



***KPIs and long term value in the
Energy sector:
Navigating the shift from
shareholder to stakeholder value***

**CHAIR: BILL ROBERTS, CHAIR ENERGY & NATURAL
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A close-up photograph of a wheat field with green stalks and developing grain heads, serving as the background for the title text.

Navigating from Shareholder to Stakeholder Value Creation

Mark Kissack

16.6.2020

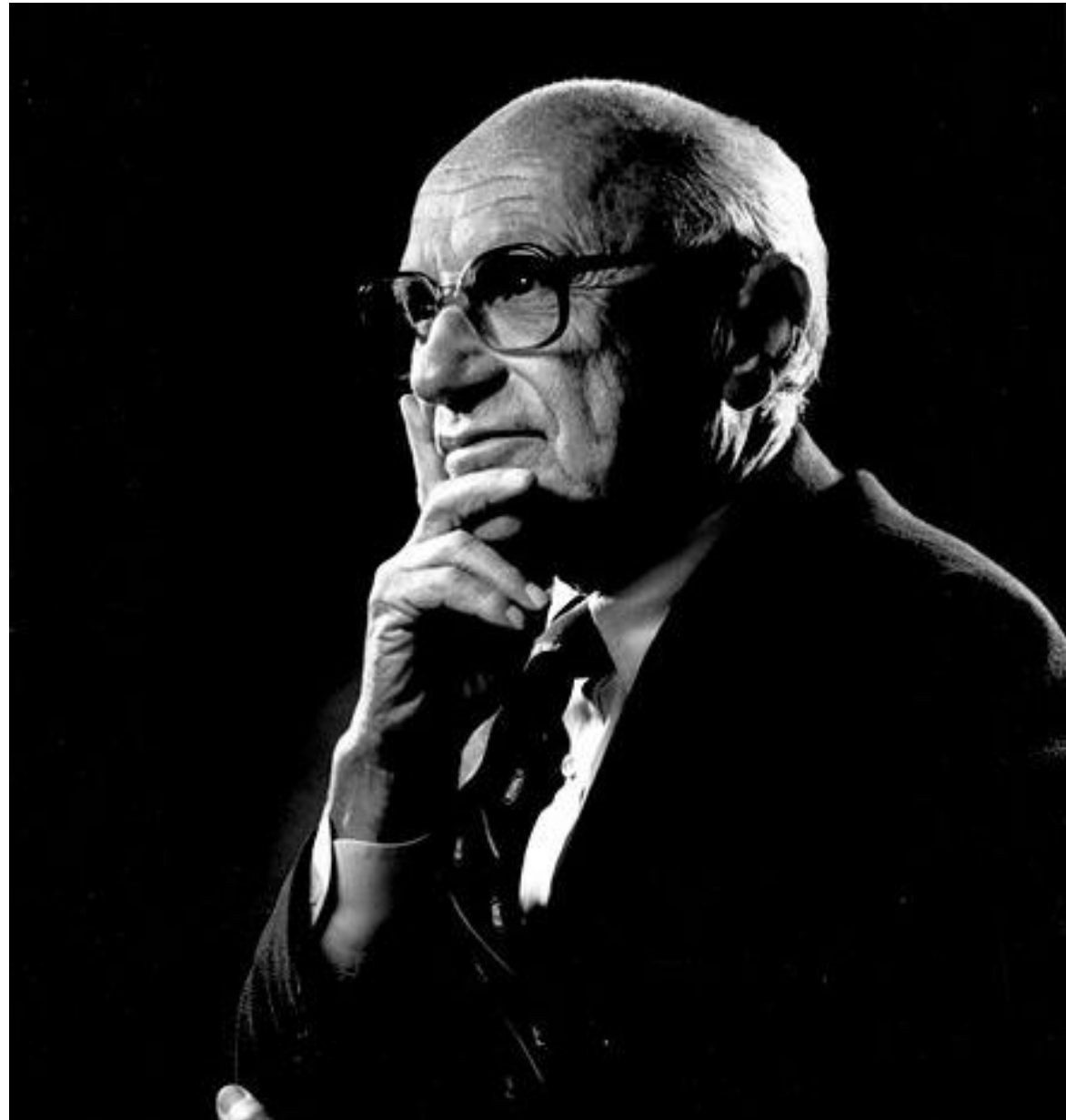
Agenda

- Shareholder value creation side-effects
- Shareholder value case study
- Weaknesses in traditional application of shareholder value



