Unravelling the Business Value Landscape

Future Leaders Program 2014

Enabling tomorrow's sustainability business leaders

wbcsd future leaders

FORWORD

A key issue in innovation is exposure. Exposure to new ideas, new topics, new people. Exposure also in terms of attitude. An attitude of openness, willingness to explore, to fail, to start again. As a financial institution in the 'new normal', innovation is vital, as is openness and transparency. They reinforce each other. We feel it is vital for our own sustainability, as for developing solutions for the challenges that our societies are faced with, that we open doors, confront, discuss and create good business. Sending a young manager to the Future Leaders Program is grounded in this view as is our support for 'redefining value'. The project team explored, listened and discussed. We hope the reader 'opens' his mind, wonders and explores too.

Erik Van Acker,
General Manager CSR
at KBC Group

This report is not the work of sustainability experts; rather, many of the group members work in finance. The group comprises six managers from The Dow Chemical Company, EY, KBC Group, KPMG, Mitsubishi Corporation and PwC. The objective of this report is to help business by unravelling current thinking and practice on "business value" and to make some recommendations on key principles underlying this term when communicating both internally and externally. To achieve this, the group conducted a comprehensive literature review, a survey and several in-depth interviews with experts in finance, academia, and sustainable development.

The Future Leaders Program (FLP) offers a unique experience for young employees of WBCSD member companies. It provides a rich learning experience in which participants share ideas and explore highly topical and dynamic subjects, whilst developing a solid international and professional network that they can take forward throughout their careers. The FLP's 2014 theme 'Accounting for Natural & Social Capital in business decision-making' is a topic at the forefront of the sustainability agenda for many companies, and within this participants are addressing the question of what constitutes business value - a fundamental question for both business and society today.

Yoshiyuki Nojima, General Manager,
CSR & Environmental Affairs
Department, Mitsubishi Corporation

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EXECUTIVE SUMMARY

There are many definitions of business value today, some of them inconsistent with each other, which is leading to confusion in the business community. This report attempts to provide an analytical review of what is meant by 'business value'. Companies are increasingly aware of the need to account for non-financial aspects of business management, and tools are emerging to measure these. As companies make the transition from a purely traditional definition of business value based on shareholder return, to one that comprises non-financial aspects, there is a need to reflect on where this transition is heading.

Our survey of 82 respondents shows that a reshaping of the conventional definition of business value is taking place. A large proportion of survey respondents believe that one of the most defining aspects of business value is how a company contributes to addressing global challenges through its products and services. Clearly, business today is expected to create value not just for the shareholder but also for society, while protecting the environment now and in the future.

At the same time, our analysis shows that business needs to maintain its core drivers: financial profit, shareholder return and customer satisfaction. Without these, business would cease to exist. The twin expectations of business profit and value to society are leading to new corporate practices and new thinking around the links between financial profit and social or environmental value, which this report highlights.

Based on our findings, we offer a set of high-level recommendations on how to describe business value. There is no 'one-size-fits-all'. Value is often subjective and varies according to context. But what is clear is that business value is now a balancing act and requires a more holistic approach than before. Four guiding principles are offered as recommendations:

1 **Understanding the business value you create:** principally, financial profit should remain as the underpinning component of business value. However, companies should generate profit whilst integrating more fully the many externalities, costs and risks that are currently left unaccounted for into capital allocation and other management decisions.

2 **Beneficiaries of business value:** who does the business want to benefit from the value it creates? Value to whom is a key determinant in the definition of business value.

3 **Long term business value:** business value should be determined based on a long-term outlook. Any business value created today is undermined if it is done so at the expense of potential future value.

4 **Communicating business value:** companies should measure and report systematically on their business value, using an appropriate and consistent method.

1. Literature Review
A review of the term 'business value'

What is 'value'?

According to the Oxford English dictionary, value is "the regard that something is held to deserve; the importance, worth, or usefulness of something", as well as the "material or monetary worth of something" and "the worth of something compared to the price paid or asked for it" (1). Value can be applied to various contexts. For example, one may determine the value of a property by assessing its location, size, and amenities. But there are many other aspects humans assign value to that are harder to express in tangible terms. A beautiful landscape, an experience, or a human characteristic can all be considered valuable despite their intangible qualities.

"The great part of the miseries of mankind are brought upon them by false estimates they have made of the value of things"

Benjamin Franklin

"So, is Value Valuable? The answer is, I think, not very. It might be better to cease referring to 'value' at all, and instead use unambiguous phrases: price, cost, labour, when embarking on discussion of ideas."

A Fraser, 2005
Is value valuable?

The traditional view

What do we mean by 'business value'? What determines the importance, worth or usefulness of a business? The **finance and accounting communities** typically assess the extent to which it generates financial wealth. Tim Koller, a corporate valuation principal at consultancy firm McKinsey, says value is driven by growth and returns on financial capital, and is created when companies generate higher cash flows (2). Many experts consider shareholders central to this definition, arguing that the financial return generated for shareholders is the ultimate form of business value. The start of this view is often attributed to renowned American economist Milton Friedman, who said in 1970 of a CEO that "in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation…and his primary responsibility is to them"(3). This thinking gained further prevalence in the 1980s when the CEO of GE, Jack Welch,and many other CEOs touted maximising shareholder wealth as central to corporate success (4).

