

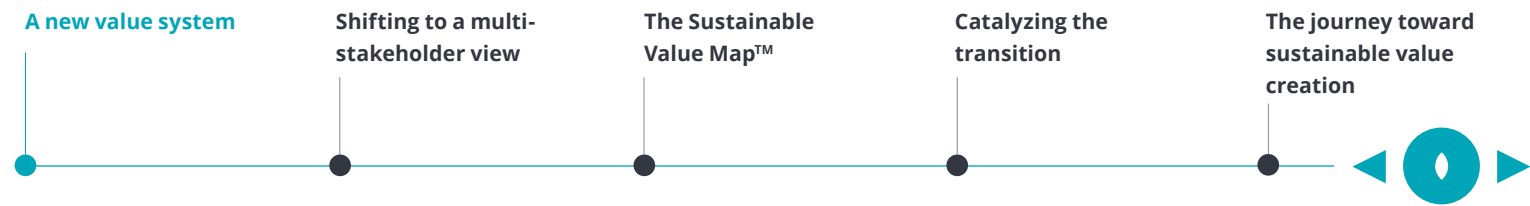


A new value system

Why a multi-stakeholder view of value creation can lead to sustainable, long-term value for everyone

GREG DICKINSON, JASON GIRZADAS, AND JENNIFER STEINMANN

Foreword



As business leaders, we know the actions of our enterprises can have a profound impact on the world’s economic, social, and environmental outcomes. We know we have collectively contributed to where the world currently stands on each of these fronts and that the choices we make going forward can substantially influence the trajectory of the world for generations to come.

We now have a pivotal opportunity to help lead the world toward a better and more sustainable future, and it is encouraging to see growing CEO consensus on the need for business to address the interests of a broader set of stakeholders. The challenge now is to begin to shift our organizations toward the thinking and actions that align with our intentions.

We have long defined enterprise value primarily through a shareholder lens, and it can be argued that, for decades, this focus has been instrumental in generating economic growth and prosperity.

Still, an intense shareholder focus has not been without consequences and has not been enough. It has provided an incomplete view of our impacts on our broader set of stakeholders, and it has not properly accounted for essential resources that do not come from shareholders—such as habitable climates, stable societies, and public infrastructure.

The challenge for leaders now is to shift toward a multi-stakeholder view of value creation that considers the value equation for each stakeholder group and focuses organizations on generating adequate and equitable returns for each. This paper is intended to help leaders by providing an initial framework for considering value creation from multiple stakeholders’ perspectives and by suggesting how this type of thinking can catalyze important change in two key business contexts—capital budgeting and performance management approaches.

It took decades for shareholder value to become well understood and supported by a wealth of data, methods, and tools.

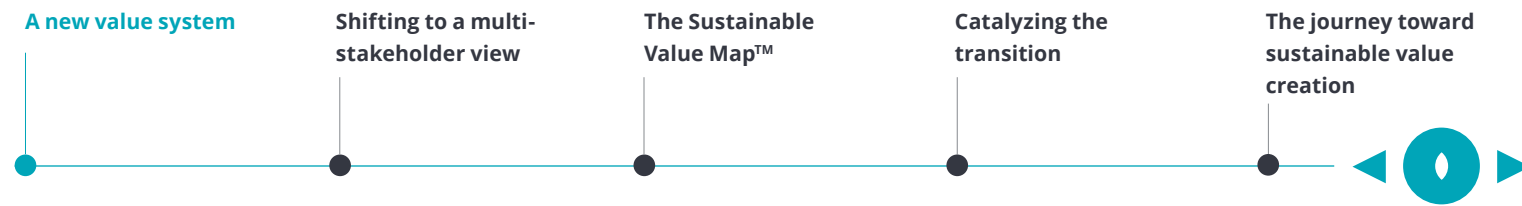
We hope the thinking and tools presented here will help shorten the development period for similar sophistication and support around a broader view of enterprise value.

