

Economics of Mutuality – Instructor Summary

Introduction

Metrics for measuring sustainability in business and industry remain underdeveloped. There are no widely accepted standards for these metrics but some models are available. This collection of open educational resources adopts the Economics of Mutuality (EOM) framework for measuring three forms of non-financial capital – human, social, and natural environment – a model that broadly encompasses all 17 [United Nations Sustainable Development Goals](#) (SDGs).¹

Adopting EOM for use in business policy courses has several advantages. First, the EOM model was developed by a multinational corporation (MARS, Inc.) to help guide its own sustainability strategy and business decisions. While research support was provided by the Said School of Business at Oxford University, the focus of EOM is imminently practical and field-focused, giving it some credibility in the eyes of undergraduate business students, i.e., EOM is not just another academic or ethical theory.

Second, EOM includes a small list of metrics for each form of non-financial capital (human, social, and natural) that are endemic to each form of capital. EOM does not try to monetize each form of capital but instead links these non-financial measures to financial performance. The specificity and simplicity of the measures provide students with concrete concepts to work with in developing their understanding of sustainability as captured in the SDGs.

Finally, EOM development is succinctly captured in a short book by Bruno Roche & Jay Jakub, *Completing Capitalism: Heal Business to Heal the World* (2017), that instructors can use as a reference. The book is available in many libraries ([link to the Campbell Library of Rowan University copy here](#)). Additional EOM information is available in this [Catalyst Mars video](#) and at www.eom.org. This summary is based on these resources.

Economics of Mutuality Origins and Principles

The Economics of Mutuality (EOM) model came from work at Mars, Inc. (a privately held firm) in the first decade of the twenty-first century as it wrestled with two questions related to corporate performance: What is the “right” level of profit that maximizes shareholder value while supporting continuing profitable development of the company? And, What moral principles guide how much a company can take from the macro-environment to operate and upon which it depends for long-term sustainability?

¹ Bruno Roche & Jay Jakub (2017). [Completing Capitalism: heal business to heal the world](#). Barrett-Koehler.

The EOM model emerged from the research prompted by these questions. It is built on the assumption that most business sustainability problems can be addressed through innovative approaches to business that seriously consider and prioritize social and natural environment performance while delivering strong financial performance. It also extends Porter and Kramer's "shared value" concept² by identifying specific metrics for each form of non-financial capital.

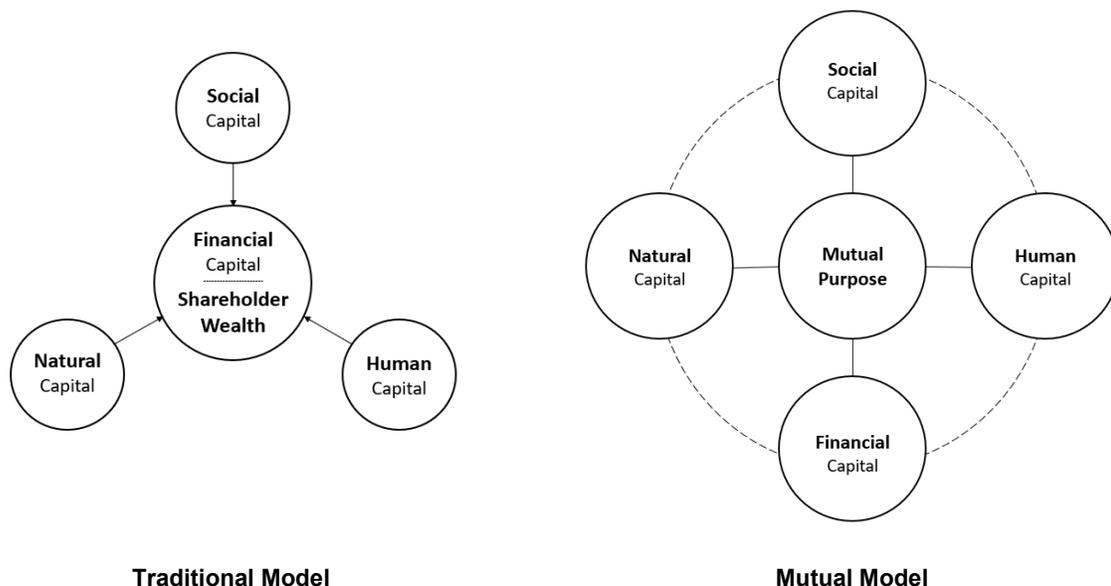
EOM and Non-financial Capital

In addition to financial capital, the EOM model includes three forms of non-financial capital: human, social, and natural. These four forms of capital broadly include all stakeholders within a company's internal and external environment. Attending to all four forms of capital benefits all stakeholders and helps ensure business viability and profitability over the long term. EOM research has found that business models addressing shareholder interests (financial capital) along with the interests of employees, society, and the natural environment, have more stable supply chains and sustainable business operations.