Friedman Doctrine

“there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”



Some problems with Friedman Doctrine

- Short term decision making
- High levels of employee disengagement
- Growing inequality of wealth
- Depletion of natural resources
- Climate change

Shareholder Value Case Study



Lessons from Case Study

- From stable to VUCA (volatile, uncertain, complex and ambiguous) environment
- Focus on short term profits leads to unsustainable behaviour
- Narrow focus on KPIs leads to silo thinking
- Financial statements show only part of the story
- Need to involve employees in decision making

Other Lessons on KPIs

- KPIs can be manipulated e.g. Sales
- Static view of KPIs does not show trends
- Over concentration on financial KPIs
- Use of external KPIs compliment internal KPIs



Cobra Effect



Goodhart's Law

"When a measure becomes a target, it ceases to be a good measure."¹

Thank You!

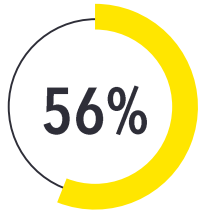
AGILITY 3

SUPPORTING YOUR GROWTH

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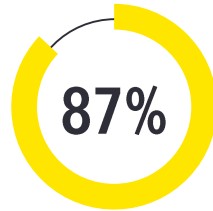
The demand for responsible business

By society



Capitalism as it exists today **does more harm than good in the world**

2020 Edelman Trust Barometer



Stakeholders, not shareholder, are most important to long-term company success

The investor community

“

Private equity giants vow to share their ESG credentials in 2020

Financial Times

Over the past few years, more and more of our clients have focused on the impact of sustainability on their portfolios. This shift has been driven by an increased understanding of how sustainability-related factors can affect economic growth, asset values, and financial markets as a whole.

Larry Fink, BlackRock

Davos 2020: Stakeholders for a Cohesive and Sustainable World

By the C-Suite

- ▶ Embrace ESG as a business imperative
- ▶ Redefine and better communicate long-term value



“

Move Over, Shareholders: Top CEOs Say Companies Have, Obligations to Society.

The Wall Street Journal



Business Roundtable
Statement on the Purpose of a Corporation signed by 181 CEOs

Navigating the shift from shareholder to stakeholder value

June 2020



EY

Building a better
working world

“

Today, society is demanding greater responsibility from the organizations that they work for, buy from and invest in.

At EY, we believe capital will shift from organizations that only create value for their shareholders to those that create value in the long term, across a broader group of stakeholders, including employees, society and shareholders.

Organizations that authentically anchor their approach to long-term value with a meaningful purpose are best positioned to benefit from, demonstrate and measure the value they create.

Why are so many organizations shifting?

- ▶ Ability to attract top talent
- ▶ Build customer loyalty
- ▶ Attract capital investment
- ▶ Focus on problems of people and planet
- ▶ Create trust with wider society

