

iX Session - March 10th, 2021

SHAREHOLDER VS STAKEHOLDER VALUE

IN COLLABORATION



Innovation
Pioneers



**Key take-aways from the joint iX Session by
Innovation Pioneers and Ignite Sweden,
co-hosted by Googol.**

PARTICIPATING COMPANIES & ORGANIZATIONS

Alfa Laval, ASKO Appliance, Castellum, CGI, EY Doberman, Googol, Herenco/Emballator, Ideon Open, Inter IKEA System, Lindab, Minc, Naturvårdsverket, Perstorp holding, Renbloc, Sony, Stora Enso, Sveriges Allmännytt, Tetra Pak, White Arkitekter.

The session was a members-only event for Innovation Pioneers and Ignite Sweden members.

PURPOSE

A new impact economy is being built, one where businesses prioritize and consider their impact on all stakeholders —including communities, workers, customers, and the environment. Innovation Pioneers and Ignite Sweden now team up for three joint iX Sessions in 2021 on the theme "Shareholder vs Stakeholder value". The goal is to share, learn and co-create a shift for our member companies to a stakeholder focus to benefit more sustainable and profitable business models.

BACKGROUND

In 2017 the debate shifted drastically on whether the purpose of companies should be to deliver value only to its shareholders, or also other stakeholders; employees, and the ecosystem and the societies that companies are part of. It was finally proven that "long-term led" companies over time actually deliver significantly higher ROI to its shareholders than companies focused on beating the previous quarter.

Two things distinguish long-term led companies. Firstly, their long-term investment perspectives help them to grow faster by increasing their innovation capabilities and resilience to change. Secondly, they embrace a broader stakeholder perspective.

The capital markets were shook by the selfish and short-term behaviour that resulted in the financial crisis of 2008. But only a handful of years later many business leaders felt the short-term pressure was back stronger than ever. This was in sharp conflict with increasing attention on climate change and the growing awareness of the "Millennial effect", i.e. the power of young consumers increasingly making sustainable purchase choices.


A key milestone for the capital to swing towards sustainability and long-termism was that renewable energy had become the better investment alternative and initiatives like Agenda 2030, the Paris agreement, etc. The next milestone was at the World Economic Forum in Davos 2020. Finally, a broad and concrete framework for ESG-reporting was presented that could be broadly adopted by companies, regulatory instances and the capital markets.

Sources: Measuring the Economic impact of short-termism, McKinsey (2017) and Corporate long-term behaviors, McKinsey & FCLT Global (2020).

WATCH THIS VIDEO CREATED BY THE TEAM AT GOOGOL TO LEARN MORE ABOUT SHAREHOLDER VALUES: <https://youtu.be/qQ3b7ZUclAA>

5 keys to long-term corporate behaviour

- **Investments;** officially play to win in the long term, instead of not to lose in the short term.
- **Value creation;** create long-term value for all key stakeholders, not short-term shareholder value.
- **Portfolio management;** use a systematic approach to manage the portfolio of strategic change and innovation initiatives.
- **Resource allocation;** use value based dynamic allocation of capital, talent, assets, businesses.
- **Funding;** stay on the long-term course by resisting the temptation to take actions to boost short-term profits – instead keep up or even step up investments in strategic and innovation initiatives.



Source: Corporate long-term behaviors – How CEOs and boards drive sustained value creation, McKinsey & FCLT Global, Oct 2020

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3 PERSPECTIVES ON STAKEHOLDER VALUES & LONG-TERMISM

Following the presentation by Googol on the shift to stakeholder values, three participating member companies shared their views on and experiences with having a stakeholder focus.

NILS SÖDERSTRÖM - RENBLOC

Renbloc matches real-time energy consumption with production creating a new way to control your energy profile, optimize renewable energy consumption and significantly lower your CO2 emissions.

What is your experience in how sustainability can apply a stakeholder approach?

Following the money still needs to be in focus for a company to be able to survive long-term. An interesting question is exploring who the stakeholder is. We are moving from a B2B model to a B2B2C or B2B2B model where our customers' customers can also count as stakeholders. Among Millennials, 76 % would only buy from a company they have an emotional bond to. If you forget that perspective, you are missing an entire market segment. All forms of sustainability are becoming more important to the end-consumer – not only the environment perspective but also social responsibility.

We've come pretty far in our transition to a stakeholder focus. Our product won't turn a quick buck tomorrow, but what we do is help the customers of the future to become more sustainable with their energy consumption in the long-term. Sustainability in

itself is a long-term game, and so we need to shift our focus to involving all stakeholders along the way. Internal advocates, mentors, end-customers – all the champions that can help us with this agenda. We need a cross-functional sort of angle on our stakeholder approach to become profitable in the long run.

NICKLAS FRIBERG – LINDAB

Lindab is an international Group that develops, manufactures, markets and distributes products and system solutions for simplified construction and improved indoor climate.

What is your experience on how management need to have a stakeholder perspective on financing?

We understand that we need to become better at following the money. We are therefore currently exploring how we can create better value for all stakeholders within our value-chain. Our stakeholders are driven by different financial goals and they have different motivations; so, we need to figure out how we can become better at meeting all these perspectives to create true value for all stakeholders.

We have more stakeholders than our shareholders, but as a listed company we still need to make sure that our shareholders believe in us. The profit we make can be invested into new projects and products, that can create greater value within the whole value-chain. For instance, we are currently exploring sustainability within the organization; something we believe our customers will demand going forward, and that can also make us a profit in the long run. It is important to be authentic at all levels with all stakeholders. For us innovation is more about a culture and an attitude, then the actual products and services we create.

