Background

We in the Reporting 3.0 Team welcome you all to this week-long Virtual Dialogue reviewing the second Exposure Draft of the New Business Models Blueprint. This dialogue comes on the heels of the exceedingly successful Working Group Meeting at EY in Boston (as documented in the banner picture for this engagement), and tees up a last round of revisions to create the Final Report, to be released at the 5th International Reporting 3.0 Conference at KPMG HQ in Amsterdam on 12/13 June 2018.

AGENDA

Day 1
Intro: Integral Business Models Design Principles

Day 2
Integral Business Models Process Flowchart

Day 3
Integral Business Models Assessment Template: Entrepreneurs

Day 4
Integral Business Models Assessment Template: Intrapreneurs / Investors

Day 4
Conclusion / Synthesis: System Value Creation
Guest experts

On this report, we had the following Guest Experts, who kickstarted the debate each day with introductory statements and respond to follow-up remarks / questions posted by the participants.

Day 1
- Antony Upward
  Pracademic: Flourishing Enterprise Designer · Adjunct Professor
Day 2
- Nancy Bocken
  Professor in Sustainable Business
Day 3
- Henk De Man
  Business and Systems Analyst
- Carolyn Hayman
  Senior Adviser, Climate Preventable Surprises
- Lynn Benander
  President Coop Power
- Natasha Lamb
  Managing Partner, Portfolio Manager at Arjuna Capital
Day 4
- Lisette van der Maarel
  Freelance with ReBlend
Day 5
- Mark Van Clieaf
  Managing Director Organizational Capital Partners
Participants

Tiberius Brastaviceanu
Open innovation and peer production

Randy Sa’d
Founder / Executive Director Refocus

David Baxter
Senior Analyst - Reporting (maternity cover) at Anglo American

Jane Fiona Cumming
Director at Article 13

Henk Hadders
Advisory Board Member at Center for Sustainable Organization

Jennifer van der Meer
Assistant Professor, Parsons

David Murray
Chief Executive Officer at Preventable Surprises

Dr Raj Thamotheram
Founder & Chair, Preventable Surprises

Nina Thurm
Student at Erasmus University Rotterdam

Shanti Gaia
Core Team Member and Analyst Metalnrgal

Alan Willis
President at Alan Willis & Associates

Tabea Bereuther
Research Associate and Doctoral Candidate at the University of St. Gallen, Chair for Sustainability Management

Martina Prox
Strategy & Collaboration for Sustainable Production

Mark W. McElroy, Ph.D.
Founder, Center for Sustainable Organizations

Robin Lincoln Wood
Founder- Partners in Thriveable Transformation

Danielle Fugere
President at As You Sow

Maya Hoveskog
Assistant professor

Gil Friend
Chief Sustainability Officer, City of Palo Alto Founding Chair, Natural Logic

Raz Godelnik
Assistant Professor + Co-Director of the MS in Strategic Design & Management at Parsons School of Design

Anita de Wit
Business development New Economy, Co-founder ReBlend

Josephine Matthews
Founder, Sustainable Value Creation

Morris Fedeli
Entrepreneur | Educator | Researcher | Author | Academic | Writer

Thomas Murtha
Senior Advisor, Preventable Surprises

Stephan Rogers
CEO NextChair

David Plummer
Managing Partner Triage

Fiona Stappmanns
Research Assistant at University of St. Gallen - HSG
Executive Summary

Day 1  Design Principles
Guest Expert Antony Upward introduced the first day of this Virtual Dialogue assessing the 8 General Characteristics of Integral Business Models, noting that they “are either macro/meso level or at the meso/micro interface.” He asserted: “What we don’t have is the Design Principles at the micro level that if followed while designing a business model with the intention to enable flourishing/integral outcomes, would actually reliably lead to that outcome when the business model is realized in practice at the nano, micro, meso and macro levels.”

The day’s dialogue primarily pushed back on this assertion, pointing out that a core characteristic of Context-Based Sustainability (CBS) is the measurement of micro- (enterprise-) level impacts in the context of interdependencies of meso and macro systems. The day ended with Antony welcoming collaboration with the CBS community to better understands its existing Design Principles applicable at the micro-level for creating integral business models that help generate meso- and macro-level sustainability.