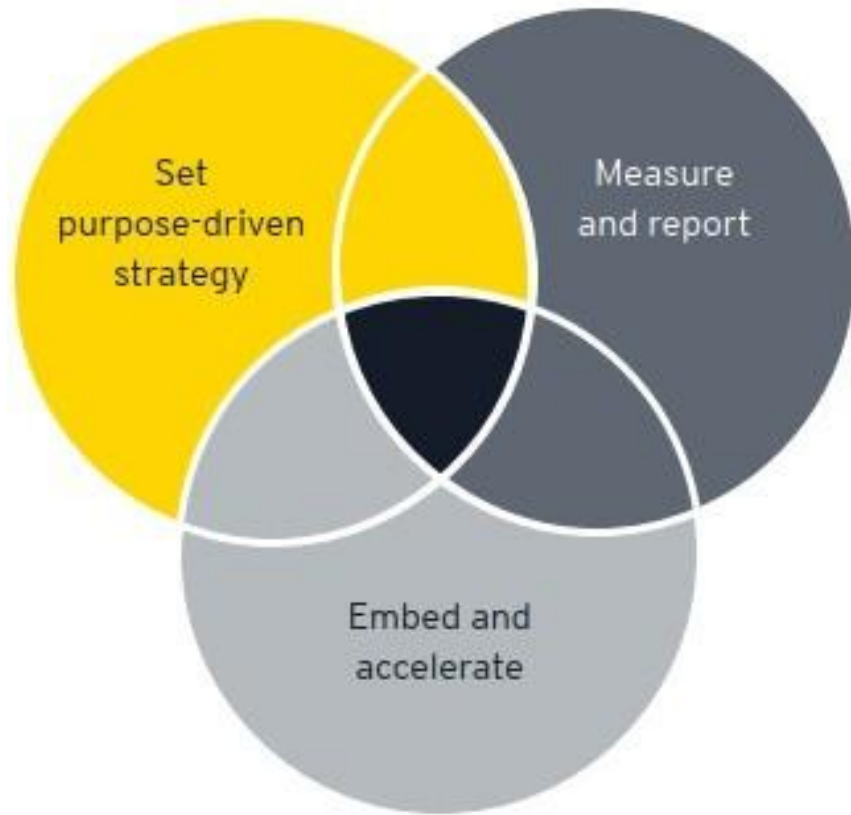


The move from shareholder to stakeholder value



How do organisations shift from shareholder to stakeholder value?

Genuine transformation to stakeholder value should be reflected in the strategy, measured appropriately and embedded across the organization



Set the strategy for a purpose-driven business

- ▶ Have clear understanding of stakeholders and their desired outcomes
- ▶ Create meaningful purpose and vision of the future
- ▶ Explain why the business exists
- ▶ Set goals for creating lasting impact

Maximize stakeholder support

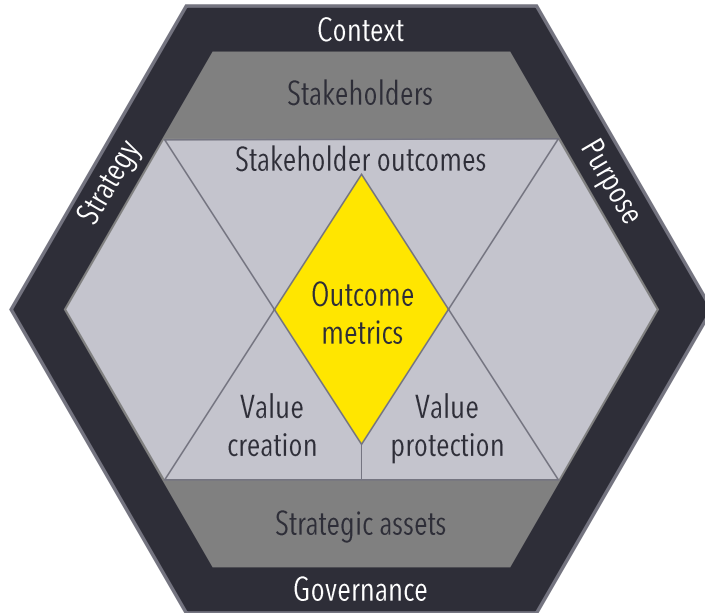
- ▶ Measure progress towards stakeholder goals
- ▶ Be transparent, authentic, balanced
- ▶ Report a broader spectrum of value

Embed stakeholder outcomes across the whole organization

- ▶ Employee reward schemes, supply chain management, customer proposition, capital allocation, acquisition strategies

Leading with purpose improves focus on stakeholder outcomes, shifts the basis of value creation to the longer term, and improves performance by providing of a compelling cause beyond solely profits.

