# Value Creation: A Dialogue on Models and Methods

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# 1.
# Excecutive summary

Value creation is the primary aim of any organization and is inherent to sustainable development. In 2020, the Value Creation Roundtable was jointly organized by ABIS - The Academy of Business in Society and Antwerp Management School as an exchange of knowledge, competences or ideas on sustainable transformation and positive impact amongst important sustainability actors. The event featured leading academics as well as companies and organizations whose commitment to sustainability is translating into changes to their value creation models. Two sessions were organized: one on Value Creation Concepts, where renowned thought leaders were invited to share their reflections on the models they have developed. This was followed by the second session on Value Creation Methodologies. The latter Roundtable consisted of experienced business leaders from EY, PWC, Blended Value Group, the Impact Institute and ABIS.

# 2. Outline and speakers of the two sessions

## Session I - Value Creation Concepts

**Speakers:**

- → Steven de Haes, Dean at Antwerp Management School and Ivo Matser, CEO of ABIS, who jointly introduced the session.
- → Robert Phillips, George R. Gardiner Professor in Business Ethics and Professor of Strategic Management at York University's Schulich School of Business, discussing stakeholder value.
- → Professor Jed Emerson's, Founder of Blended Value Group and an independent strategic advisor to impact investors,
  elaborated on blended value.
- → Professor Stuart Hart, who's the Steven Grossman Distinguished Fellow in Sustainable Innovation at the University of Vermont Grossman School of Business emphasized on sustainable value.
- → Mark Kramer, co-founder and Managing Director of FSG and a Faculty Member at Harvard Business School,
  shared his vision on shared value.
- → And Professor Wayne Visser, Holder of the Chair in Sustainable Transformation at Antwerp Management School, emphasized on integrated value.
- → Jan Beyne, Researcher, Antwerp Management School (chat facilitator).

## Session II - Value Creation

**Speakers:**

- → William Evison, Director, Director at PWC and an economist focused on integrating natural and social capital.
- → Maarten Dubois, EY's Director for Climate and Sustainability and an environmental specialist in oil and gas.
- → Adrian de Groot Ruiz, Executive Director and co-founder of the Impact Institute;
- → co-founder of True Price.
- → Ivo Matser, CEO of ABIS (moderator)
- → Karolina Sobczak, Knowledge Manager, ABIS (chat moderator)

# 3. Introduction: history of value

Prof. Visser gave a brief introduction to the history of value creation by business, starting with charity and philanthropy, where we have plenty of instances throughout history. Figures such as Carnegie or Rockefeller institutionalized this concept and started to share most of their wealth towards the end of their life. Interestingly, we didn't question so much how those business leaders made their money, so long as they were generous with giving it away. In the case of John D. Rockefeller, he was the richest man in the world at the time and towards the end of his life gave away more than 95% of his wealth, but when you analyze his career, he engaged in many ethically questionable business activities.

In the early 1900s we start to see the first instances of what we now would call corporate social responsibility. Companies typically set up agreements with charities and the intellectual foundations of this movement started to emerge. In the 1960s and 70s, there was still a focus on shareholder value with Milton Friedman, but the issues of ethics began to appear on the agenda. During the first Round Table, in a poll, only 11% of the 165 participants thought that we have moved beyond the shareholder value model for businesses.

# 4. Defining different types of value

In order to define different types of value, we interacted with academic experts on the various models that have been developed and used in businesses. It is clear that understanding in a critical and thoughtful way these existing theories and concepts will be important for the further development and adoption of sustainable valuation approaches.

## 4.1 Stakeholder value: beyond shareholder value and trade-offs

Since 1978, the Business Roundtable, an association of chief executive officers of America's leading companies, has periodically issued Principles of Corporate Governance. Each version of the document issued since 1997 has endorsed principles of shareholder primacy – that corporations exist principally to serve shareholders. However, on August 19, 2019, 181 CEOs signed a new announcement and committed to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.
For Robert Philips, one of the more interesting points about the new announcement of the Business Roundtable is that it rings the death knell of shareholder wealth maximization as a legal requirement. *"The idea that you have a legal obligation to maximize shareholder wealth died", Philips says. Elsewhere, he writes: "A strong stakeholder manager will look for ways to align the values among stakeholders and this often involves having creative, third way solutions rather than skipping straight to trade-off."* (Phillips, 1996)