Greg Dickinson
Global Sustainability
and Climate Practice
Managing Director

Jason Girzadas
Managing Principal
Businesses, Global,
and Strategic Services
(BGS) and
US CEO Elect

Jennifer Steinmann
Global Sustainability and
Climate Practice Leader

A new value system



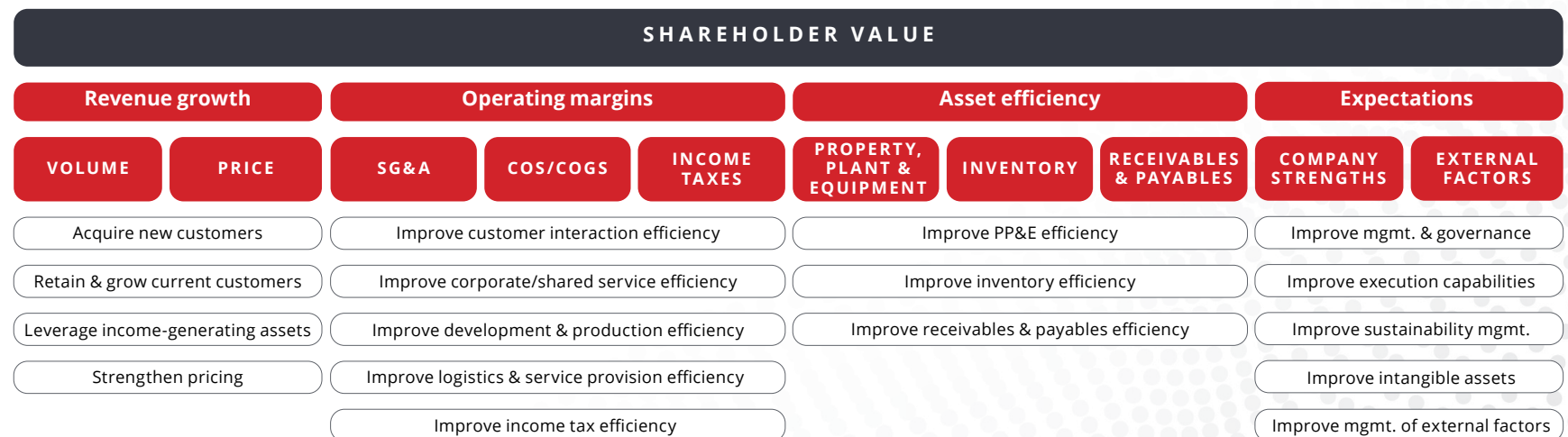
Why a multi-stakeholder view of value creation can lead to sustainable, long-term value for everyone

Throughout the modern business era, a company's value has been defined as the returns it creates relative to the assets it ties up in creating them. And for nearly all of that time, this has been articulated primarily from the perspective of shareholders.

Since shareholders provide the critical capital that launches and sustains business operations, company management has typically (and understandably) focused on them as a top priority. Accordingly, much effort has been put into measuring and reporting the value created for them—a task made easier by the relative ease of measuring and quantifying performance in dollar terms.

For more than a century, this well-established shareholder focus has led to investors' interests profoundly informing the choices, priorities, and behaviors of businesses and their leaders. Since the DuPont Corporation's deep Return on Equity analysis in the early 1920s (via its well-known DuPont Model), companies have undertaken increasingly sophisticated approaches to understanding and improving the underlying drivers of shareholder value. Deloitte's contribution to this effort was the Enterprise Value Map™—a framework developed in the early 2000s to link shareholder value, financial performance, operational performance, and improvement actions through cause-effect relationships.

DELOITTE ENTERPRISE VALUE MAP™ (TOP LEVELS)



A new value system

Delaying the inevitable

An upside of this shareholder focus has been the growing ability of investors to understand the performance of companies in which they invest and of leaders to focus their organizations on value-creating activity. And it can be argued that, for decades, this disciplined focus on shareholder value has been instrumental in generating economic growth and prosperity by spurring productivity gains and channeling capital and effort toward the most value-creating organizations.

But as important and beneficial as the intense focus on shareholder value has been, it has not been without consequences, and it has not been enough. We have long known that companies' actions can create externalities felt by non-shareholder constituencies, but we have not consistently addressed them. Similarly, we have known that companies typically require inputs far beyond those provided by investors (for example, habitable climates, public infrastructure, and education systems) and that many resources have a limited supply, but we have typically not included the value of these critical inputs in our analysis and decision-making.

