

Wartości w zrównowazonym rozwoju Sustainable Value

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Abstract

Stakeholder value, based on a company's economic, environmental, and social performance, is a new and largely untapped source of competitive advantage that is likely to grow in the years ahead. Greater public awareness and rising societal expectations of business in terms of its impacts on health and ecology are creating new strategic risks and opportunities. Although much has been written about stakeholders, we re-frame the subject in terms of competitive advantage using an approach that systematically integrates stakeholder considerations into business strategy and operations. Such an approach can assist companies to reduce costs, differentiate products and services, develop new markets that serve unmet societal needs, and influence industry "rules of the game." Success in capturing these opportunities requires a new leadership vision and the courage to understand and engage a diverse set of constituencies.

Key words: environmental, social, sustainability, stakeholder, value. Competitive advantage

Introduction

In the last two decades, massive changes in the competitive landscape have increased the influence of a broad range of stakeholders, from non-governmental organizations (NGOs) and activist bloggers to the media and government regulators (Assadourian, 2005). Low cost communications and the sheer availability of information have educated the general public and increased its awareness of environmental and social issues. Corporate disasters from Bhopal to Enron have sown a mistrust of big business, while tougher government regulations and new environmental laws have raised the requirements (and costs!) of operations. Companies find it increasingly difficult to hide environmental and social transgressions, even in far-flung markets where the risk of discovery and subsequent *YouTube* exposure are ever present (The Vancouver Sun, 2007).

As a result of the above trends, stakeholders instantly and globally access information about a company, mobilizing against those seen as doing

wrong and enhancing the reputation of those seen as leading positive change.

A separate but immensely important trend is the rise of intangible value as a component of stock price performance. The work of Stern School of Business economist Baruch Lev (Lev, 2001) has shown the extent to which accounting value has fallen as a driver of market capitalization (from 70% one hundred years ago to thirty percent today), while intangibles such as goodwill, knowledge, brand value, and strategic relationships have risen accordingly (Low, 2002).

A growing number of CEOs understand that their company's environmental, social and governance performance affects their ability to attract and retain talented employees, drive innovation, and enhance corporate reputation. Such intangibles help in turn to differentiate their company's offering, leading to superior earnings and share price.

Today the value created or destroyed for stakeholders carries strategic business risks or opportunities, demanding that business leaders re-think environmental and social sustainability in terms of value creation.

The Sustainable Value Framework

Stakeholder value requires managers to think “outside-in” about how their companies create and sustain competitive advantage. Outside-in thinking, which sees the world from the perspective of stakeholders, is a powerful new lens through which managers can discover new business opportunities and risks. Leaders who engage stakeholders and proactively address stakeholder issues can better anticipate changes in the business environment. They can reduce the risk of being unpleasantly surprised by emerging societal expectations. Ultimately, stronger stakeholder engagement allows leading companies to discover new sources of value through innovation.

Managers need to measure and manage shareholder value *and* stakeholder value. Managing in two dimensions represents a fundamental shift in how managers think about business performance. In this framework, companies that deliver value to shareholders while destroying value for other stakeholders have a fundamentally flawed business model. Those that create value for stakeholders are cultivating sources of extra value that can fuel competitive advantage for years to come. Sustainable value occurs only when a company creates value that is positive for its shareholders and its stakeholders.

Four cases of value creation or destruction can be considered.

1. Value creation for shareholders with value destruction for stakeholders. When value is transferred from stakeholders to shareholders, the stakeholders represent a risk to the future of the business. Leaded paint and asbestos are historical examples; today CO₂ emissions from coal-fired power plants, phthalates in cosmetics and toxic additives in children’s toys, volatile organic compounds in carpet adhesives, and brominated flame retardants in consumer electronics are examples of products that create risks to employees and customers while creating value for shareholders. Companies that avoid environmental regulations in their home markets through exporting production to countries with lower regulatory standards create similar risks. Also

in this case are firms that create shareholder value through a low cost strategy that tolerates management actions to cut costs by avoiding overtime pay, under-training on employee safety or discriminating on the basis of ethnic background. Shareholder value in these cases is created “on the backs” of one or more stakeholder groups, thereby representing a value transfer rather than true value creation.