SECTION 1

A shifting perspective

A growing number of theories challenges this conventional definition. Steve Lydenberg, founding director of the Initiative for Socially Responsible Investment at Harvard University, stated that measuring companies solely by share price is not only a narrow expression of business value but potentially dangerous (5). The concept of **Enlightened Shareholder Value** (ESV) argues that shareholder-based definitions are founded on short-term thinking and neglect the future shape and expansion of the market in which a company operates (6). Companies should aim to balance seeking opportunities to make profits now with those to make profits in the future. For instance, investing in coal-fired power generation now will increase greenhouse gas emissions, so capital will have to be allocated in the future to address climate change impacts.

By contrast, investing in cleaner technologies, such as renewable energy, would limit emissions and so reduce future costs to pay for damages.

Other valuation experts argue that business value should be based on how business works with society and how it serves society as a whole. The **communitarian approach** stresses that confidence and trust in corporations are very low because of the widely-held belief that core societal expectations based on democracy, stewardship and justice are being undermined rather than strengthened by contemporary corporate practices (6). In the same way that measuring quality of life solely on economic growth and GDP are increasingly coming under question, communitarians aim to stretch the traditional boundaries of business from purely profit-driven entities to organisations that operate with an enduring commitment to the public interest. In 'Obliquity: why our goals are best achieved indirectly', economist John Kay argues that a pursuit of business value that looks after all stakeholders is more successful and economically sustainable than the pursuit of short-term shareholder wealth alone (7).This theory is elaborated further by the International Integrated Reporting Council (IIRC), which says that society is underpinned by six forms of capital (financial, manufactured, intellectual, social and relationship, human, natural) and as beneficiaries of these capitals, companies must account for all of them in the pursuit of business value creation (8).

Value is created through an organisation's business model, which takes inputs from the capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organisation, its stakeholders, society and the environment.

IIRC Dec 2013
The International <IR> Framework

The argument in support of shareholder value is not going away, nor should it. However, in a world driven by changing demographics, disruptive technologies, climatic variability, unstable financial and political systems and market volatility, it needs to be integrated with other performance incentives and measures that encourage directors, management and investors to keep their eye on the fundamentals — namely, liquidity, innovation and productivity, and opportunities and costs of the future.

Terry F. Yosie, 2014
3 reasons the world is moving beyond shareholder value

From thought to action

In recent years increasing efforts have been made to incorporate these concepts into commercial practices. A growing number of **asset managers** are asking for social and environmental factors to be accounted for in long-range portfolio management, following the Principles for Responsible Investment, a UN-led investor initiative. The *Natural Capital Declaration*, a CEO-endorsed financial sector effort launched in 2012, calls upon Investors to commit to integrating natural capital into financial products and services. So far 50 financial institutions have signed on. Last year HSBC published *'Natural Capital: identifying implications for economics'*, calling on investors to "evaluate whether natural capital is well managed and above sustainability thresholds"(9).

In the **accounting profession**, many industry bodies are helping to reshape the meaning of business value. The Association of Chartered Certified Accountants (ACCA) recently published the series *'Is natural capital a material issue?'* to present the business case for accounting for natural services drawing from traditional business management practices (10). Accounting standards, such as the US Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS) have yet to adopt any of these changes and are not likely to do so for some time. But many countries now have disclosure requirements for non-financial information in the annual report. The 'strategic report' required in the UK, which obliges companies to report on their business model, strategy, and future outlook, and integrated reporting on non-financial risks and sustainability in South Africa, are just two examples.

Consultancy firms are also influential in redefining business value and they are coming up with innovative tools to account for social and environmental factors. Using PwC's Total Impact Measurement and Management(TIMM) framework, a company can assess the potential positive and negative impacts of an investment under different scenarios, to make more informed business decisions (11).TIMM encourages a more holistic approach to business management and widens the scope of business value to encompass impacts on society and the environment. Other firms have recently developed similar methodologies. For example, KPMG's 'True Value' methodology bridges the gap between earnings and 'true' earnings by taking environmental and social externalities into account (12) and EY also supports moving towards a more holistic picture of business value by identifying and measuring the intangible value and externalities that a company generates from doing business (15).

Efforts to minimise negative impacts on society while conserving the environment are nothing new. Many companies have made strides in embedding such practices into their management strategies. More recently, some companies have begun to put a monetary value on non-financial benefits, such as ecosystem services, to reveal their worth to the business. While monetisation of non-financial inputs is not always possible or indeed preferable, in theory it helps companies to better position such information alongside financial data, and leads to a more holistic way of business management. Companies such as The Dow Chemical Company and Kering (Puma) are leaders in this endeavour.

In summary, existing literature shows that increasingly business value is considered to be more than the creation of pure financial wealth.