Importantly in EOM, financial capital cannot be overly concentrated in one portion of the value chain. All value chain participants must realize a reasonable profit to ensure sustainability.

Relationships Between the Four Forms of Capital³

In the traditional model, forms of non-financial capital serve financial capital. Their purpose is to build financial capital in order to increase shareholder wealth. In the mutual model, the four forms of capital are held in balance in service to a larger purpose for the organization, a mutual purpose.



² Michael E. Porter & Mark R. Kramer (2011). [Creating shared value](#). *Harvard Business Review* 89(1), 62-77.

³ Traditional and mutual comparisons based on: Economics of Mutuality (2021). *Four Management Shifts*. <https://eom.solutions/four-management-shifts>

A traditional profit and loss analysis focuses on financial capital. In a mutual approach, the P&L includes non-financial capital analysis as well. Notably, the non-financial capital key performance indicators (KPIs) are not monetized but measured using metrics consistent with their inherent worth (see the KPIs below).⁴

Traditional Profit & Loss Analysis

- Revenue
- Operating Costs
- Financial Capital
Creation/Depreciation

Mutual Profit & Loss Analysis

- Revenue
- Operating Costs
- Financial Capital
Creation/Depreciation
- Human Capital
Creation/Depreciation
- Social Capital
Creation/Depreciation
- Natural Capital
Creation/Depreciation

Human Capital

What it is. The skills, abilities, knowledge, information, and capabilities each person possesses.

Why it is important. Companies with higher levels of human capital and employee well-being tend to attract and retain more talented people (people with high levels of human capital), and happy talented employees are more likely to perform at higher levels (utilize their human capital to benefit the organization) than those who are unhappy, less motivated, and less talented.

Key performance indicators (KPIs).

- Prospect of upward mobility: the opportunity for advancement and new opportunities).
- Perceived status in the organization: the feeling that one does important work and can make a difference in the organization.
- Quality of relationship with immediate supervisor: positive relationships are more likely to result in greater employee well-being and efficient/effective use of human capital.

⁴ Identifying non-financial metrics (as opposed to financial metrics) associated with the inherent worth of each form of non-financial capital indicates EOM's preference for normative stakeholder theory. By contrast, Porter and Kramer's (2011) shared value is explicitly instrumental. See Roche & Jakub (2017) for a detailed discussion of the importance, development, and practicality of non-financial metrics in measuring non-financial capital.

Social Capital

What it is. The number, breadth, and strength of relationships among people in a community (or an organization). The more relationships a person has in their community, the more potential access they have to the human capital possessed by the people in their network and potentially the networks of others. People with more and broader relationships in their communities tend to have higher levels of social capital.

Why it is important. Social capital is a key driver of business and community prosperity. People with high levels of social capital can help organizations run more efficiently and contribute to their communities' flourishing.

Key performance indicators (KPIs).

- Trust: positive expectation one person has toward another in situations involving risk
 - Social cohesion: the degree of attraction people have toward their organization or community and their desire to maintain membership.
 - Capacity for collective action: community members' ability, willingness, and history to work together to achieve a common purpose or goal.
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Natural Capital

What it is. The value of raw materials used in manufacturing goods or the production of services.

Why it is important. Effective management of natural capital can be advantageous to a business (i.e., reduce costs and stabilize supply chains) and promote individual and community well-being. Reducing natural capital inputs increases efficiencies inside the organization (reduces costs) and helps ensure resource availability for future generations.

Key performance indicators (KPIs).

Amount of raw materials used in five categories:

- Biotic materials (plants and animals).
- Abiotic materials (minerals and other non-living components in the natural environment).
- Air.
- Water.
- Soil erosion (not a material, but a result of raw material use).