Day 2  Process Flowchart
Guest Expert Nancy Bocken got the ball rolling with a Provocation Statement on the Integral Business Models Process Flowchart, proposing that it can cover the spectrum from a structured Lean startup approach (that is also now being applied to existing business models) to the more intuitive and ‘resource-based’ innovation approach of effectuation. The dialogue focused on strengths of the Process Flowchart, as well as recommendations for improvements.

Day 3  Entrepreneurs’ Template
Day 3 focused on the Integral Business Models Assessment Template for Entrepreneurs of startups and early phase companies. Guest Experts Lisette van der Maarel of ReBlend, Henk de Man of VDMbee, and Lynn Benander of Coop Power each weighed in with a Provocation Statement on the Assessment Template.

- Lisette challenged Reporting 3.0 to apply the KISS principle: Keep it Simple Stupid
- Henk posed a series of questions, ending by asking how the Template helps entrepreneurs make their business models more integral / sustainable.
- Lynn focused on cooperative business models, and asked how the Template can help this particular business model orientation enhance its sustainability.

Entrepreneurs’ Template

Lisette challenged Reporting 3.0 to apply the KISS principle: Keep it Simple Stupid

Henk posed a series of questions, ending by asking how the Template helps entrepreneurs make their business models more integral / sustainable.

Lynn focused on cooperative business models, and asked how the Template can help this particular business model orientation enhance its sustainability.
Day 4 Intrapreneurs’ Template & Investor Engagement

Day 4 focused on applying the Integral Business Models Assessment Template to Intrapreneurs transforming existing business models in established companies. Guest Expert Carolyn Hayman of Preventable Surprises led an assessment of the Template (along with Preventable Surprises’ Transition Plan Guidance Note) for utilities, and applies it to the recent AEP Business Model Transition Plan Report.

Guest Experts Natasha Lamb of Arjuna Capital assessed the role of investors in spurring business model transformation in established companies, using the examples of shareholder resolutions Arjuna filed (with As You Sow) at Chevron (here) and ExxonMobil (here) asking them to produce transition plans.

Finally, Dave Baxter of Anglo American launched a discussion on Small vs Big & Nimble vs Sluggish Companies.

The most supported Key Takeaway of Day 4 came from Reporting 3.0 Managing Director Ralph Thurm: “Rio+20 had “The Future We Want” as its motto -- we can wait forever until that comes. We prefer “The Future We Design”

Day 5 Conclusion & Synthesis -- System Value Creation


In response to suggestions by Dave Baxter and Gil Friend, we created an interactive matrix on Business Model Transformation interrelating company size (small to large) with pace of change (sluggish to nimble) onto which participants plotted companies in the Reporting 3.0 ecosystem.

Finally, participants shared Final Synthesizing Thoughts.
Day1:

Design Principles
Design Principles

Day 1

- Micro-Meso-Macro Basis
- Context-based
- Purpose-driven
- Scalability-focused
- Multicapital-based
- Leadership-driven
- ThriveAbility-based
- Synergy-focused

Integral Business Model General Characteristics
Design Principles

General Characteristics & Design Principles

“Integral Business Model designers must apply design principles derived from the same latest trans-disciplinary systems-based scientifically credentialed knowledge, ethical and human rights frameworks that informed the design and the questions in the tool.”

Antony Upward

“So to me the 8 general characteristics are mainly the applied invisible band for the invisible hand, or better say the boundaries under which any future business has to function.”

Ralph Thurm

“The practice of context-based sustainability (CBS) sets enterprise-level standards of performance by first making reference to the carrying capacities of capitals that must be maintained at ANY level of analysis, and then works backwards to apportion organization-specific shares of the resources involved (natural capital) or the shared or exclusive burden to produce and/or maintain them (all the other capitals).”

Mark W. McElroy, Ph.D.