2. Value destruction for shareholders and stakeholders: When value is destroyed for both shareholders and stakeholders, this represents a “lose/lose” situation of little interest to either. Monsanto and its European competitor Aventis lost large sums of money by underestimating consumer and farmer resistance to their GMO crop products. Before Aventis sold its CropSciences division to Bayer in 2001, it is estimated to have lost \$1 billion in buy-back programs and other costs associated with its genetically-modified corn StarLink.

3. Value destruction for shareholders with value creation for stakeholders: When value is transferred from shareholders to stakeholders, the company incurs a fiduciary liability to its shareholders. Actions intended to create stakeholder value that destroy shareholder value put into question the company’s viability. Environmentalists often unintentionally pressure companies to such actions without realizing that the pursuit of loss-making activities is not sustainable either.

4. Value creation for shareholders and stakeholders: When value is created for stakeholders as well as shareholders, stakeholders can represent a potential source of hidden business value. Sustainable value is created only in this case. When companies design manufacturing facilities to use less energy for heating and lighting, and that cost less to build and operate than conventional facilities, they are creating sustainable value. The same is true when they eliminate packaging waste by right-sizing their products, or when they add environmental intelligence to their products by making them more recyclable, re-usable, biodegradable, less toxic, or otherwise healthier. Sustainable value is also created when companies find ways to profitably meet unmet societal needs such as by providing nutrition and clean water to the poor.

Managers assessing opportunities to create shareholder and stakeholder value need to make the business case for taking action. Without a

clear articulation of business value, managers will be unable to obtain the approval needed to obtain the required resources. The six levels of strategic focus described in the following section is an essential tool used to apply the Sustainable Value framework.

The six levels of strategic focus

The six levels of strategic focus shown in Figure 1 constitute an important tool for managers seeking to identify how business value is created from sustainability projects. The six levels represent six distinct types of sustainability-related business value that can be found in every sector.

| Levels of Focus | Sources of Value |
|--------------------|---|
| 6 Business Context | Changing the "rules of the game" to provide competitive advantage for sustainability strategies |
| 5 Brand/Culture | Developing a sustainability culture and brand identity. Become an Employer of Choice |
| 4 Market | Addressing new markets driven by customer and societal needs |
| 3 Product | Creating product differentiation based on technical and environmental/social features |
| 2 Process | Reducing energy, waste or other process costs |
| 1 Risk | Compliance-oriented management of risks and protecting license to operate |

Figure 1. The six levels of strategic focus

Companies have made great strides in compliance-oriented risk mitigation (level 1) and process cost reduction (level 2) through eliminating waste and improving energy efficiencies. Relatively few have focused on top-line growth based on product or brand differentiation (levels 3 and 5). Even fewer have used stakeholder value creation as a way to drive new markets and business context change (levels 4 and 6). Each of the levels is described in greater detail below.

¹ On October 31, 1988, the American Chemistry Council adopted Responsible Care as an obligation of membership for companies in the chemicals industry.

² See www.climatecrisis.net/ for more information about Gore's DVD

Level 1: Risk mitigation and compliance-oriented management of risks

Actions companies take to comply with government regulations and industry standards (one of the earliest examples being Responsible Care¹ in the chemicals industry) have historically been seen as a financial burden: they are the necessary cost of doing business and of maintaining license to operate. Yet efficient risk mitigation strategies can create significant value to both shareholders and stakeholders. They include the avoidance of penalties and fines, reduced legal fees, and reduced site remediation costs

Level 2: Process cost reductions

Process cost reductions are often one of the first sustainability initiatives a company undertakes. Reducing energy consumption, eliminating waste and minimizing materials intensity are all initiatives that save the company money while reducing environment, health, and safety impacts on stakeholders.

Level 3: Product differentiation to meet new customer needs for social and environmental attributes

The growing segment of consumers for whom social and environmental attributes are important decision criteria provides an opportunity for leading companies to differentiate themselves on a dimension other than price or technical performance. Al Gore's film, *An Inconvenient Truth*,² along with a changing political awareness of climate change is helping to push sustainability issues into the forefront of public consciousness. On the supply side of the equation, mainstream players such as General Electric are democratizing green products by bringing unit costs in line with the products' traditional (non-green) counterparts.