Recent developments have made clearer the strong and growing interdependence of economic, societal, and environmental factors and are spurring companies to more deliberately consider their impacts and dependencies across their broader set of stakeholders.

¹ See the statements of CEOs via the [US Business Roundtable](#) and [CSR Europe](#).

A new value system

Shifting to a multi-stakeholder view

The Sustainable Value Map™

Catalyzing the transition

The journey toward sustainable value creation

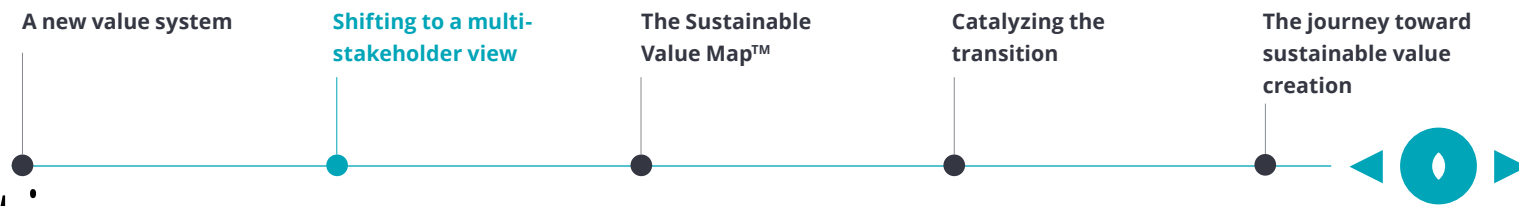
Growing pressure to manage value creation holistically

Facing societal and environmental shifts that threaten long-term economic growth, there seems to be a growing business imperative to better account for the positive and negative impacts of business—strengthened by customers, employees, and societies who are becoming less forgiving of activities that make things worse. This has led to a growing number of business leaders who have begun to disavow a purely shareholder-centric view and have emphasized the need to address the interests of a broader set of constituencies.¹

Accordingly, business needs an effective way to monitor and manage value creation for other constituencies—not only so we can make decisions that help us avoid environmental and social conditions that threaten shareholder value, but also so we can identify and leverage opportunities to be more competitive and value creating in a shifting business environment.

Now, as we work toward more sustainable business behavior, there will likely be benefits associated with strong, early action. The challenge for leaders now is to expand our thinking about how enterprise value can be defined and created in a sustainable world. The good news is that the necessary changes can be achievable and beneficial—for all stakeholders, and for the long term.

The challenge for leaders now is to expand our thinking about how enterprise value can be defined and created in a sustainable world



A broader consideration of enterprise value

Our shareholder-centered lens has provided an incomplete view of our impacts on our broader set of stakeholders and on society at large. And it has not properly recognized and accounted for the essential resources that do not come from shareholders—such as habitable climates, stable societies, and public infrastructure.

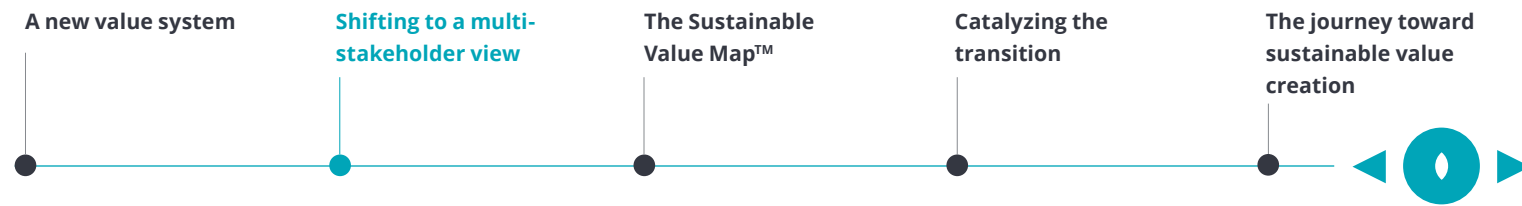
As a consequence, there are three particular outcomes we believe have distorted (positively and negatively) the calculation of enterprise value:

- 1. Underestimating costs:** Overlooking costs borne by other stakeholders from our measurement of performance—at project, business unit, and corporate levels.
- 2. Underestimating benefits:** Not recognizing the full value of benefits created (or that could be created) for other constituencies.
- 3. Underestimating required assets:** Insufficiently accounting for the value and constraints of resources directly and indirectly provided by non-shareholder constituencies and the natural environment.

