CFO Insights
June 22, 2023

Rethinking the value equation: How CFOs can catalyze value creation for a broader group of stakeholders

CFOs typically play a central role in value creation. With an average CFO tenure of five years,[1] and in a business environment where the S&P 500 is doubling every seven years, on average,[2] finance leaders are tasked with driving toward doubling their company's value in a handful of years. And with the concept of value creation generally shifting toward the inclusion of more stakeholders' interests and perspectives, that challenge may not be getting simpler anytime soon.

Key regulators, leading investors, and influential customer groups have begun calling for more extensive reporting on broader stakeholder considerations.[3] In response, some executives have begun making commitments to focus their organizations on creating value not just for shareholders, but also for a broader range of stakeholders, including employees; customers and the public; and even the environment itself. Nearly 200 U.S. CEOs have signed the Business Roundtable's "Statement on the Purpose of a Corporation,"[4] and almost 400 CEOs have signed Corporate Sustainability and Responsibility (CSR) Europe's "CEOs Call to Action."[5]

CFOs now face the challenge of driving long-term value creation within a multi-stakeholder context. This means not only understanding the value equation for each stakeholder group, but also managing interdependencies and tradeoffs in ways that result in adequate, equitable, and sustainable returns for each stakeholder group.

In this issue of *CFO Insights*, we seek to facilitate CFOs' efforts by providing an updated view of value creation from multiple stakeholders' perspectives. Deloitte's original Enterprise Value Map™ (EVM), developed in the early 2000s, presented a playbook for CFOs to consider key levers for increasing shareholder value. The new Sustainable Value Map™ (SVM) widens the aperture to extend to a broader set of stakeholders. This article will demonstrate how it can be applied in catalyzing important changes through capital budgeting and performance management.

The traditional enterprise value map

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.

This focus has traditionally led to investors' interests profoundly informing the choices, priorities, and strategies of businesses and their leaders. During that time span, companies have undertaken increasingly sophisticated approaches to understanding and improving the underlying drivers of shareholder value. Deloitte's contribution to this effort was the EVM, a framework designed to link shareholder value, financial performance, operational performance, and improvement actions through cause-effect relationships (see Figure 1).

The original EVM identifies four key value drivers for generating shareholder value: growing revenues; increasing operating margins; raising asset efficiency; and improving market expectations. Deeper levels of the EVM outline the specific actions organizations can take to help deliver improvements at the top level. In practice, the EVM has been most helpful in aligning management teams on current performance and key pathways for improving value creation. Overall, it has provided a shared language for identifying and communicating key priorities, and for helping ensure that key decisions are reflected in initiative portfolios and performance management systems.

Good but insufficient

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 activities.

But we have long known—but often failed to address—that companies' actions can create externalities felt by non-shareholder constituencies. 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 not generally included the value of these critical inputs in analysis and decision-making.

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

1. **Underestimating costs:** Overlooking costs borne by other stakeholders in the 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 of the resources directly and indirectly provided by non-shareholder constituencies.

To counteract these distortions, we can begin to manage broader stakeholder value with the same rigor that has been applied 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 can help ensure adequate and equitable returns to each.

The new value equation: Sustainable Value Map

A multistakeholder view of enterprise value can help CFOs catalyze a shift toward a more sustainable version of value-based management. Such an approach better identifies, prioritizes, and balances value-creating investments across stakeholder groups, and also more deliberately promotes long-term access to critical resources and infrastructure provided by non-shareholder stakeholders.

The SVM is designed to facilitate this type of thinking, extending the ROI principles embedded in the original EVM (shareholder view) to provide a framework for addressing value creation for a broader range of stakeholders.

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. Note that the frameworks present illustrative starting points, informed by popular sustainability frameworks. Given that companies and their stakeholders may have their own views on the value drivers, we propose that they work together to develop their own formulations.

Figure 1. Deloitte Enterprise Value Map (top levels)

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 jump-start a deeper understanding and articulation by leadership teams.

3. **A system view:** To help promote the orchestrated management of value creation across stakeholders, the SVM puts the value frameworks and inputs/outputs on a single page. This approach can make it easier to avoid tunnel vision around any single stakeholder, and also can draw out the recognition of relationships and dependencies not always apparent in traditional analyses. Our experience with the original EVM 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 (see Figure 2). This new tool, we hope, will accelerate progress on multistakeholder 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. **(To download the full-detail SVM, click here).**

How CFOs can catalyze the shift toward a new value equation

What can finance leaders do to begin to move their organizations toward better value creation across a broader set of stakeholders? Applying the multi-stakeholder perspective built into the SVM can be transformative in two particular areas where CFOs and their finance teams often have a strong impact: capital budgeting and performance measurement.