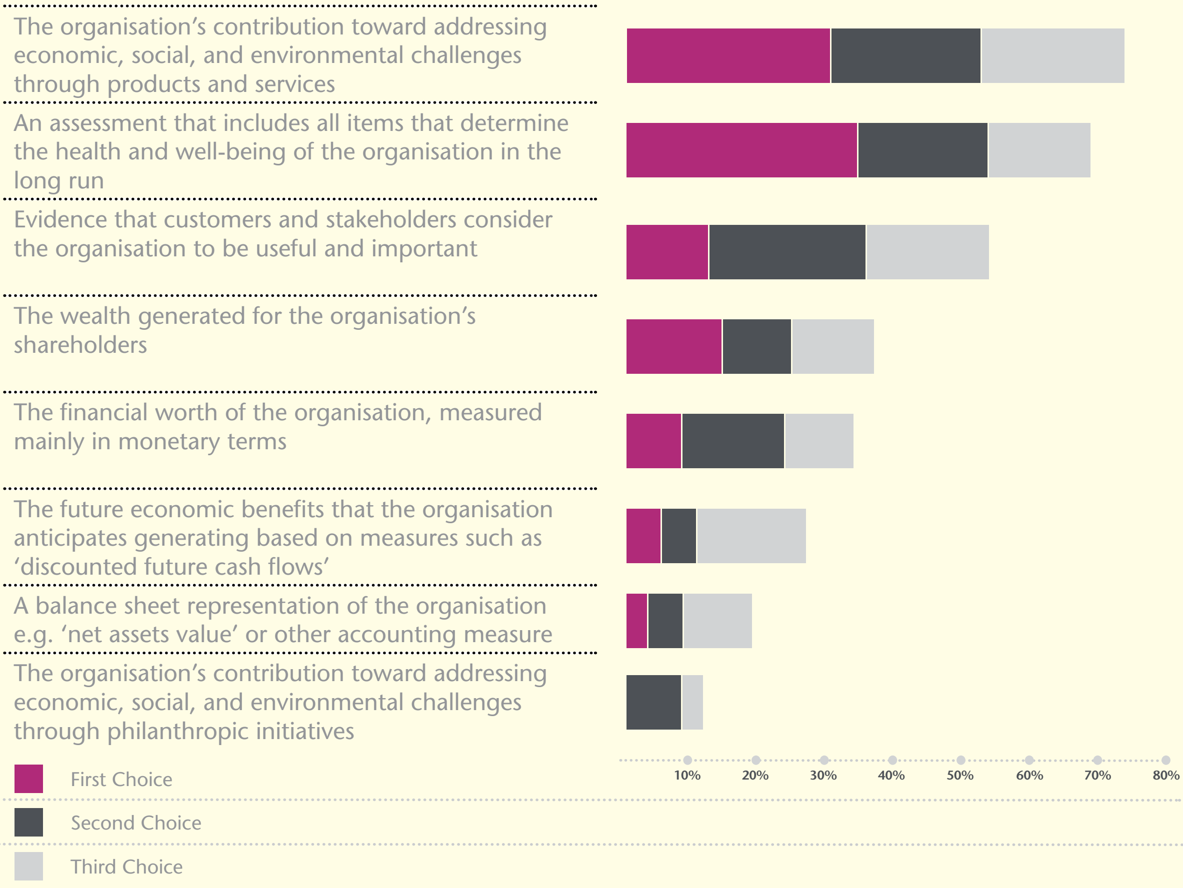
2. Our own findings
A 'deep dive' survey into business value

In August 2014, the FLP team conducted a web-based survey of WBSCD member companies and other professionals to reveal whether a consensus is emerging on the term 'business value' and whether common criteria underpin the way that these companies understand, assess and communicate the term. The findings below are the results of 82 responses. Details of the respondents are shown in Appendix 1, including geographies and industries.

Definitions

A selection of business value definitions were proposed in the survey and respondents were asked to select the ones they felt most strongly about and to rank them in order. Of the business value definitions proposed, the more **holistic definitions** aligned to the 'triple bottom line' or IIRC interpretation were the most popular. As per Figure 1 overleaf, the highest scoring definition was 'the organisation's contribution towards addressing economic, social, and environmental challenges through products and services', followed by 'an assessment that includes all significant items that determine the health and well-being of the organisation in the long run', followed by 'evidence that customers and stakeholders consider the organisation to be useful and important'. Although there was an overall consensus on the scores by respondents, the survey showed a tendency for sustainability professionals to focus more on the definitions that incorporate non-financial aspects, for executive managers to focus on financial worth expressed in 'money', and for finance professionals to model value as discounted future cash flows.

Figure 1: Results of the survey question "Which three of the following statements define business value from your perspective? Please select three answers in order of preference".



The majority of respondents believe that the term business value is **not consistently** defined over time, across cultures, stakeholders or generations. Definitions are believed to be slightly more consistent across industries and business models, but in all cases more than 50% of respondents stated that the term business value was not consistently defined across these parameters, or only partially. Only 42% of respondents said that their organisation has its own definition of business value. The survey results demonstrate the need for any definition of business value to be specific and fit for purpose.