## 4.2 Blended value: generate a blend of financial, social, and environmental value

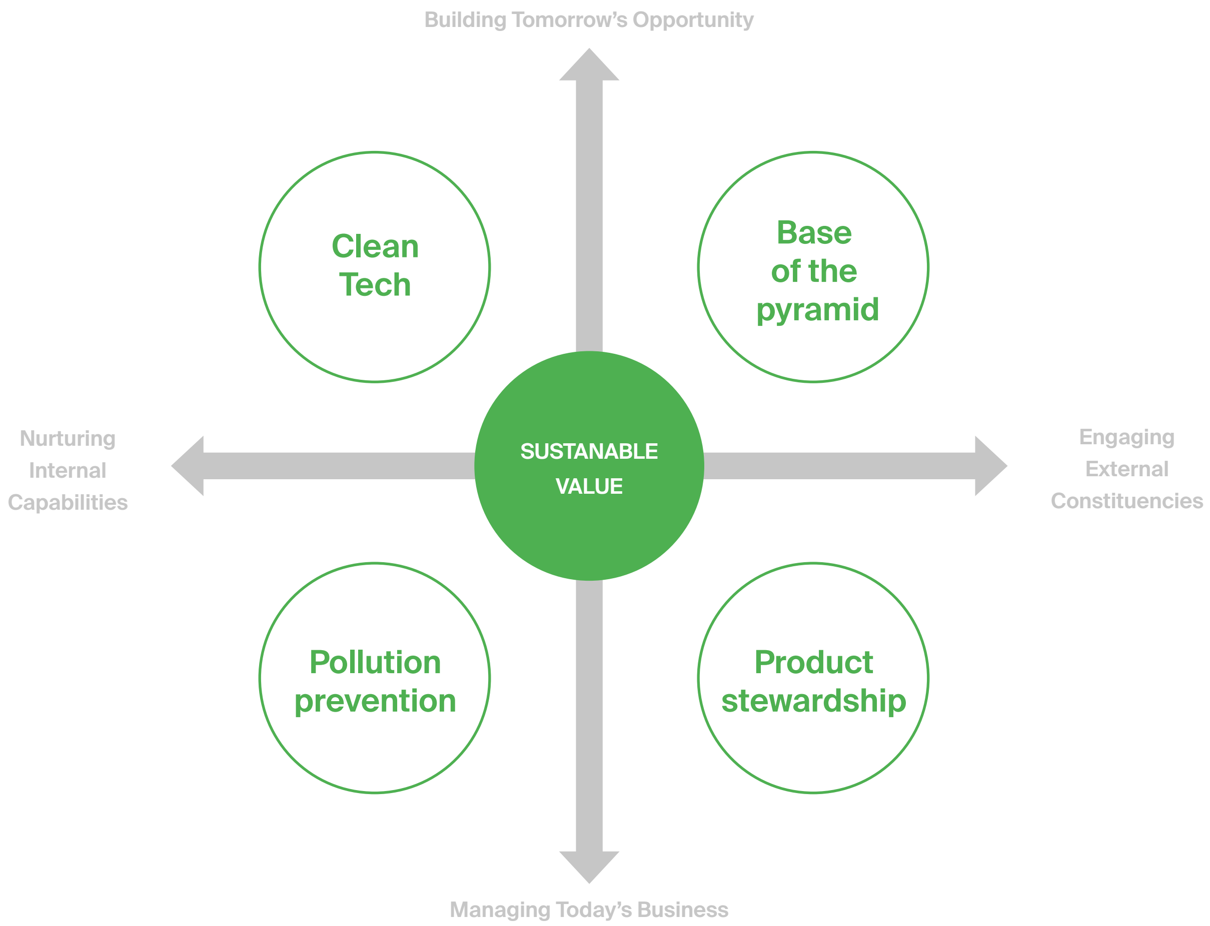
Jed Emerson recognized many similarities between 'stakeholder value' and 'blended value'. *"We need to recognize that all our ideas are grounded in social and cultural constructs for how people at different periods of time have understood the nature of value"*, he says. According to Emerson, we need to step back and revise our understanding of the value that we seek to create in the world and then look at what are the best mechanisms, tools and techniques that we can use - and mobilize these in order to advance that value.

For Emerson, value is fundamentally whole and non-divisible. It consists of economic, social and environmental elements that form the triple bottom line, but not as separate components. Without an integrated approach to the triple bottom line , the result is a set of trade-offs that limit the ability to optimize and capture value. In order to pursue strong sustainability integration, organizations must be evaluated based on their ability to generate a blend of financial, social, and environmental value (Emerson, 2003).

## 4.3 Sustainable value: time to take the 'green leap'

For Stuart Hart, driving conventional economic value by business isn't enough. If a company wants to be in business for the long term, it should be constantly growing tomorrow's capabilities.

FIGURE 1: **SUSTAINABLE VALUE FRAMEWORK – STUART HART**




Hart's sustainable value framework shows how global sustainability challenges can help identify strategies and practices that contribute to a more sustainable world while simultaneously driving shareholder value. "*We call this 'win-win' approach the creation of 'sustainable value' by the firm*", says Hart. Organizations who are ambidextrous by nurturing internal capabilities and engaging external constituencies, as well as managing today's business and building tomorrow's opportunities, are on their way to integrate sustainability from a full perspective.