To counteract these distortions, we can begin to manage broader stakeholder value with the same rigor we have been applying to shareholder value creation. This means considering the value equation for each stakeholder group, understanding the drivers for each, and then integrating those perspectives in ways that help ensure adequate and equitable returns to each.

We believe a multi-stakeholder view can help companies not only better account for their impacts across stakeholder groups, but also better recognize and actively manage their long-term access to critical resources and infrastructure provided by non-shareholder stakeholders—access that may be increasingly threatened due to societal and environmental pressures. Inclusion of critical assets like water, roadways, ports, stable climates, educated employees, and licenses to operate can help make improvement of value for other stakeholders not just a matter of principle and a “nice to have” but also a matter of preserving access to inputs critical to long-term shareholder value creation.

We can begin to manage broader stakeholder value with the same rigor we have been applying to shareholder value creation



Shifting toward a multi-stakeholder view

At its core, value is a “return on investment” (or ROI) concept. At the individual stakeholder level, the fundamental question is, “What benefits do I receive, and what do I have to provide to get those benefits?” This means there is both a numerator and a denominator for stakeholder ROI, where the numerator is what stakeholders receive (net of costs), and the denominator is what they provide in exchange for those returns.

Shareholder value is currently, by far, the best measured of the value metrics—supported by a wide range of existing data, systems, and analytical resources. Value creation for other stakeholders can be much harder to define, measure, and quantify—especially in financial terms. Still, to make the necessary shifts toward sustainable, cross-stakeholder value creation, we should get collectively better at understanding, measuring, and controlling the impact of our business operations on all of our stakeholders.

To aid this goal, we have developed an extension of the “value map” concept called the **Sustainable Value Map™**, or SVM. It applies the ROI principles embedded in our original Enterprise Value Map™ (shareholder view) to provide a framework addressing value creation for a much broader range of stakeholders.

To make the necessary shifts toward sustainable, cross-stakeholder value creation, we should get collectively better at understanding, measuring, and controlling the impact of our business operations on all of our stakeholders





The Sustainable Value Map™

Overview of the SVM Value Frameworks

Shareholder value

The red boxes carry over from the original Enterprise Value Map™. This view can be useful for highlighting how the company is performing from top- and bottom-line financial standpoints and for how efficiently it is utilizing resources provided by capital providers.

Employee value

The purple boxes of the employee value framework provide examples of the resources employees provide to the company and also of the outcomes they expect in return. It can be useful in highlighting not only the value-creation elements for the company's own employees but also for those of partner organizations across its value chain.