Level 4: Penetrating new markets and developing new businesses based on sustainability

Technological innovation that creates stakeholder value increasingly opens up new markets. Examples include DuPont's push into soy-based nutritional products and Procter & Gamble's development of water purification products in emerging markets. Aviva, one of the world's largest insurance companies, has begun selling life insurance in rural India for households where the disability or death of the principal wage earner can be devastating. Celanese AG has parlayed its expertise in plastic

polymers to develop high-temperature membrane electrode assembly (MEA) for fuel cells suitable for use in cars—itself a new market driven by climate change-related concerns. The French materials giant, Saint-Gobain, is finding new applications for its high-performance materials from particulate filters in diesel cars to solar panel components and windmill tips.

Level 5: Enhancing corporate reputation and image

DuPont, Wal-Mart, Unilever, General Electric, Alcoa, and many other leading companies are finding that a brand/culture based on creating stakeholder value is rapidly becoming a source of competitive advantage. Among other business benefits, a sustainability image draws in higher income consumers, attracts and retains talented people, and can ease negotiations with government regulators concerned about industry impacts. It contributes to an image of innovation—in some cases attached to a single product such as Toyota's Prius—that confers reputation benefits to the entire company.

Level 6: Business context—changing the industry “rules of the game”

At this level, companies attempt to shape in their favor the regulations, practices, and rules that govern how business can be conducted. An example is the US Climate Action Partnership (USCAP, 2007), which began by urging President George W. Bush to support mandatory reductions in greenhouse gas emissions and to propose federal reduction targets. Rather than slowing down climate change legislation, these industry leaders are encouraging it. They see their efforts to reduce emissions, reduce energy use, and provide climate change solutions as a source of future comparative advantage in a carbon-constrained world.

Companies can use the Sustainable Value framework to think in strategic terms about their existing portfolio of products and services. With the framework, managers are able to assess the business value, and obtain the resources, for sustainability-related initiatives. Perhaps the single biggest obstacle to taking action, however, is not making the business case for the initiatives, but the leadership mindset required to even consider sustainability as a business opportunity.

The leadership challenge

Capturing sustainable value requires business leaders to see stakeholder value as essential to

the growth of their companies. The primary barrier to adopting a stakeholder perspective stems from the leader's mindset, not from whether there is business value to be found. Mindset can be understood as the hidden set of beliefs about the individual, others, and the world. Much as computer operating systems allow only certain software applications to run, our mindsets dictate the range of possibilities we draw upon to solve problems.³ For instance, if an executive believes that an NGO's primary commitment is to put her company out of business, the actions that occur to her to engage with them will be very different than if she believes that they are both committed to solving a common problem.

Historically, the mindset required to rise to the top of a large corporation has run counter to adopting a stakeholder perspective in the process of value creation. Executives have tended to focus narrowly on maximizing shareholder value. They have privileged activities that, often unintentionally, externalize negative social and environmental impacts. They have risen to their positions of power precisely because they are able to create shareholder value by maximizing “efficiencies” that legally drive externalities elsewhere.

The idea that optimizing the value of key stakeholders is of interest (much less essential) for business success is quite heretical to what has made leaders successful in the past. Yet stakeholder power is now a reality in the new global business environment. Business leaders who fail to adopt a new mind-set risk putting their companies and careers at risk.

Conclusion

In the past, managers often felt forced to choose between two perspectives: business has a moral responsibility to society *or* it has a fiduciary responsibility to its shareholders. Those who believe in the profit motive consider moral questions in the workplace to be a distraction. Those who believe in a societal role for business consider the single-minded focus on short-term profits to be irresponsible.

³ For a discussion of mental models and the mind-set shift required to see the world in a system's perspective see: P.M. Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization* (New York: Currency Doubleday, 1990).

In the new global business environment, companies can pursue both simultaneously. Indeed, they must if they want to succeed. Companies that deliver profits to shareholders while destroying value for society are incurring hidden liabilities. Those that offer *solutions* to environmental and social challenges are discovering huge profit opportunities. The corporate path to doing well by doing good has become the smart way to do business, if you have the knowledge and competencies required for it.

References

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