Stuart Hart calls this a new market space [upper-right quadrant in his framework]. "*This is where the work on base of the pyramid really came from*", he says. Hart explains that there are many opportunities for organizations around new market creation where an organization can co-create new business models for unmet (societal) needs. For this, organizations need to embrace new business models and build new collaborative ecosystems (Hart, 2003)

Hart also believes that emerging clean technologies, such as renewable energy and biomaterials, hold the keys to solving many of the world's global environmental and social challenges. "*It seems to me that there's a driving need for more investment in the top part of the sustainable value matrix and that's what I thought about as the 'green leap'*", says Hart.

## 4.4 Shared value: finding simultaneous social and economic opportunities

Mark Kramer argues that companies can move beyond corporate social responsibility and gain competitive advantage by including social and environmental considerations in their strategies. Business leaders, and Business School students, need to understand that social and environmental issues are a part of the business equation and not something that is on the side or a cost to be minimized or avoided. Together with Michael Porter, Kramer presents three routes for organizations to create ‘shared value’ (Porter & Kramer, 2011). The first is about finding new opportunities, new products, and new markets. It links to the idea of competitive positioning and differentiation. The second path is about increasing productivity in the value chain. And the third route is about strengthening the competitive context in which an organization is operating. *“In each of these areas, we’ve seen that companies can be a very powerful actor in delivering positive social and environmental benefits and they can do it in ways that reinforce their competitive position”*, argues Kramer.

## 4.5 Integrated value: building of multiple ‘non-financial’ capitals through synergistic innovation

*“Integrated value is not the same as shared value, although Mark Kramer’s idea represents an important piece of the puzzle”*, Wayne Visser explains. *“Indeed, integrated value would not be possible without the emergence of numerous other concepts of value creation that went before”*, Visser continues.

Visser says we need integration at three levels: 1) in our understanding of the forces of breakdown in society, especially how global economic, governance, societal, and environmental challenges are interconnected; 2). in our understanding of the forces of breakthrough in society, and how these opportunities are interconnected; and 3). in our management processes to turn breakdowns into breakthroughs (Visser, 2022b).

For the first two levels, this means integration between the six great transitions to thriving: from degradation to restoration of ecosystems, from depletion to renewal of resources, from disparity to responsibility in communities, from disease to revitalization of health, from disconnection to rewiring through technology, and from disruption to resilience of infrastructure and institution (Visser, 2022c). For the third level, this translates into the six steps of integrated value management, namely rethinking patterns (systems), re-aligning partners (stakeholders), renewing principles (values), redefining purpose (strategy), re-assessing performance (reporting) and redesigning portfolios (innovation) (Visser, 2022a).

# 5. How the concepts have been applied: value creation methodologies

In order to see how various value creation concepts have been applied, we interacted with experts on three value creation methodologies: Total Impact Measurement and Management, True Price and the Long Term Value framework.

## 5.1 Total Impact Measurement and Management (TIMM)

PwC's Total Impact Measurement and Management (TIMM) framework incorporates and values various non-financial impacts. The framework aims to create a holistic view of what businesses need to understand about their risks, opportunities and their positive impact on society. *"TIMM opens up three fundamental areas to sustainable value creation"*, William Evison highlights. The first is about having lower negative impacts than your peer organizations. "Being less bad is absolutely critical and fundamental to our survival as a human society", Evison says. *"The second area is finding ways to capture positive societal impacts that aren't currently rewarded"*, Evison continues. The third area of TIMM is about targeting the negative impacts of others, other sectors, other organizations as business opportunities (PwC, 2022). Notwithstanding the great diversity of approaches in the world, resonance for a basic approach where societal value, on the one hand, and how to turn that into business value, on the other hand, is seen across more than 20 countries in a plethora of industries (PwC, 2022).