MARTIN HÖGENBERG - CGI

CGI is among the largest IT and business consulting services firms in the world. They are insights-driven and outcome-based to help accelerate returns on clients' IT and business investments.

What is your experience in why a stakeholder focus will decrease the gap between strategy and execution?

One of the keys to innovation that many organizations struggle with is that you need to bridge innovation to the rest of the organization. To succeed with different types of transformation within a company, we see how involving many stakeholders can help; both internal and external. That way it is easier to focus on both the financial and sustainable perspectives at the same time.

The first question we ask our stakeholders is 'what keeps you awake at night?'. That question will tell you a lot of things that can help you find the key values and motivations for each stakeholder. There is great power in being curious about what challenges the different stakeholders have.

You also need to recognize that all innovation efforts need to align with the overall business strategy. If you find key areas that don't fit into the strategy, you need to update the strategy or drop the area; otherwise, you will not succeed.

GROUP DISCUSSIONS AND REFLECTIONS

Mentimeter was used as a tool to gather collective insights from the participants on the current perspectives on and experiences with stakeholder values. First, participants were asked to answer a few questions tied to their own organizations and how far they've come in the journey towards a stakeholder focus.

The survey among the members showed that quite many of them experience a gap between Strategy and Execution. Among those who expressed such a gap it was common that long-term initiatives sometimes are down-prioritized in favour of hitting quarterly targets. The survey was too small to draw any clear conclusions regarding the reasons for these results. However, the following discussions indicated that the Innovation Management function can play an instrumental role so support their organisation to pursue and stay on a long-term course.

Participants were then split up into six smaller groups and asked to discuss three key questions connected to Stakeholder values and long-termism.

What is the role of Innovation Management to support long-termism?

- To understand sponsors and stakeholders.
- Innovation Management needs to create the culture.
- Innovation Management very often needs to work with internal deployments to make sure innovation can be implemented.
- To get everyone to understand why we shall innovate.
- Innovation Management needs to describe Why and How to get there.
- Previously, Innovation was about patents, and after a while people started to distance themselves from Innovation. Now there is a differentiation, and Innovation is about helping more ideas come to life.
- By facilitating methods and process for innovation in the short term, the innovation management function teaches the organization to innovate also in the long term.
- Innovation can mean different things within a company. Sometimes it is about smaller changes. But innovation also aims to create value in different areas, and it can be about innovating new business models. As a large corporation it is easy to focus only on the products and not think beyond them.
- Better to call it Strategy Management than Innovation Management.
- More important for innovation leaders to have the stakeholder perspective and help that become part of the strategy. But difficult when different parts of the organization have different levels of maturity, and some still want more short-term focus.

- We need to convince the shareholders about the long-term gains of a stakeholder focus.
- To align internal stakeholders is crucial to start the journey towards long-termism.

What are the effects on how innovation efforts are funded and financed taking multiple stakeholders into consideration?

- Allocation of competence and resources for innovation work is a necessity
- Pre-funding. Strategy comes first, innovation comes second.
- Ask for a business case in the wrong phase; it will force people to lie, which is a big danger.
- Allow small portion agile initiatives.
- Organizations have a hard time bringing new business and business modules to life.
- Separate budget to allow initiatives
- Important that the management team believes in long-termism and sustainability in order for the innovation department to actually be able to work hands-on with a stakeholder focus that creates an action difference for the whole organization.
- One insight is to have a base funding for new projects from the Innovation Management function, coupled with a funding from the product owner that will be the future owner of the new innovation; to remove barriers but also push adaption early.
- We are struggling with financing innovation. If something requires investment, we are more cautious. International corporations have a ROI on innovation. We aren't allowed to drift too far away from the core business but still need to be brave.

In what way should Innovation Management adapt to support long-term leadership and multiple stakeholders?

- Important to focus on culture.
- Widen the scope for the organization outside core business development.
- The different stages going from early ideas to products need a seamless process, taking different stakeholders into account.
- When you don't know the exact direction, it is crucial to involve all stakeholders to see the possibilities and potential for the future. You won't be able to drive change if there are no set goals or expected outcomes.
- Create prototypes of the long-term vision so that different stakeholders can experience hands-on, reflect upon and help shape future products / services.
- The Innovation Management should focus on creating different future scenarios to help internal and external stakeholders understand the long-term goals and possibilities.
- It is important to look at what mandate the Innovation Management has. Work on different levels. Show results here and now and then show the potential results long term. Deliver value both here and now and in the long term.

SUMMARY AND CLOSING THOUGHTS

The learnings and reflections from this first iX Session on 'Shareholder vs Stakeholder values' can be summarized with the following five key take-aways:

1. It is Top Management's role to formulate a long-term strategy, commit to stakeholder value creation, to fund the necessary strategic initiatives, to lead the transformation, and to manage expectations. Innovation Management can play an instrumental role to support their Top Management on this endeavor.
2. The Innovation Management's role is to make sure the Innovation Portfolio is aligned with the Strategy and takes key stakeholder interests into consideration. Work out a plan with Top Management if the Portfolio is not well balanced, too narrow in scope, or not appropriately funded or staffed.
3. If the strategy is not clear and/or long-term enough, i.e. you do not know exactly where you are going, you need to secure Top Management's trust to involve the perspectives from all key stakeholders to expand the opportunities and better see future possibilities.
4. Systematically identify the key stakeholders of the company and make sure to understand what keeps them up at night. Understand how the company can have an impact on their needs and how this benefits the shareholders in the long run. Be concrete and authentic about how the company intends to meet the needs.
5. At the end of the day all innovation involves change, sometimes transformational. The more change required to make innovation happen the more important that Innovation Management has mandate to be proactively involved in removing obstacles and barriers, and fostering an innovation culture.

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