

Context-Based Monetization Curves

A Sustainability Model for Assigning Monetary
Values to Organizational Impacts on Vital Capitals

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Monetization Must Be Context-Based!

- * Monetizing organizational impacts on vital capitals, such as natural capital, can be useful, but only if:
 - Empirical limits in the supply of and demand for the carrying capacities of vital capitals are taken properly into account, and
 - Pricing for impacts on capitals correspond to such limits, including infinitely prohibitive pricing for impacts that cross ecological thresholds
- * Context-Based Sustainability (CBS) offers a proven methodology for making such determinations



Impacts Versus Capitals

- * It is important to be clear about what the referents are in monetization schemes
- * There is a difference between **capitals** and the **impacts** organizations can have upon them
 - The logic, therefore, for assigning monetary values to capitals versus impacts on capitals is different
- * Our focus here is on the latter: Assessing the monetized value (externalized costs) of **impacts on capitals**, not on valuing the capitals themselves

What exactly is Context-Based Sustainability?

Context-based sustainability (CBS)

Context-Based Sustainability, or CBS, is a compelling new approach to corporate sustainability management (CSM) that takes social, economic and environmental thresholds in the world explicitly into account instead of more or less ignoring them. As such, CBS rivals most of what passes for mainstream practice in CSM, including Corporate Social Responsibility, Eco-Efficiency, Citizenship and the Shared Value doctrine.

The name given to CBS derives from the fact that the use of it involves very deliberate efforts to take contextually relevant circumstances into account when attempting to measure, manage or report the sustainability performance of an organization. These circumstances consist mainly of:

- Whom an organization's stakeholders are
- Impacts on **Vital Capitals** an organization is either (a) already having, or (b) ought to be having, not having or managing in ways that can affect stakeholder well-being
- The type, status and sufficiency of such capitals
- The identity and number of other parties who may be relying on the same capitals for their own well-being
- The identity and number of other parties who may be co-responsible in some way for helping to produce and/or maintain the same capitals
- Already-defined sustainability standards of performance that take the above factors explicitly into account

Knowledge of the six factors above makes it possible to define meaningful norms, standards or thresholds for what an organization's impacts on vital capitals would have to be in order to be sustainable, or in other words to set sustainability standards of performance. Context-based metrics can then be used to measure performance against them, as can goals, strategies and interventions be devised for improving or maintaining performance in non-arbitrary ways. More than anything else, CBS finally makes it possible to answer the question every organization should be asking itself: *Are we sustainable, and if not how big is the gap?*

Context-Based Metrics

A General Specification for Context-Based Metrics

$$S = \frac{A}{N}$$

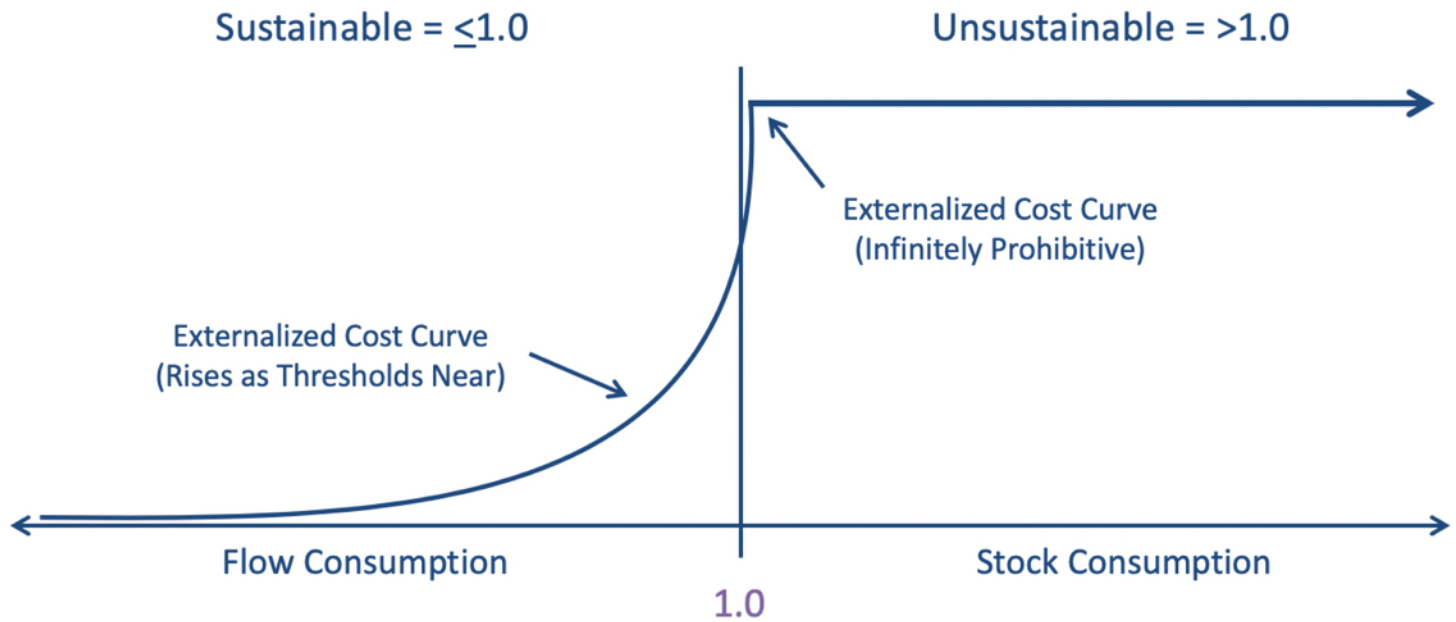
(*Actual* impacts on a vital capital*)