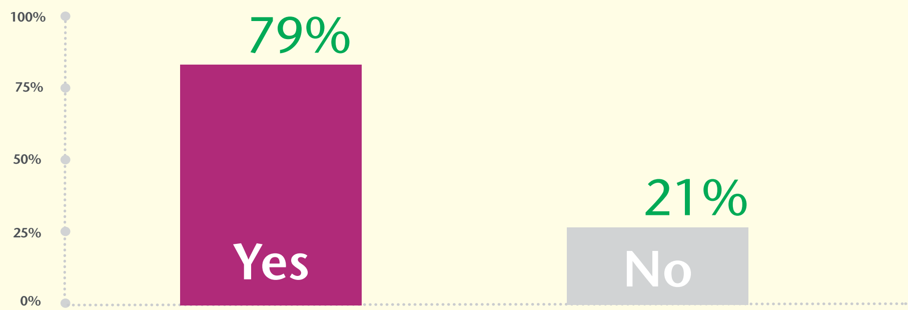
> **We have broken corporate value into economic, social and environmental components, providing several definitions for the concept of corporate value**
>
> *Anon. Survey Respondent on their 'own' definition of business value question*

SECTION 2

Shareholders and Investors

79% of respondents revealed that their shareholders or investors inquire to some extent about the **long term value drivers** (long term business strategy including social and environmental impacts) of their business by answering either 'yes' or 'partially' to this survey question, as per Figure 2. This aligns with our literature review and interviews we conducted with some investor relations departments of the companies surveyed. Although a strong focus on stock price and earnings remains, social and environmental considerations appear to be no longer stranded outside of traditional accounting and return on investment decisions. The results are not evenly spread amongst industry or country however and there is a clear correlation between businesses that operate in more heavily regulated industries and geographies and the interest of investors, reinforcing the age old assertion that regulation drives action.

Figure 2: Results of the survey question "Do your shareholders / investors inquire about the long term value drivers (long term business strategy including social and environmental impacts) of your organisation?" 'Yes' in the graph above includes those answering the question as 'yes' or 'partially'.



Investors are mostly focused on financial impacts and how our strategy will enable us to meet our goals, but strategy includes consideration of social and environmental impacts to the longer term bottom line.

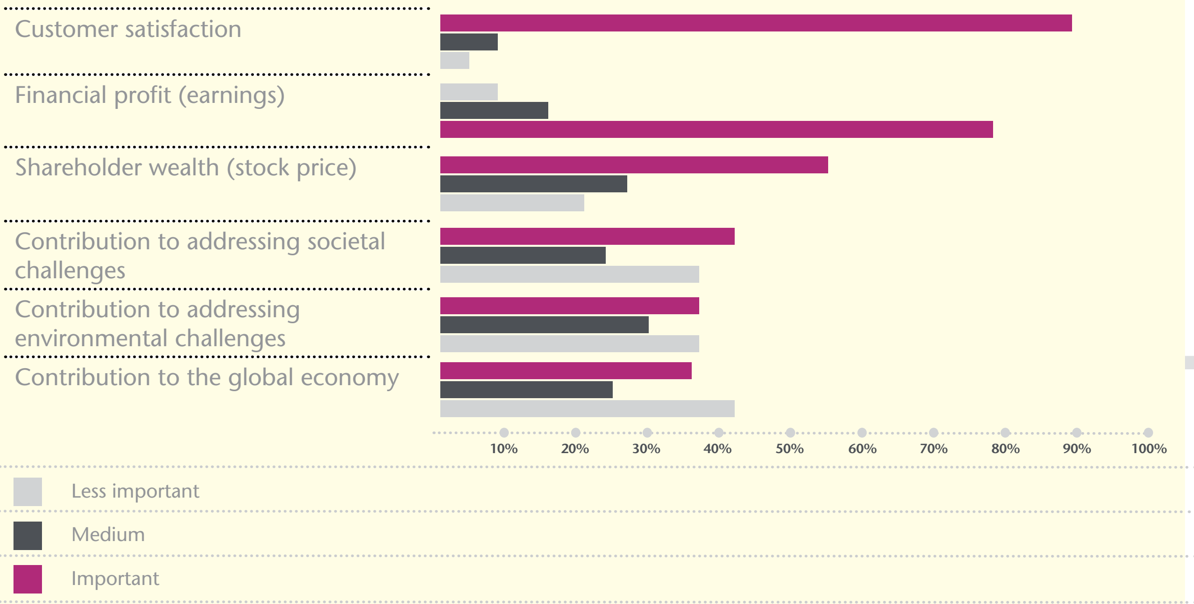
Anon. Survey Respondent on the importance of long term value drivers for investors/shareholders

Measurement and Reporting

When those companies that have **processes to measure business value** were asked what metrics they used, 65% said they used quantitative data and 64% cited monetary data, slightly more than those that used qualitative data (56%). A total of 30% of respondents said they used all three. As with the definition of business value, the method of measurement must be specific and suited to the purpose, depending on the exact nature of what is being valued and for whom. 85% of respondents did not agree business value can only be measured in monetary terms, which further emphasises this point.

On **what aspects a company should measure and review when assessing business value**, respondents cited customer satisfaction, followed by financial profit (earnings) and shareholder wealth (stock price), as per Figure 3 below. They ranked contribution to the global economy, addressing societal challenges and addressing environmental challenges as less important. Some of the highest scoring aspects, such as financial profit and shareholder wealth, are arguably fairly short term and narrow. This is in contrast with the answers on the definitions of business value (Figure 1) where economic, social and environmental aspects and long-term thinking were prominently featured. This dichotomy demonstrates that while a company may recognise the holistic definition of business value, measurement techniques are not necessarily following suit. We present some of the current thinking on measuring business value in the following section (section 3).

