

INCREASING RECOGNITION
OF THE NEED FORpurpose
beyond
profit

Eighty-nine per cent of executives believe that their organisations must shift attention beyond profit to wider value creation. This finding is from our recent Black Sun research, “Purpose beyond profit”, that we conducted jointly with the IIRC and accountancy bodies CIMA and AICPA. The views of over 400 C-suite executives from over 50 countries reinforced the emerging belief that business should be about more than just profit. Across all regions, and perhaps in response to recent corporate scandals, the majority of executives agreed that organisations need to shift focus from pure shareholder value to value creation that includes wider stakeholder groups.

By Sallie Pilot



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Future success is dependent on creating value for wider stakeholder groups

In sync with the increase of organisations demonstrating how they are creating value, executives' views of the traditional pyramid of influence, with profitability and financial return on top, has been challenged. The emerging new paradigm shows that future success will be dependent upon creating value for a broader stakeholder base. The research found that meeting the needs and expectations of stakeholders will grow far more important as future drivers of success than “just profits” for investors; along with the recognition that the value of a company is derived from how a business conducts itself as a corporate citizen. This includes: how it builds relationships on trust, how it respects employees and customers, and how it reflects a positive culture – leading to a values-driven leadership model. This movement towards a stakeholder-value model will mean a shift from short- to long-term thinking and from financial capital to broader capitals.

Today's information is holding us back

Despite global executive agreement that a longer-term perspective on strategic planning would improve value creation (79%), and evidence that a broader range of metrics are key to improved performance and long-term sustainability, the majority of executives are struggling to put these principles into practice. Only a handful of those surveyed say that they have adequate information needed to understand and interpret the future drivers of their business in order to make strategic decisions, and less than 25% say that they are fulfilling external information needs. Organisations must establish a new model of management and leadership to meet the requirements of their mandate in creating wider value for all stakeholders. Decision-making will change as organisations start to understand their own value creation processes differently and alter the way they measure, manage and recognise the wide-ranging elements of performance.

Reporting can be a powerful tool to drive behavioural change

Building trust in business is inextricably linked with long-term value creation. It is no wonder we are seeing a rise in organisations communicating their wider purpose and that corporate governance codes around the world are evolving. Investors, stakeholders, and reporting frameworks are all demanding that organisations communicate their strategic plans for long-term value creation. Encouragingly, many organisations are beginning to understand how the reporting process can be used to highlight their ability to create value in the short, medium and long term – and drive positive behavioural change.



Organisations must establish a new model of management and leadership.



For the majority of executives, building trust and confidence with stakeholders is seen as a key element of an organisation's communications strategy: 93% agree on the importance of effectively explaining how their business creates value through their corporate reporting.

Progress through reporting

It's clear that purpose beyond profit is imperative in today's world. This will only be achieved through a better understanding and communication of the wider factors which contribute to value creation and building successful relationships with wider stakeholders. Our research “The Real Drivers of Value: Lost and Found?” looks into the trends in reporting of the FSTE 100 and evidences that organisations are beginning to think in this way: the number of companies setting out their purpose has almost doubled from last year to 60%. Additionally, 63% of companies explain value creation through their business model and 67% conduct some kind of stakeholder engagement. Increased commitment from senior management and boards on these issues will help address key challenges, while strengthening the role business can play in aligning corporate behaviours to wider goals of financial stability and sustainability.

The more business leaders who understand the business case for broader reporting, the faster progress will be towards better business in a better world.

PURPOSE BEYOND PROFIT



The scope of how value creation is measured has shifted, with less focus on shareholder returns and more on non-financial information such as customer satisfaction and employee engagement. Corporates are now under pressure to consider all their stakeholders when making decisions and are motivated to share how they create value over the short, medium and long term. The 2017 edition of our Value of Value research “Purpose beyond profit” was conducted in partnership with AICPA, CIMA and IIRC, with the aim of gauging executives' views on how their organisations understand, manage and communicate value creation.