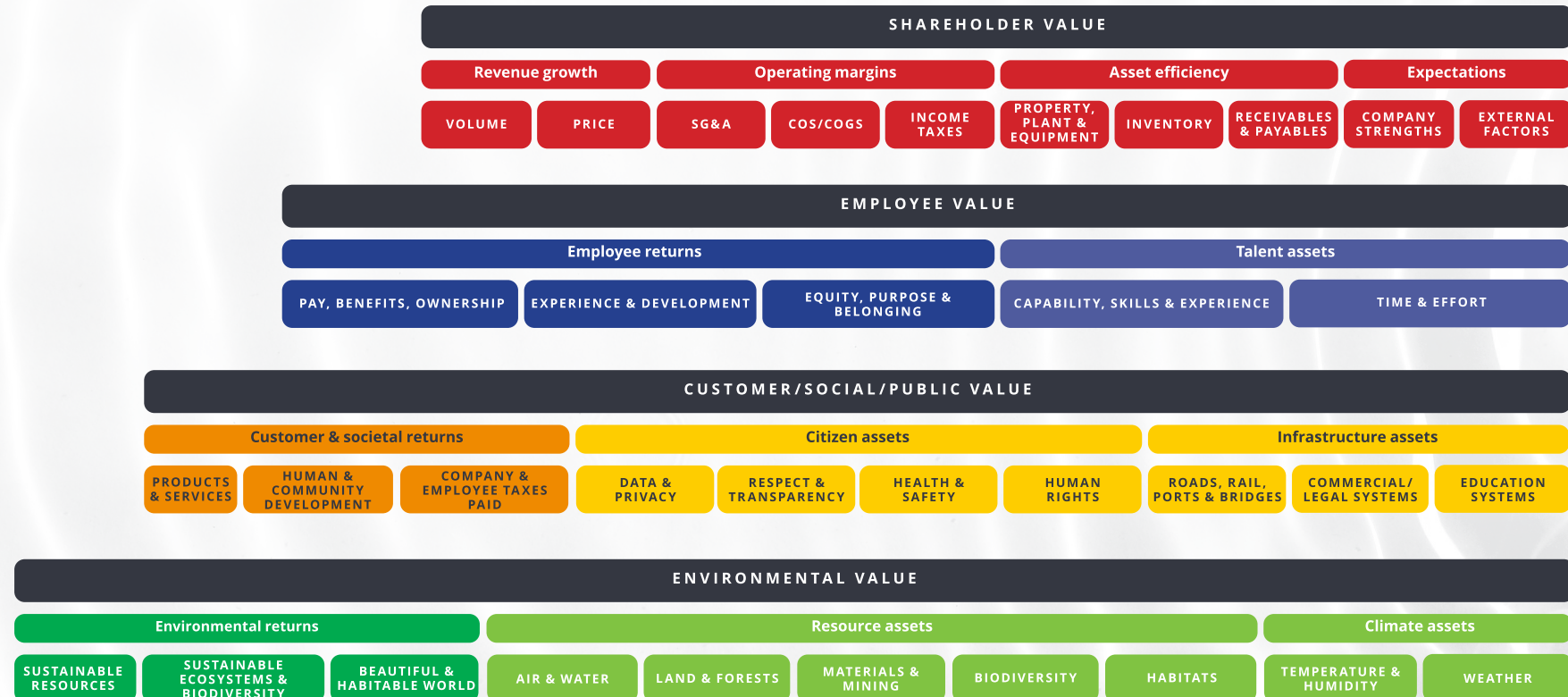
Customer/social/public value

The orange boxes of the customer/social/public value framework provide examples of the resources customers and society provide to companies and of the types of potential outcomes companies generate for both. This view helps highlight the positive and negative impacts of a company's products and services and also the impacts generated for these stakeholders in the delivery of those offerings. Note that this is a very broad stakeholder group and that some companies might choose to split this framework into two pieces—one for customers and one for society, for example.

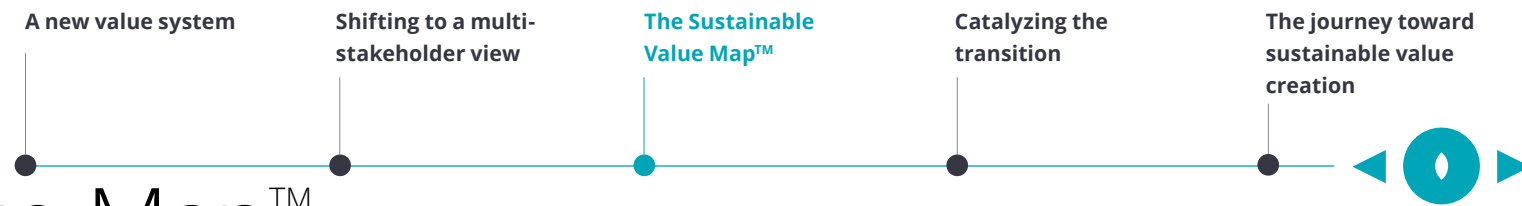
Environmental value

The green boxes of the environmental value framework provide examples of the natural and climate resources provided by environmental systems and of the outcomes business activity can have on them. It can help companies better account for their reliance on these types of resources and clarify the impacts of their products and services on their continued availability. It can also help companies consider their exposure to risks around resource availability and costs and also their climate-related risks to operations and assets.