(*Normative* impacts on a vital capital*)

For impacts on natural capital, all scores of ≤ 1.0 are sustainable; > 1.0 unsustainable
For impacts on other capitals, all scores of ≥ 1.0 are sustainable; < 1.0 unsustainable



*Note: The impacts of interest are, more specifically, on the carrying capacities of capitals
(see McElroy, 2013: <https://www.greenbiz.com/blog/2013/06/18/carrying-capacities-capitals>)

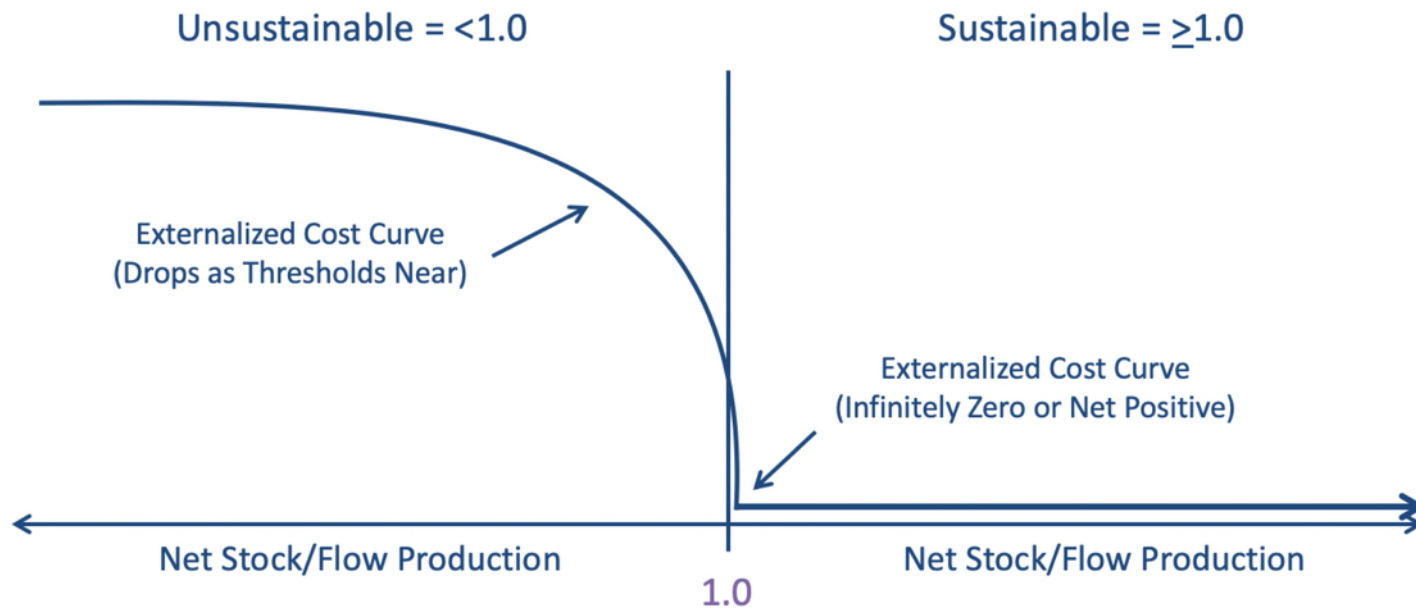


Sustainability Performance Scale
 (1.0 = Organization-Specific Allocation of Natural Capital)

Figure 1: Context-Based Monetization for *Ecological* Impacts

(See slide 7 for more explanation)





Sustainability Performance Scale
(1.0 = Organization-Specific Allocation of Anthropogenic Capital Maintenance)

Figure 2: Context-Based Monetization for Social and Economic Impacts

(See slide 7 for more explanation)



Understanding the Curves

* Externalized Ecological Costs

As the use or consumption of natural capital approaches the limits of its availability (i.e., of its carrying capacity), the costs of such impacts must go up in response. When the limits are crossed, the costs are infinitely prohibitive since the capital is lost forever.* Zero impacts are cost-free.

* Externalized Social/Economic Costs

Because the capitals associated with social and economic impacts are anthropogenic, the logic of monetization reverses. It is the failure to have impact upon them (i.e., to produce and maintain their carrying capacities at required levels) that is costly. When maintained at required levels, costs are zero. Surplus impacts, too, may add value, but not always in ways that can offset negative value (costs) incurred elsewhere.*

*Note: The monetized values of impacts on natural and anthropogenic capitals cannot be added to or subtracted from one another, since the capitals themselves are non-substitutable. See McElroy, 2017: <https://bit.ly/zwSCboc>



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