Figure 3: Results of the survey question "What aspect(s) should a company ideally measure and/or review when assessing its own business value? (Please rate on the scale of most to least important)"



In summary, our literature review and survey strongly suggest that social and environmental factors should be included in the definition of business value. The survey showed that the definition of business value is made up of a company's usefulness and its contribution towards addressing global challenges through products and services. The survey also demonstrated that business value needs to be viewed over the long term, and that investors inquire about long-term drivers of business value, including social and environmental factors. As the survey showed that financial profit and shareholder return were two of the most important aspects of business value to be measured, it also demonstrated a clear need to translate social and environmental performance, which are contributors to business value, into economic results.

3. What is the current state of play?

Case studies from companies leading the charge

As per section 2, there is a need to translate social and environmental factors into economic results for a company, as the survey noted that financial profit and shareholder return (alongside customer satisfaction) were the most important aspects of business value to be measured.

The methodology for translating non-financial aspects into economic results is beginning to emerge, as companies increasingly recognise that business value includes their contribution to broader societal value. In 2013, the International Integrated Reporting Council (IIRC) developed a framework for holistic reporting to try to capture all aspects of business value. The framework measures the **six capitals (financial, manufactured, human, intellectual, social, and natural) of value creation.** Over time, the capitals rise, fall, or are transformed by business activities(8). Firms can demonstrate a more complete picture of business value by reporting how they have transformed each of the capitals through their business model. Several major accounting and consulting firms have built on this holistic look at value and developed methods for incorporating environmental and social factors.

Accounting has become a tool to disguise the slow death of a company.

Thakor, Decraff & Quinn, University of Michigan Business School. Creating sustained shareholder value and dispelling some Myths.

Current financial reporting is like having a car with a rear view mirror, but no windscreen.

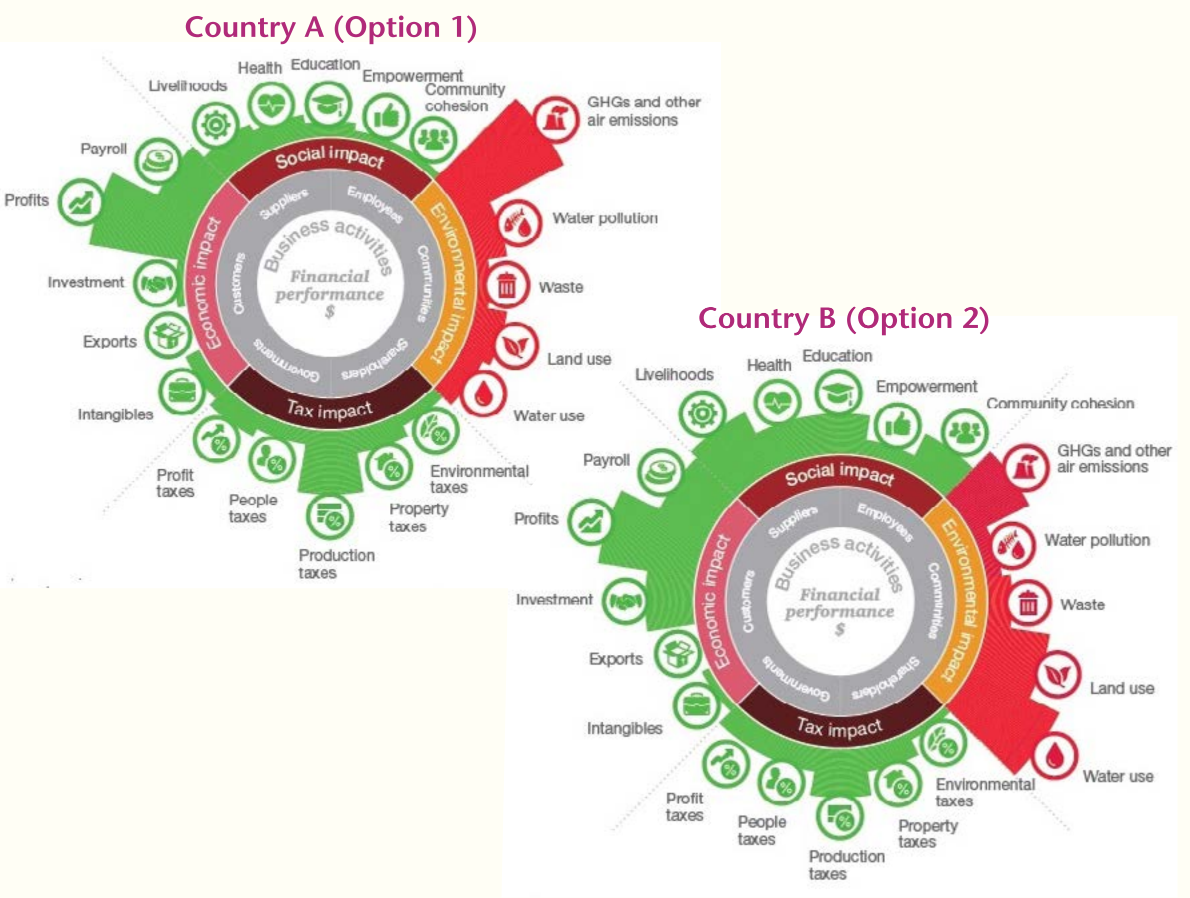
Mervyn King, June 2014 presentation to the Future Leaders Program in South Africa.