DELOITTE SUSTAINABLE VALUE MAP™ (TOP LEVELS)



The Sustainable Value Map™



A multi-stakeholder view of value creation that helps build sustainable long-term value for everyone

The SVM incorporates three key features:

- 1. An ROI-based approach:** To facilitate the consideration of what value creation looks like for each stakeholder group, the map provides baseline ROI frameworks for each. This approach provides two levels of drivers for both the ROI numerator (returns) and for the denominator (invested resources), similar to those used in our original Enterprise Value Map™. Note that the frameworks represent illustrative starting points, informed by popular sustainability frameworks. We expect companies and their stakeholders to have their own views on the value drivers, and we propose that they work together to develop their own formulations.
- 2. Linked ROI frameworks:** To aid the determination of the “input/output” relationships between the value creation frameworks, the SVM also provides examples of potential resource and impact flows across stakeholder groups. The nature of these dependencies will vary by company, but this starting point can help jump-start a deeper understanding and articulation by leadership teams.
- 3. A system view:** To promote the orchestrated management of value creation across stakeholders the SVM puts the value frameworks and inputs/outputs on a single page. We believe this makes it easier to avoid tunnel vision around any single stakeholder and also draws out the recognition of relationships and dependencies not always apparent in traditional analyses.

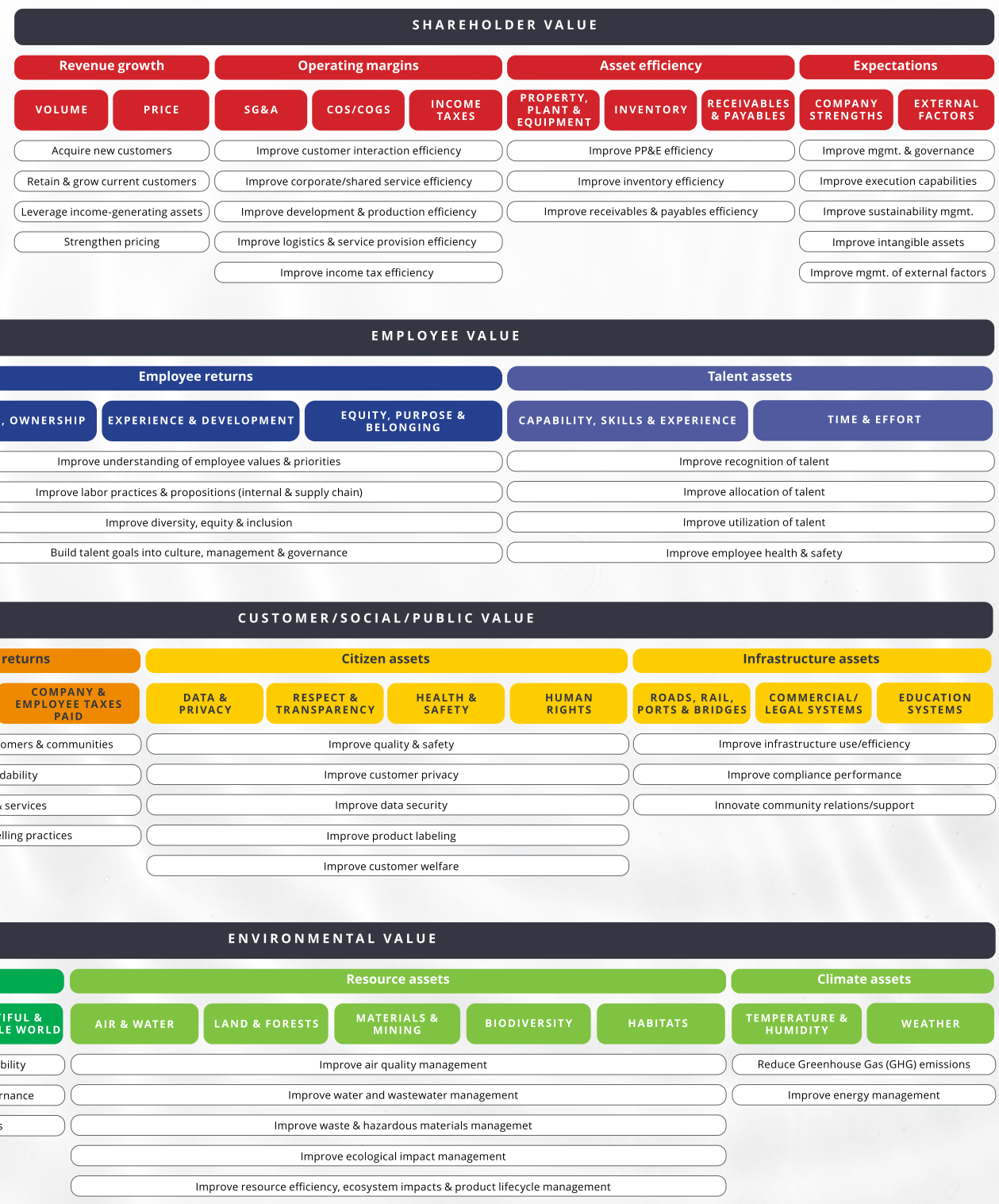
Our experience with the original Enterprise Value Map™ indicated that putting a comprehensive set of considerations on a single page can facilitate and influence thinking and behaviors in a way multi-page presentation decks and long-form essays typically do not. Our hope is that this new tool will accelerate progress on multi-stakeholder value creation by providing a starting point for considering how a company’s value system currently works and for how it should work in the future.



