What Contributes to Shareholder Value?

Jean ‘Pogo’ Davis  
Sustainable Development Manager, ConocoPhillips (Retired); Sustainable Development consultant, Visiting Lecturer, Duke and Rice Universities

Shareholder value is derived from the market’s perception of a business’ ability to generate returns today and in the future. Put simply,

Shareholder Value = Current Performance + Expectations for Future Performance

The role of sustainability thinking in supporting business objectives typically relies on how it supports current performance and influences shareholders’ expectations of future performance of the business organization.

Shareholders evaluate current performance by how well the business is executed and delivers its short-term results. Current performance is generally more tactical and operationally-focused. The organization’s ability to control costs and future liabilities and generate short-term profit is among those factors that affect current performance. These factors have relatively high certainty and can be measured using known tools and techniques - mostly financial, quantitative and lagging metrics.

Shareholder’s expectations for future performance, on the other hand, depend largely on management’s ability to formulate and execute strategic objectives for the organization and thereby enable it to successfully compete in the future. Managing future performance requires tools and techniques for identifying key trends, emerging issues and assessing risks and opportunities; metrics of future performance are generally non-financial and are leading metrics.

Integration of social and environmental aspects into project and operational decisions can improve resource efficiency; environmental, health and safety performance; supply chain management; human and capital efficiency; and stakeholder relationships, particularly at the local and regional levels. These are some of the drivers that contribute to shareholder value through improving current performance of the organization.

Related factors which drive future performance include engaging strategic stakeholders, such as shareholders, financial institutions, governments, key customers; being innovative and creative; managing the reputation of the organization; making strategic transitions; managing change; and creating new products and markets that are socially, economically and environmentally responsible.

The alignment of social and environmental aspects that affect shareholder value creation through current and future performance provides the business case for addressing sustainability issues.