Measuring the contribution of intangibles to future cash flows is fundamental to integrated reporting and will help explain the gaps between book, intrinsic and market equity value

EY, 2014 Integrated Reporting, Elevating Value

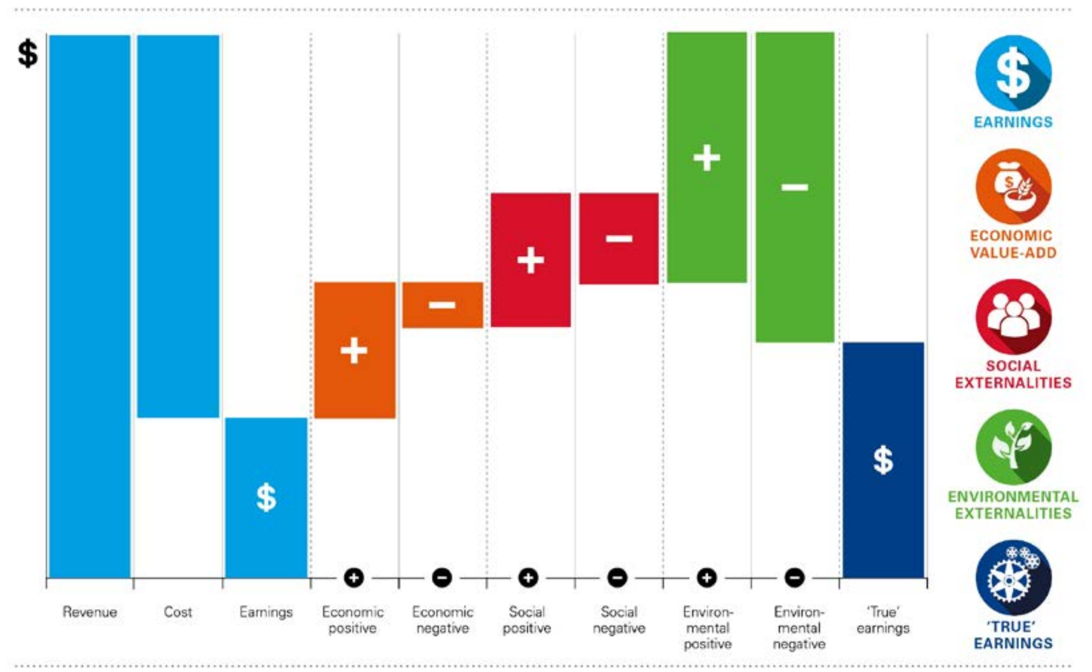
PwC's Total Impact Measurement and Management (TIMM) framework (11) is one of the methodologies recently developed supporting this **holistic view of value creation**. Historically, business value has been measured and reported in terms of Inputs (resources used – costs) and Outputs (activity done – revenue). TIMM goes beyond this to measure the Outcome (what has changed as a result of the activity), the Impact (how much of the outcome is attributable to the business) and the Value of the impact, helping companies look at any particular strategy or action to understand the trade-offs, what is impacted positively and by how much and what is impacted negatively and by how much, in financial terms. Similarly, KPMG recently announced their 'True Value' methodology in which they focus on environmental and social impacts (positive and negative) that are externalities (not included in the firm's revenue or costs) but could become internalised through regulation, customer action, or consumer pressure, thereby providing firms with a long term look at how financial profit could be impacted by environmental and social factors (12). In their recent Integrated Reporting publication (15) EY also support moving towards a more holistic picture of a business value, including its monetisation and measurement. Businesses need to identify and measure the intangible value and externalities they generate as a result of doing business, to tell their unique value creation stories. Moreover, businesses need to describe the ability of intangible assets and externalities to generate future cash flows.

Figure 4: A schematic of a hypothetical brewer with two options, it can import barley from Country A (Option 1) or it can grow an alternative crop locally in Country B (Option 2). Each option has different social, tax, economic and environmental implications as well as, of course, financial ones. Each bar represents a positive (green) or negative (red) impact. The inner circle represents the expected return to shareholders. The different impacts can be compared and aggregated.



Source: PwC, Measuring and Managing Total Impact: A new language for business decisions, 2013

Figure 5: A 'true' earnings bridge for a hypothetical company. Combining financial and monetised externality data shows a broader view of the company's value creation that includes both corporate and societal value. This helps business managers to visualise the company's most significant positive and negative externalities and understand where the company's actions may be creating or reducing value.



Source: KPMG (2014). A New Vision of Value: Connecting corporate and societal value creation

The Dow Chemical Company (Dow) and the environmental non-profit organisation 'The Nature Conservancy' (TNC) have focused on another means of including natural capital as a component of business value. While the above approaches focus on accounting for externalities, Dow's approach focuses on **identifying natural capital assets that the company can invest in that will produce economic value directly for the company.** The most prominent example of this is a constructed wetland at the Sea drift facility in Texas. In the mid-1990s, the site was faced with the decision to invest in either a batch reactor or a constructed wetland for water treatment. Ultimately, they decided to invest in the wetland, saving them more than $280 million to date in capital and operating costs,while also providing broader societal benefits by reducing the amount of fossil fuel energy used in the water treatment process and adding critical wetland habitat for birds and other species. Similarly, Dow is currently working with TNC to determine if reforestation could be cost effective in helping the company meet air quality regulations at their Freeport, TX site. Dow and TNC are also developing a tool that will help sites better understand the services that the natural areas on these sites are providing and will point them to areas in which investment could be made to reduce site costs or business risk, thereby contributing to the economic component of business value, while also enhancing nature and addressing the societal component (13) (14).