Capital budgeting and business cases

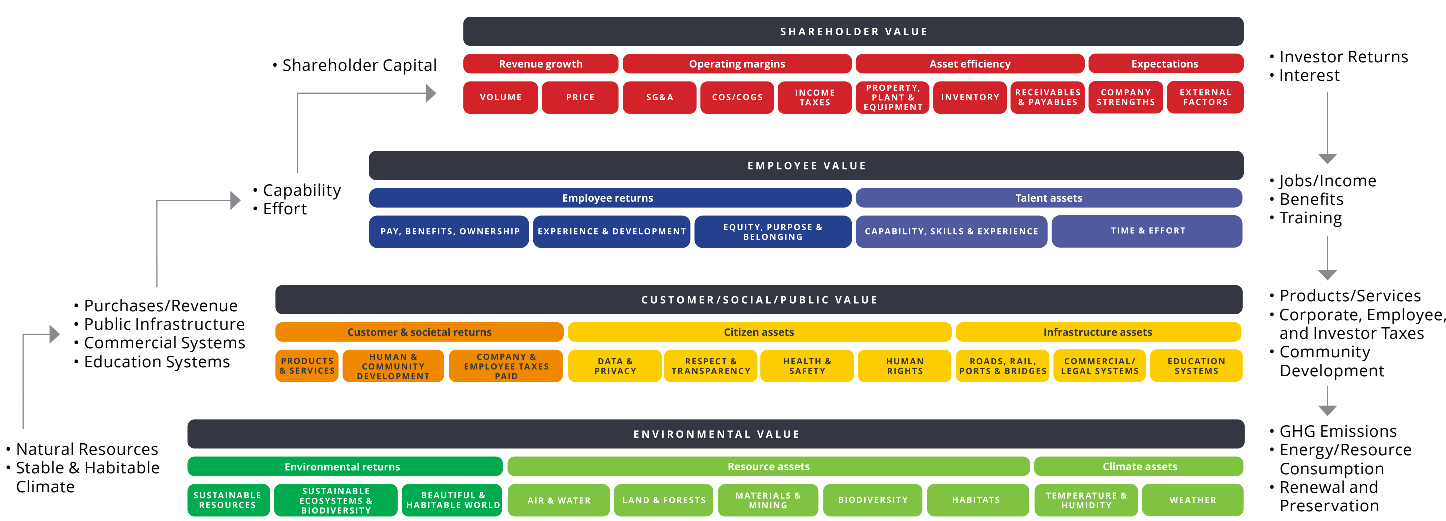
One of the most impactful ways to instill value-based thinking throughout the organization is building it into the capital budgeting process—specifically through the evaluation criteria applied to business cases.

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 business cases should be expected to answer questions from the viewpoints of a broader set of stakeholders in addition to typical shareholder value questions.

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

- **Stakeholder viewpoints:** What does the proposal look like through the lenses of employees, society, and environmental impact (i.e., what are the effects, opportunities, and risks for each)?
- **Key impacts:** What are the most substantial and important positive and negative impacts across all stakeholder groups?
- **Tradeoffs:** What tradeoffs are being made across stakeholders, and what are the options for balancing and/or mitigating these tradeoffs—at project and broader portfolio levels?
- **Resource access:** How might value created for each stakeholder group promote longer-term access to key resources like talent, natural resources, or community support?

Figure 2. The Sustainable Value Map (top levels—to download the full-detail version, please click here)



Source: "How enterprises can benefit from a multi-stakeholder view," Deloitte Development LLC, 2023

Even if many of these questions can be answered only qualitatively at first, stressing accountability 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 multistakeholder 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.[6] 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:

- **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 threats to value-creation performance and key resource availability.

