. He received both the PMI Fellow award and the PMI Distinguished Contribution Award from the Project Management Institute (PMI®) for his work in developing risk management. He is also an Honorary Fellow of the UK Association for Project Management (APM), where he has actively led risk developments for nearly 20 years. David Hillson is an active Fellow of the Institute of Risk Management (IRM), and he was elected a Fellow of the Royal Society of Arts (RSA) to contribute to its Risk Commission. He is also a Chartered Fellow of the Chartered Management Institute (CMI) and a Member of the Institute of Directors (IOD).

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