However, since much of business value is described in terms of shareholder return, methodologies that look at **business value from the investor perspective** are also necessary. Studies that show a correlation between sustainability performance and financial performance in the market are starting to emerge. For example, researchers from Harvard and the London Business School looked at 90 pairs of companies, matched in terms of size, industry, operational performance and capital structure, but different in that "one group had created governance structures related to sustainability and made substantive, long-term investments; the other group had not." The research found that, had $1 been invested in each of these portfolios in 1993, the sustainability portfolio would have returned $22.60 at the end of 2010, while the other portfolio would have returned only $15.40(16). Therefore, adopting a wider perspective of business value and incorporating social and environmental factors into an assessment of business value does not have to preclude economic success.

Providing further direction on non-financial impacts, a report by Morgan Stanley to investors in the utilities sector, published in June 2014, highlighted specific environmental, social and governance risks tailored to the individual company level. For each of the major utilities companies, it suggested specific social, environmental and governance questions for the Investor to ask that company and specific items to look out for which could affect the company's share price (17).

In summary, business value can keep the core elements of financial profit and shareholder return while factoring in the more holistic elements now seen as important components of value. While investors are beginning to look at how sustainability issues affect business value, more work is needed to account for these and inclusion into specific models that predict share price is still likely to be a long way in the future.

4. Guiding principles

Things for a company to consider when defining 'business value'

Since value is specific to a situation and context, there can be no 'one size fits all' solution. Value to whom (the beneficiary) is a key determinant in the definition of business value and its subsequent measurement.

However, what is consistent is the notion that business value needs to be an inclusive view of a company that takes into account all aspects of doing business. Based on our literature review, survey data and interview findings, we propose the following principles as a guide for companies to consider when defining their business value. Within each of these principles, companies should recognize their multiple stakeholders and seek to balance the interests of the stakeholder (value drivers), define the equivalence between the value drivers and agree on the measurement.

SECTION 4

1 Understanding the business value you create - **profitability is central to business value; without it, a company would cease to exist. At its core, business value has three drivers which are all linked to profitability: revenue, cost and risk. Each of these can be viewed as an opportunity or threat to value, and are impacted by the way in which the company interacts with society and the environment.**

Revenue: Sustainable business value means seeking new revenue opportunities that are in line with the demands of society. For example, delivering low cost goods in a developing country may be barely profitable today, but fostering customer loyalty combined with a strengthening economy could lead to increased sales of the product or a shift to more premium products within the same brand, and thereby lead to much greater profitability. Customer satisfaction and business reputation are both key to revenue, so companies must consider how customers and consumers view their products, services and ultimately their brand.

Cost: In measuring and communicating business value, a company must understand its costs. Costs should not only contain traditional financial costs (e.g. costs of goods), but where possible factor in externalities that could become real costs in the future. Increasingly, governments are creating policies that seek to internalise such costs created by business, such as pollution. In the U.S., for example, recent regulations seek to impose a cost on greenhouse gas emissions for utilities. Scarcity of certain raw materials could also lead to increased cost. Understanding externalities that could impact cost is critical to understanding 'true' business value.

Risk: Increasingly, risk is not only directly financial. Companies and investors are increasingly concerned about growing risks from regulation, suppliers, resource scarcity and those related to climate. Prominent examples include operational and reputational risk from inadequate supply chain monitoring, as in the case of many electronics and clothing line or retail firms. Manufacturing firms in water scarce areas must consider the risk of inadequate water supplies. Considering risk holistically is critical to sustainable business value.

> **"Societal needs, not just conventional economic needs, define markets, and social harms can create internal costs for firms."**
>
> *Michael Porter and Mark R. Kramer. Harvard Business Review. 2011. Creating Shared Value.*

2 Beneficiaries of business value - **who does the business want to benefit from the value that it creates?** Value to whom is a key determinant in the definition and subsequent measurement of business value. There is clearly a difference between the definition of business value amongst different stakeholders, for example that of the shareholder, customer and wider community. The 'user' must also therefore be defined. Our survey results showed a preference for the definition of value as related to contribution to addressing broader economic, social, and environmental issues – this implies that business value needs to benefit a broader range of stakeholders. Similarly, many companies have mission statements that combine elements of profitability with broader social good or responsibility. When speaking about business value, businesses may define it narrowly to focus on shareholder value; however, we believe that a more complete definition of business value should include elements of impact beyond that to this narrow audience. This more complete picture could involve an assessment of trade-offs, as discussed in some of the methods for measuring value, as value may be created for one group, but reduced for another.

3 Long term Business Value - **business value should include short term, medium term and long term horizons.** Currently, most established companies are comfortable with addressing and discussing short term value. Finance professionals can discuss change in share price or market capitalisation over a period of time spanning a few months or one year. Companies can reasonably estimate their profits over this period. But business value has always had a long term component, as terminal values in discounted cash flow models suggest. However, companies have not always been effective in addressing long term value and long term profitability because the future can be hard to predict. Will a business continue to be able to address its customers with its current product offerings? What will customers demand in the future? In focusing on business value, companies need to consider different options for the future and ensure that they are not precluding themselves from participating in future markets or alienating customers that could be critical to long term success. Innovation is also vital to the creation of business value in the long term.