DELOITTE SUSTAINABLE VALUE MAP™

INPUTS

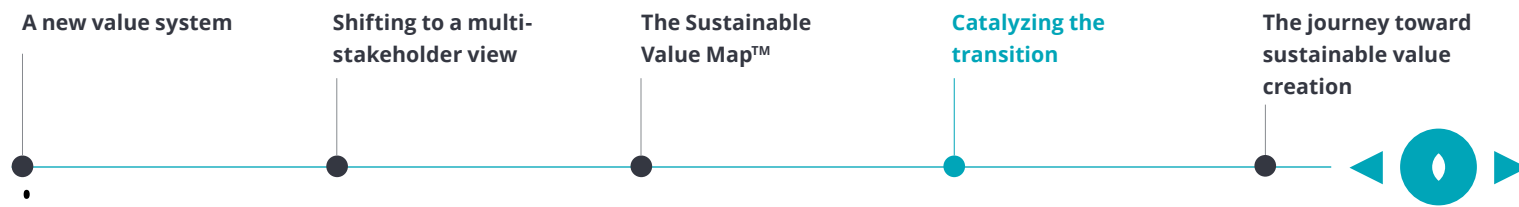
- Capital
- Economic, social & environmental resources
 - + Capability
 - + Effort
 - Complaints
 - Protests/walkouts
 - Talent turnover
- + Purchases/revenue
- + Brand/loyalty
- + Social systems
- + Economic systems
- + Infrastructure
- + Commercial systems
- + Legal systems
- + Education systems
- License to operate
- Fines/judgments
- Boycotts
- Regulation
- + Natural resources
- + Stable/habitable climate
- Physical risks to assets
- Obstructive weather events
- Reduced workable hours



OUTPUTS

- RETURN ON Invested resources
 - + Investor returns
 - + Interest
 - + Ethical investment
 - Excessive business risk
 - Poor ESG performance
 - Excessive input costs
 - High cost of capital
- RETURN ON Human resources
 - + Jobs/income
 - + Benefits
 - + Training
 - Poor diversity, equity & inclusion
 - Poor health & safety
- RETURN ON Societal resources
 - + Products/services
 - + Economic vitality
 - + Corporate, employee, and investor taxes
 - + Community development
 - Unethical practices
 - Poor community impact
 - Poor infrastructure impact
 - Privacy risks/issues
- RETURN ON Natural resources
 - + Environmental responsibility
 - + Environmental development
 - GHG emissions
 - Excessive energy/resource consumption
 - Habitat destruction
 - Resource waste/depletion

Note: "+" and "-" symbols denote impacts that are typically regarded as positive or negative, respectively.



Catalyzing the transition

Beginning the shift toward multi-stakeholder value management

Capital budgeting and business cases

Our experience has been that one of the most impactful ways to instill value-based thinking throughout the organization can be to build it into the capital budgeting process—specifically through the evaluation criteria applied to business cases.

By embedding analysis of value drivers for each constituency into the required thinking of those proposing new investments and improvement efforts, leaders can begin to establish the notion that value creation is a multi-stakeholder concept and assert value creation for all stakeholders as an organizational priority. In practical terms, this means setting the expectation that, in addition to answering shareholder value questions, business cases should answer questions from the viewpoints of other stakeholders as well.