The EY Long-Term Value Framework helps define and measure stakeholder value



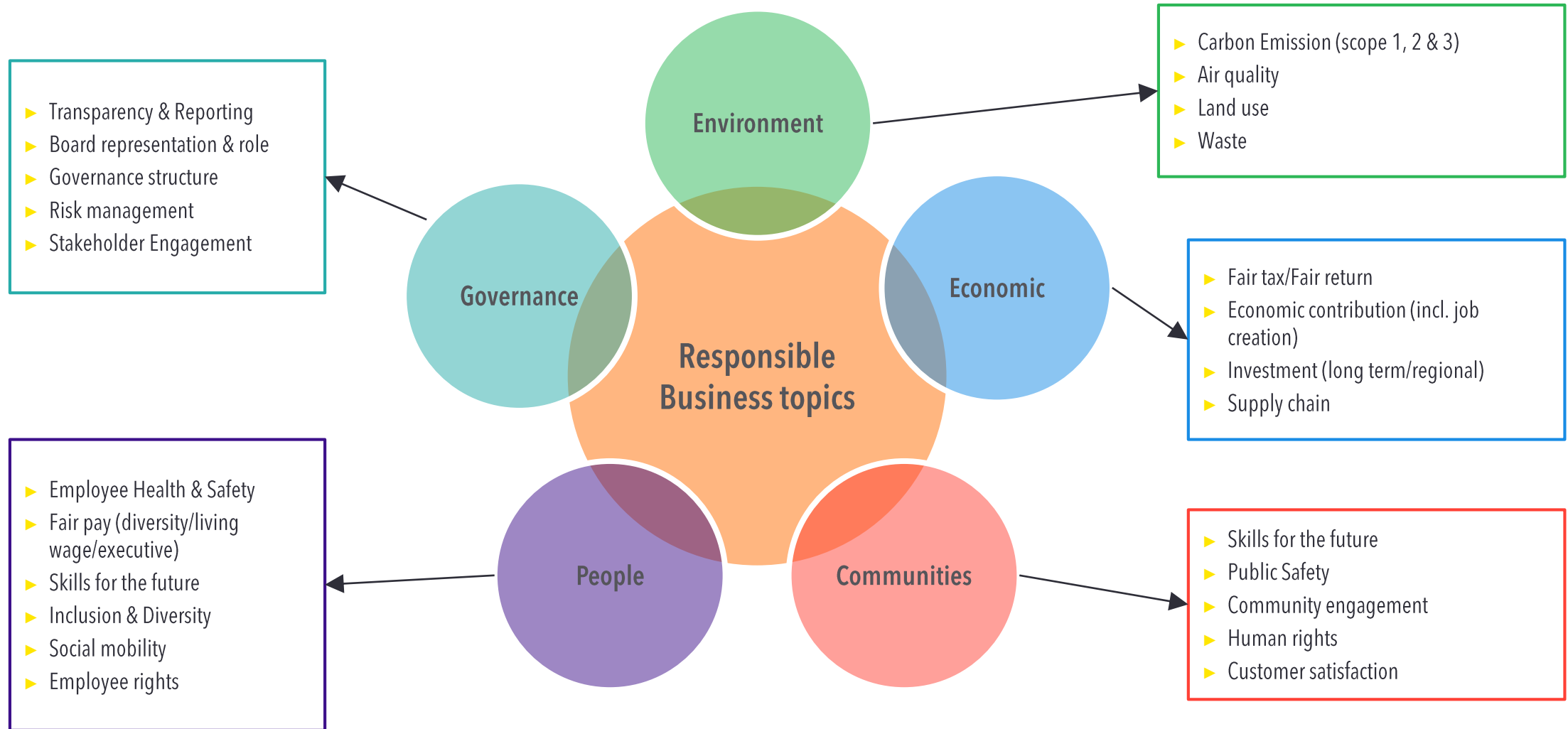
- ▶ Financial value
- ▶ Consumer value
- ▶ Human value
- ▶ Societal value

- ▶ Drives a clear link between:
 - ▶ the purpose and strategy of a business.
 - ▶ strategic assets which the organization leverages to deliver value.
 - ▶ metrics used to measure the outcomes delivered for stakeholders.
- ▶ Helps to articulate how the organization creates and measures value for material stakeholders.
- ▶ Provides greater clarity on intangible value generated by the business.
- ▶ Developed and tested as part of the Embankment Project for Inclusive Capitalism (EPIC).



<https://www.epic-value.com/>

Typical non-financial metrics



Thank You



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Q&A...

Useful Information

- ICAEW Coronavirus Hub: www.icaew.com/coronavirus
- Direct enquiries: www.icaew.com/contact-us/helplines-and-support
- Feedback / Insights: <https://r1.dotmailer-surveys.com/bb41f58a-914k8i13>
- CABA: www.caba.org.uk
- Energy & Natural Resources Community : <https://ion.icaew.com/energy-community/>



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