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#1
Value creation
reimagined

Unleashing the full potential of sustainability to drive transformational change

Sustainability is at the top of the strategic agenda everywhere. Trailblazing organisations are acting fast to reduce harmful impacts on people and the planet. And even those that have been slower to respond are being forced to act due to regulatory changes and stakeholder demands. Becoming more sustainable is now a given.

However, all organisations face a significant strategic choice: “Will sustainability provide us with the opportunity to rethink fundamental strategic approaches and change everything? Or will we address the issue through an isolated sustainability strategy to get on par?”

Faced with a proliferation of stakeholder requirements, there is a risk that many organisations are merely scratching the surface of sustainability as they try to keep up. But what if we used the sustainability agenda to profoundly reimagine why our organisation exists and how we operate?

We believe that, instead of a “sustainability strategy”, organisations of the future will have a “sustainable strategy”. Instead of taking incremental steps towards what is good for them, they will dare to unleash transformational change towards a brighter future that is better for all of us.

Let us explore the future together and reimagine sustainability.

#1

Value creation reimagined

What if organisations of the future redefined their strategic choices to create long-term value for all stakeholders – and abandoned short-term optimisation of performance to serve shareholders?

Strategy is about making choices and, in a world of constant change, every organisation must continually evaluate and renew strategic choices about where to focus and how to succeed. But to consistently make great choices, the process of making choices itself must be guided by a set of fundamental principles about what constitutes good or bad choices. If not, decision-making may be arbitrary or subject to biased opinions.

While many organisations lack a clearly articulated ‘theory of decision-making’, it is evident that even without explicitly discussing and defining those fundamental principles, most organisations are implicitly guided by a very basic idea: “The business of business is business,” as Milton Friedman put it in 1962. For decades, the dominant logic for business leaders has been to maximise profits and increase shareholder value, typically over the relatively short term, as long-term thinking and high-risk bets rarely align with shareholder interests. At least, this is how things used to be.

Putting an end to shareholder primacy

Social inequality, environmental challenges, economic turbulence and geopolitical unrest raise serious questions about this logic. This is further underlined by new generations of customers and employees who have to deal with this for most of their lives and for whom sustainability, purpose, inclusion and diversity are more than just words in an annual report. By focusing narrowly on creating shareholder wealth, businesses all over the world have destroyed massive amounts of value for other stakeholder groups and for society at large.

Of course, shareholders should expect a decent return on their investment, which, after all, helps to build and grow businesses. But they are only one among many stakeholder groups that have a particular interest in, and contribute to, the success of a business. Everyone in the stakeholder landscape – customers, employees, suppliers, partners, investors, regulators, society, and other groups – have legitimate expectations and interests at stake. However, their value drivers are highly diverse, and giving one group full primacy does not adequately capture the complexity of expectations on a modern business.



Case in point:

SSE in a balancing act to transition to a net-zero world

SSE is an energy company that operates throughout the UK and Ireland, active in the generation, transmission and distribution of electricity. With the energy industry undergoing a fundamental transformation towards a green, net-zero future, SSE recognised both the potential benefits and costs associated with the imminent transition.

SSE therefore developed a stakeholder-centric sustainability strategy, Just Transition, addressing challenges and opportunities of “transitioning to a net-zero world” while “transitioning out of a high-carbon world,” which, for instance, requires large-scale reskilling of employees due to automation, navigating potential job losses and repurposing existing assets.

Under this bridge-the-gap approach, SSE developed an industry-leading position based on the goal of allowing for a just transition, which aims to reap the environmental benefits of a net-zero world, while ensuring it caters to the social needs of communities and stakeholders. SSE also actively uses this holistic approach to advocate for working closely with governments and suppliers to collaborate and create the conditions to achieve strategic targets

Shifting towards stakeholder value creation

The dominant logic of business is consequently shifting from simple shareholder value maximisation to a much more complex balancing act, in which a wide array of stakeholder interests must be understood, evaluated, and addressed. If not, the chances are that underserved stakeholder groups will point out expectation gaps, make this public and hold businesses to account. Or regulators will change the rules of engagement and the balance of interests, with the risk that they get it wrong.

The business of business is not shareholder value creation. The business of business is being aware of all stakeholders, understanding their expectations and redefining value creation so that choices are made based on a nuanced theory of decision-making, before being forced by regulation. It is a theory that contributes positively to value creation across stakeholder groups and delicately manages trade-offs for the benefit of future generations.

Questions worth considering

Have you articulated an explicit theory of what constitutes good and bad strategic decision-making in your organisation?

What needs, wants and expectations do your stakeholders have and how will you serve a multitude of stakeholder interests and manage trade-offs?

What are the fundamental principles that should guide you in the future to create value for all stakeholders and society?

Sustainability
REIMAGINED

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