In addition to answering the typical financial, risk, and strategic questions, proposals might be expected to answer questions such as these:

1. **Stakeholder viewpoints:** What does the proposal look like through the lenses of employees, society, and the environment (i.e., what are the impacts, opportunities, and risks for each)?
2. **Key impacts:** What are the most substantial and important positive and negative impacts across all stakeholder groups?
3. **Trade-offs:** What trade-offs are being made across stakeholders, and what are the options for balancing and/or mitigating these trade-offs—at project and broader portfolio levels?

4. **Resource access:** How might value created for each stakeholder group promote longer-term access to key resources like talent, natural resources, or community support?

Even if many of these questions can be answered only qualitatively at first, we believe beginning to hold ourselves and our organizations accountable for addressing these valuable viewpoints can help catalyze a shift toward better and more sustainable longer-term decisions and value creation.

Performance measures and balanced scorecards

Business leaders have long focused their organizations on value-creating activity by building key measures into their organizations' performance management systems. We believe the expansion of this practice to address a multi-stakeholder view can be central to improving longer-term sustainable value creation.

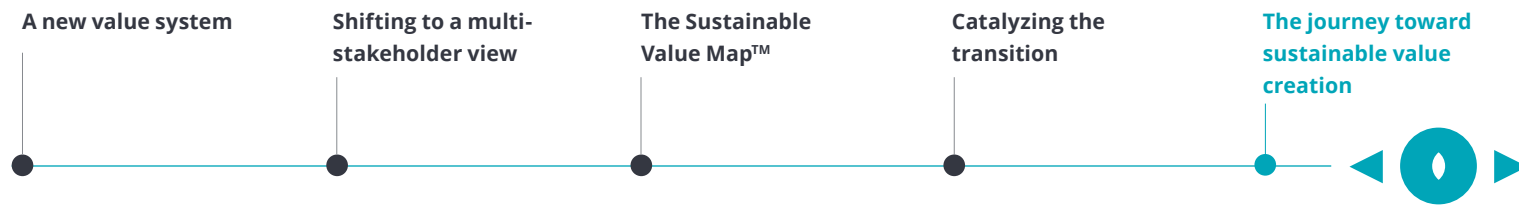
In the early 1990s, Norton and Kaplan's [Balanced Scorecard](#) (BSC) approach worked to advance value creation by helping companies focus on the capability, process, and outcome metrics most important to the creation of financial outcomes and shareholder value. We believe multi-stakeholder thinking can augment and strengthen the BSC's effectiveness by both encouraging the consideration of similar value chains for non-shareholder stakeholders and recognizing the interdependence of metrics and value creation across stakeholder groups. This can mean updating balanced scorecards to address the following:

- **New value metrics**—for defining outcomes important to non-shareholder stakeholders and their corresponding headlight/taillight metrics

- **Key resources/inputs**—for tracking availability of key talent, societal, and natural resources
- **Key risk indicators**—for identifying potential issues with value creation performance and key resource availability

Many of these metrics may be difficult to measure, and performance might only be evaluated qualitatively (at least at first). But adding them to our core shareholder value metrics can begin to focus attention on key performance areas and begin the process of building better measurement capabilities.

We believe two of the most impactful mechanisms are the company's capital budgeting and performance measurement processes



The journey toward sustainable value creation

As business leaders, we understand that the impact of our actions reaches far beyond shareholder return. Our challenge now is to begin to steer our organizations toward the thinking and action that can create long-term value for all our stakeholders.

It is our hope that this paper and the first version of the SVM will accelerate leaders' consideration of their companies' impact and reliance on all of their stakeholders and also help them motivate their organizations to apply a multi-stakeholder view of value creation. It took decades for shareholder value to become well understood and supported by a wealth of data, methods, and tools. We hope the thinking and tools presented here will help shorten the development period for similar sophistication and support around a broader, more sustainable view of enterprise value.

For more information about multi-stakeholder value creation and the full-detail version of the Sustainable Value Map™, visit www.deloitte.com/sustainablevalue



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

This publication contains general information and predictions only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.