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# Creating the right conditions for sustainable shareholder and stakeholder value

BY MARK W. SICKLES

**R**esearch and practice show that under the right conditions, many issues and concerns business leaders focus on cease to exist, leading to increases in sustainable shareholder and stakeholder value. The purpose of this article is to share some insights into how businesses can create these conditions.

Today, business leaders and their firms are spending time, money and effort addressing some or all of the following 'hot topics': building an appropriate governance framework, implementing board procedures and processes, maintaining regulatory compliance, identifying and managing business risks, safeguarding corporate brand and reputation, communicating

with stakeholders, managing strategically, optimising operations, achieving profitable growth through sustainable means, ensuring acquisitions and joint ventures produce net value added, managing innovation and technology as sources of sustainable value creation, and increasing the maturity of integrated thinking and reporting.

All of this is avoidable. Under the right conditions, these topics are addressed at a level of excellence as a matter of course while sustainable shareholder and stakeholder value are optimised.

Creating the right conditions in the current information-intensive environment requires the right digital transformation – one that makes the distinction

between digitisation, digitalisation and transformation. Specifically, the focus of digitisation is information, the focus of digitalisation is process and the focus of transformation is the organisation. It is logical to view this relationship as sequential. First, digitise information to enable digitalised processes to enable transformed organisations. Further thinking, though, leads to the realisation that something beyond sequence is required for organisational transformation creating the right conditions for sustainable shareholder and stakeholder value.

To help understand why, one must keep in mind that transformation is the order of change a caterpillar goes through to become a butterfly. Transformation in

an organisation will only happen if the digitised information and digitalised processes equip the organisation, or ‘caterpillar’, to first become and then succeed as a ‘butterfly’. If the effect of digitisation and digitalisation is merely an increase in degree producing more of the same, or a mere acceleration of positive momentum, the result will be no more than a better caterpillar.

To create the right conditions for sustainable shareholder and stakeholder value, digital transformation must include a unification of multiple resources previously considered separate and unrelated into a system of elegant simplicity that is not only greater than the sum performance of its parts, but different and greater. Elegant simplicity is interdisciplinary in nature, an advanced level of systems-based thought and action, and ultimately, supervenience: a seemingly magical level of organisational intelligence, agility and adaptability supervening on the people in the organisation, causing them to achieve a level of sustainable success that cannot be predicted by anything done in the past – think ‘business as unusual’. Supervenience creates the right conditions for achieving business as unusual.

By itself, however, a digitalised, interdisciplinary system of unified simplicity is not sufficient to optimise sustainable shareholder and stakeholder value. To understand why, business leaders should consider this story.

During a break at a meeting of IT and software company executives, one attendee told a group of other attendees about a Fortune 500 company that purchased two enterprise resource planning (ERP) software systems from two different ERP vendors, and then asked the group to guess which one the company was using. Before finishing his question, a president of a software company responded correctly: “Neither.” When asked how he knew, the executive simply said, “Because I’m the president of a software company.” There have been multiple reports over the years on the large number of IT capital investment projects that destroy value, failing to earn as much as they cost. This

story, along with other similar stories, helps to explain why.

Eventually, the company implemented one of the ERP systems, but in the typical, value-destroying way. Upon hearing the ERP implementation was done, the chief financial officer asked why the company was not doing its work differently. The answer was simple: misalignment between system and structure.

When business leaders change the organisation’s system without making a corresponding change to the organisation’s structure, the continuing old structure does not need the new system to continue performing the old way. The new system looks and feels more like a problem than a solution to the old structure, so the new system never gets used and shareholder and stakeholder value never get created.

This is why digital transformations need to be entwined, unified engagements. When the digitalised system is truly transformational, it enables the structural transformation of the organisation – positions and functions. The transformed positions and functions then supervene back on the system they now need to fulfil their transformed purposes, unleashing the breakthrough potential of the system that otherwise would sit there unused as in the past, destroying value.

To achieve this unified alignment between system and structure, one simply needs to imagine and create positions and functions perfectly designed to align with the breakthrough system of supervenience – transformational positions and functions with roles and responsibilities that can only be fulfilled by utilising the full capability of the new system. These three interdependent parts – system, positions and functions – make up the three legs of the supervenience tripod. Contrary to the norm, this IT capital investment project – this ‘right’ digital transformation – will create the right conditions for sustainable success, dramatically increasing shareholder and stakeholder value, earning far more than it costs.

This leads to the relationship between shareholders and stakeholders. While it is true that all shareholders are stakeholders, it is not true that all stakeholders are

shareholders. This is one reason to address them separately.

Another reason and, surprisingly, still somewhat of a secret, is that under the right conditions, the relationship between shareholder and stakeholder value is synergistic. This is not conventional wisdom. In a 2021 webinar focused on environmental, social and governance (ESG), the word ‘trade-off’ was used time and again to describe the relationship between shareholder and stakeholder value.

ESG does not exist under the right conditions for sustainable success simply because it is not a means to the end of the sustainability synergy, today’s standard for doing well by doing good: the creation of superior levels of sustainable shareholder value in ways that make a positive impact on economic, environmental and social sustainability on behalf of all other valued stakeholders, and vice versa.

A decade has passed since the unveiling of the world’s first integrated reporting guidelines. Consistent with the sustainability synergy, this unveiling called for companies to integrate and connect financial, economic, environmental and social sustainability while also predicting a fundamental shift in the way companies and directors act and organise themselves to presumably create the right conditions needed to achieve this synergistic approach to sustainability.

Business leaders should note the four categories of sustainability: financial (shareholder value), economic, environmental and social (stakeholder value). Two of these categories are missing in ESG and governance, present in ESG, is not a sustainability category. This makes ESG incomplete and a categorical mistake, bringing to mind the following quote: “Wrong is wrong even if everyone is doing it. Right is right even if no one is doing it.” Under the right conditions for sustainable success, leaders are not doing the wrong things (errors of commission) just because everyone else is doing them and not making errors of omission (failing to do the right things) just because no one else is doing them.

The final point to address is the public calling for sustainability being treated

with the same degree of importance as 'financial'. This is another categorical mistake. Financial is a category of sustainability along with economic, environmental and social. It is not separate from sustainability, nor is it in competition with sustainability for the attention of the capital markets and global business community. Moreover, sustainable financial

value creation for shareholders can only be achieved if the firm is making a positive impact on economic, environmental and social sustainability on behalf of all other valued stakeholders. That is why it is called the sustainability synergy.

Creating the right conditions for achieving this synergy is best accomplished by transforming governance, leadership

and management from intradisciplinary complexity into interdisciplinary simplicity. This transformation elevates organisational capital to the level of supervenience needed to synergistically create sustainable shareholder and stakeholder value. ■



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