4 Communicating business value - **business value should be measured and reported so there is some form of 'yard stick' to monitor progress and to compare performance with other companies. Measurement should go beyond traditional financial metrics.** In the previous section, we reviewed current methods for measuring business value that go beyond looking at traditional factors such as market capitalization or shareholder return. This field is still evolving and will continue to do so. But while developing methodologies are looking increasingly towards monetisation, money may not always be the best way to measure a company's broader business value. Other metrics that capture impact on ecosystem services, employee health and happiness, or the satisfaction of a community in which a firm operates are also necessary. As this field evolves, there may be a need for a new non-monetary metric that encompasses both the economic and societal value of a company to reflect total business value.

"According to research by Deutsche Bank, which evaluated 56 academic studies, companies with high ratings for environmental, social, and governance (ESG) factors have a lower cost of debt and equity; 89 percent of the studies they reviewed show that companies with high ESG ratings outperform the market in the medium (three to five years) and long (five to ten years) term."

Bonini, Sheila and Swartz, Steven. McKinsey & Company. 2014. Profits with purpose: How organizing for sustainability can benefit the bottom line.

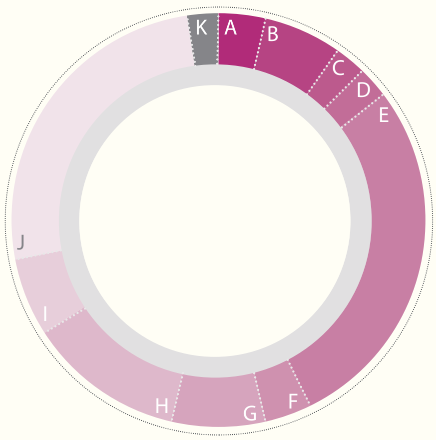
5. Conclusion

The business community is going through an evolutionary phase. Where once the sole purpose of companies was thought to be the creation of financial wealth for their shareholders, today there is increasing evidence to suggest that the scope is in fact far wider. Our research reveals that, increasingly, definitions of business value include social and environmental factors.

During this transition, many leading companies are developing and using tools to measure and evaluate various components of what they consider to be part of business value, such as community development and nature preservation. But which actually constitute business value? What are the priorities, and should they be universalised? While this report does not provide a universal definition of business value, it attempts to shed light on some of these questions and provide a basis for further study going forward. To that end, we encourage companies to come forward and be transparent in providing details of their business value definitions and basis of measurement, so that the learning journey can continue. Following this, it may be the case that in the future an overarching framework outlining key business value components is developed which could form a useful basis for guiding companies along the path towards long-term, sustainable business success.

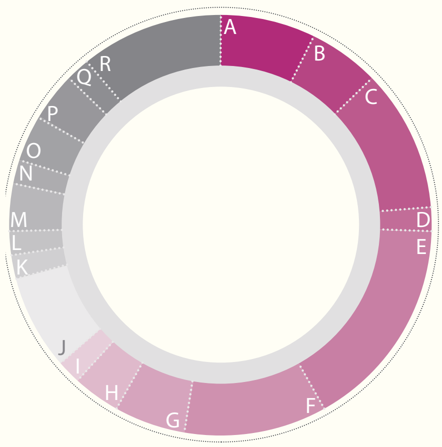
APPENDIX 1
SURVEY RESPONDENTS

Job Role



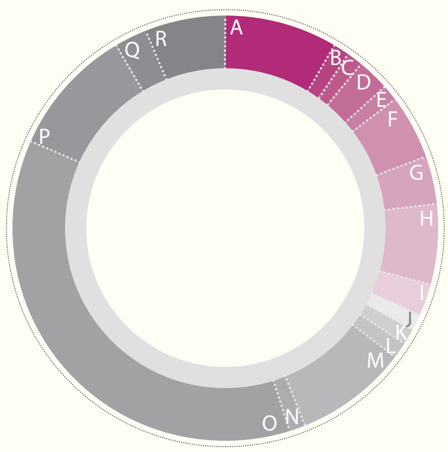
A	4%	Academic
B	6%	CEO
C	3%	CFO
D	2%	Consultant
E	28%	Finance Professional
F	4%	Investor
G	7%	Legal Professional
H	12%	Other Executive
I	6%	Other Management
J	26%	Sustainability Professional
K	2%	Not Disclosed

Industry



A	7%	Consumer Goods
B	5%	Education
C	11%	Energy
D	2%	Envionmental Services
E	16%	Financial Services
F	11%	Law
G	5%	Manufacturing
H	4%	Marketing Communications
I	2%	NGO
J	7%	Professional Services
K	2%	Real Estate
L	2%	Social Welfare
M	4%	Technology
N	2%	Tourism
O	4%	Trade and Investment
P	4%	Transportation
Q	2%	Waste Management
R	11%	Not Disclosed

Country



A	9%	Belgium
B	1%	Curacao
C	1%	Dominican Republic
D	2%	France
E	1%	Germany
F	5%	Hungary
G	4%	Japan
H	6%	Netherlands
I	2%	New Zealand
J	1%	Norway
K	1%	Peru
L	1%	Poland
M	9%	Portugal
N	1%	Switzerland
O	37%	UK
P	10%	USA
Q	2%	Vietnam
R	6%	Not Disclosed

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