## 5.2 True Price

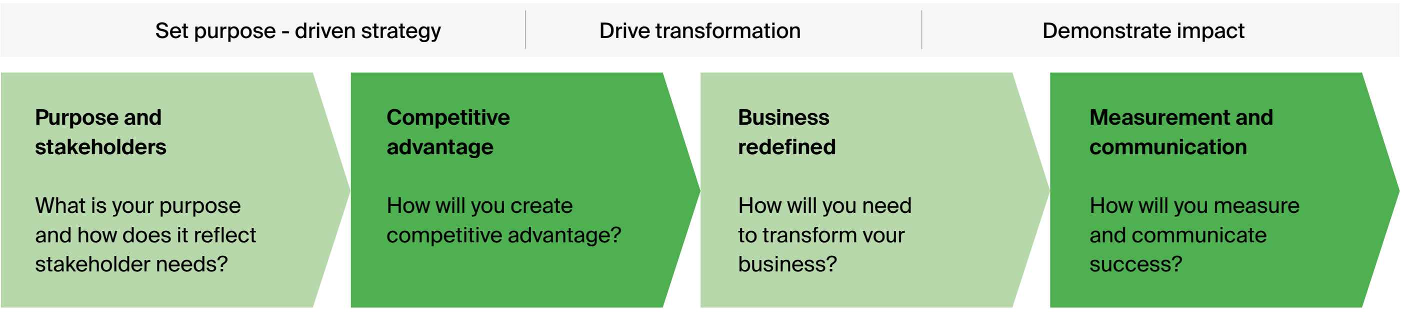
*"The mission of the True Price Foundation is to create a standard for and adoption of True Prices. A True Price is the market price plus the social and environmental costs in the value chain of a product"*, Adrian de Groot Ruiz explains. *"Our vision is that we should work towards an impact economy where work, technology and entrepreneurship don't work to accumulate capital, but to engender a better word"*, de Groot Ruiz continues. The True Price methodology aims to go beyond the classic 'profit and loss' accounting. It does not only focus on one capital but instead encompasses various capitals - manufactured capital, intellectual capital, natural capital, social capital and human capital. Secondly, True Price quantifies not only the value for investors, but for all the material stakeholders, such as employees, clients, the clients of the clients, governments, etc. *"We identified that an organization needs a statement on each of their societal goals, based on the profit and loss"*, de Groot Ruiz explains (True Price Foundation, 2022)

## 5.3 Long Term Value

*"For companies to genuinely generate long-term value, a focus on stakeholder outcomes should be deeply embedded across the organization and guided by its purpose"*, explains Martin Dubois. *"With the methodology of 'Long Term Value', EY aims to build further on TIMM and True Price"*, Dubois continues. In the Long Term Value framework, there are three major types of metrics: (1) *Consumer Value* – how much trust consumers have in the brand, how much innovation an organization can bring to the market, and what the brand loyalty is; (2) *Human Value* - what a company brings to the society related to their workers – such as wellbeing, retention, and diversity. And finally (3) *the Societal Value* that you create - everything related to climate change, safety, ethics, etc.

The 'Long Term Value' framework recommends a four step process to establish company-specific metrics. The first step is about mapping the overall purpose of a company. The second step is about assessing what is material to the organization and how the stakeholders value what is important for them. The third part is about defining strategic priorities of the company, and actions to generate value that meets what stakeholders estimate as value. The fourth step is about developing metrics linked to what the stakeholders think is important and the strategic priorities (EY, 2022). As such, double materiality is customized for each individual organization, which can be linked to more societal value, as for example expressed in the SDGs.

FIGURE 2: **LONG TERM VALUE FRAMEWORK - EY**



# 6. Challenges and how to overcome them

## 6.1 Long term strategy and materiality

A first challenge identified in order to create long term value creation and to manage long term risk to business models, is the integration of sustainability into the strategy. Often, this is the responsibility of a dedicated sustainability team, which is smaller and has less influence than than the financial department. Identifying the most material impact areas and what the company wants to stand for helps to ensure that sustainability gets the priority it requires. Implementation strategies include explaining why this is the strategy, starting with quick wins that give energy, and creating understanding. Recognizing that the path of each company is different is also key (EY, 2022; PwC, 2022).

## 6.2 Data collection

In order to determine the materiality (importance) of sustainability issues, data is critical. This creates both a challenge and an opportunity. The challenge lies in the complexity of collecting and managing data for the company and its entire value chain. The opportunity is about being able to transparently report performance and progress on creating value for society. However, this must be aligned with strategy; reporting alone does not generate significant value. Most companies' dashboards and Enterprise Resource Planning (ERP) models are still adapting to sustainability and new competencies are required when not only dealing with financial data but also societal interests ( EY, 2022; PwC, 2022).

## 6.3 SDGs

According to Martin Dubois, businesses try to capture more societal value by linking to the SDGs. *"The goals are formulated on a global level, so countries already have trouble translating that to the country level and then it is very difficult to translate them back to the company. The SDGs are just not a measurement framework and they were never intended to be such"*, he explains. Will Evision agrees, stating that according to PwC research in 2019 50% of companies have selected priority SDGs, 19% of CEOs or chair statements mentioned the SDGs, 27% say that they have embedded SDGs into business strategy and 23% of companies disclosed meaningful KPIs and targets related to the SDGs. Clearly, more progress is still needed, and other frameworks and measurements can help.

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**Martin Dubois**

# 7. Conclusion

All the frameworks and methodologies presented and discussed acknowledged that they are all working towards similar goals and shared many key elements. The task ahead is to use these models and tools – together or separately - to develop a coherent narrative and practical applications for reshaping value creation by business. It is a challenge of historic significance that will be necessary if we are to meet the Sustainable Development Goals and create a thriving future in which we regenerate nature, society and the economy.

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