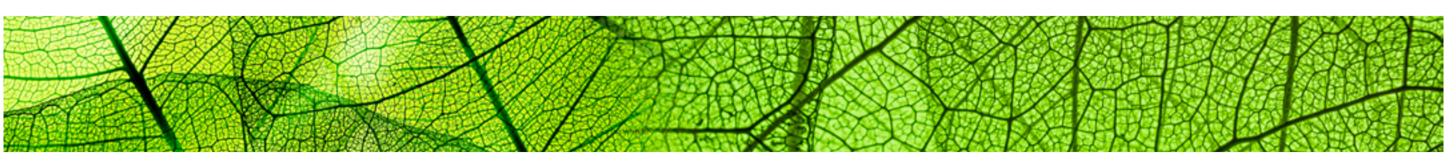
Many of these metrics may be difficult to measure, and performance might only be evaluated qualitatively (at first, anyway). But adding them to core shareholder value metrics can begin to focus attention on key performance areas and begin the process of building better measurement capabilities—and competencies that are likely to be increasingly important as ESG and related cross-stakeholder reporting standards emerge.

The journey toward creating more value for all stakeholders

Embedding SVM thinking in capital budgeting and performance management approaches can not only begin to re-shape organizations' conceptualization of value creation, but also lead to the creation of near-term value that might not have occurred through a pure shareholder view. Here are three examples of the ways new value might be created.

- **Generate more value from net present value (NPV) projects:** In some cases, multi-stakeholder thinking might identify ways to enhance shareholder-value-positive initiatives in ways that create value for other stakeholders as well. For example, it might be possible to target additional stakeholder benefits at minimal incremental financial cost (e.g., by adding training elements that enhance employee engagement and development) or to restructure the way projects will be completed (e.g., by enhancing value for communities and ecosystem partners).
- **Reduce negative externalities:** Multistakeholder thinking and input might help companies anticipate and mitigate the negative consequences of initiatives for the company's broader stakeholder groups. For example, it might be possible to shift project approaches to remove or substantially reduce negative impacts (e.g., by scheduling initiatives to minimize negative impacts on community calendars and activities) or to add benefits that help offset negative impacts (e.g., by enhancing disrupted infrastructure or natural environments).
- **Generate and monetize new value:** Considering stakeholders' value equations independently and discretely might help companies find opportunities to create value that would not have been seen through a shareholder-first lens. For example, it might be possible to provide information to stakeholders in ways that create value for them (e.g., by improving the quality and timeliness of information provided to regulators and supply chain partners) or to provide easier ways for employees to manage their finances (e.g., by adding personal finance insights and better wealth management tools to 401k programs). Creating value in these ways might create shareholder value through a stronger brand (with employees and customers) and through better relationships with regulators and partners.

Like the EVM, the SVM is a tool intended to facilitate the types of analysis and discussions executives undertake to identify and execute on key value creation opportunities. It took decades for shareholder value to become well understood and supported by a wealth of data, methods, and tools. Our hope is that the SVM will accelerate CFOs' and other business leaders' progress in transforming their organizations into generators of sustainable value well into the future.



End notes

1. "On the Horizon: Global CFO Survey Report," FTI Consulting, February 2023.
2. "Average Stock Market Return," *Forbes Advisor,* February 16, 2023.
3. See "Sustainability as BlackRock's New Standard for Investing," BlackRock, January 2022 (investors); "SEC Announces Enforcement Task Force Focused on Climate and ESG Issues," U.S. Securities and Exchange Commission, March 4, 2021 and ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures, March 31, 2022 (regulators); and "World Economic Forum and UN Sign Strategic Partnership Framework," World Economic Forum, June 13, 2019.
4. "Business Roundtable Marks Second Anniversary of Statement on the Purpose of a Corporation," August 19, 2021.
5. CEOs Call to Action, CSR Europe, December 10, 2019.
6. "The Balanced Scorecard—Measures that Drive Performance," Harvard Business Review, Jan.-Feb.1992.

Authors

Greg Dickinson
Global Sustainability and Climate Practice Managing Director
gdickinson@deloitte.com

Ajit Kambil
US Private Equity Program Managing Director
akambil@deloitte.com

Contributors

Jason Girzadas
US Chief Executive Officer
jgirzadas@deloitte.com

Jennifer Steinmann
Global Sustainability & Climate Practice Leader
jsteinmann@deloitte.com

About Deloitte's CFO Program
The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject-matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career—helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information about Deloitte's CFO program visit our website at:
www.deloitte.com/us/thecfoprogram.
Follow us @deloittecfo

Deloitte CFO Insights are developed by Josh Hyatt, Editor, CFO Insights, CFO Program, and John Goff, Senior Manager, CFO Program, both Deloitte LLP.