“I think that another aspect of answer ("integral business model designers must apply design principles") would be: “by measuring impact”. And hereby we measure in terms of “dashboard for future direction”. Based on comparing As-Is and To-Be. Whereby To-Be is based on the design of the new (and more integral) business model(s). And this impact assessment, including measurement, should be done not only on “objective” value outcomes of the new model, but also in a way that is considered “context based” (… context based sustainability …).”

Henk De Man
Day2:

Process Flowchart
New Business Model Blueprint Process Flowchart

CONTEXT

INTEGRAL BM FRAMING
- SYSTEMS CONDITIONS:
  - Obstructions through wrong incentives
  - Desired accelerations through changed incentives
- SALES / MARKETS (CLIENTS):
  - Industries
  - Portfolios
  - Habitats / Common PRODUCTS / SERVICES:
    - Positive contribution
    - Design of value cycle
    - Infrastructure support

MACRO:
- How can we advocate for necessary economic system Design change?

MESO:
- With whom do we improve which impacts?

MICRO:
- What do we contribute positively in a systems context?

PURPOSE

STRATEGY CONTINUUM:
- 1) COMPETITIVE ASSESSMENT
- 2) NBM MAPPING
- 3) MATURATION PATHWAYS

PROCESS DESIGN:
- 1) IMP (PLAN/DO)
- 2) DATA DESIGN PROCESS
- 3) ACCOUNTING FOR SUCCESS / DASHBOARDING
- 4) IMP (CHECK)

SUCCESS

MACRO:
- Can we effectively influence economic system obstructions?
- Are there economic system beneficiaries we can positively influence?

MESO:
- Are we leveraging positive impact through collaboration to:
  - reduce negative impact?
  - increase positive impact for industries, habitats, portfolios

MICRO:
- Are we creating positive impact as expected?
- How is stand-alone performance and collective performance of products / service in value cycles?
- Are infrastructure elements working in support of delivery?
- IMP (ACT)

SCALABILITY

EVALUATION:
- 1) IS VS. PLAN

2) ALIGNMENT WITH INTEGRAL BUSINESS MODEL WHEEL
- Micro impacts on meso and macro level + synergy focus
- Context-based multi-capital-based thresholds & allocations for total contribution
- Purpose-driven towards ThriveAbility, enabled by leadership
- Scalability-focus impacts meso and macro level

IDEATION

PROTOTYPING

GO TO MARKET

IMPROVING/ADAPTING
“How can we take into account multiple forms of value creation (societal, environmental, and economic), different stakeholder concerns, as well as value creation for the ‘system’ rather than a single firm in sustainable business model design?”

— Nancy Bocken

“I see the process flowchart as making a picture of an organisation. And as photography is one of my interests I know a picture can be quite different with a different lights & taken from a different angle. By this I mean that looking to the process flowchart with effectuation, Karl Weick ‘Sensemaking’ or ao. Taleb ‘BlackSwan’ glasses you get a different content. So I think there is a kind of balance between structure and latitude.”

— Anita de Wit

“The Flowchart as it stands right now brings a couple of things together: a basic and generic business model generation model (ideation, prototyping, go-to-market, evaluating/improving), inclusion of the eight general characteristics as a starting point and an evaluation frame at the end of a cycle, and proposing the use of tools from the other Blueprints in the various phases.”

— Ralph Thurm

“I guess we don’t know until we’ve done it. And in the absence of the executed ‘integral business model’ we follow an ideation that is based on past failure and has already ‘designed’ that ideation. I think we need to take the fear of ‘impossibility’ and replace it by an idea of ‘irresistibility’.”

— Ralph Thurm
Process Flowchart Improvements

“"I think one thing that may be missing from the flowchart is more explicit treatment of what the ingredients, elements or variables are in a business model as well as the business ecosystem in which any business is a part.”

Mark W. McElroy, Ph.D.

“"The Process Flowchart is rather abstract and "subjective", and there will be an overdose of room for too free interpretation of things. So maybe a more specific “recipe” is required.”

Henk De Man

“"Ralph, I would like to challenge you and ask: what would the "perfect" scenario look like? Could you come up with a real-life product/process or a fictional one that would score the highest level across and fill in the Blueprint based on that? As a guideline it would definitely provide some interesting insights, I believe.”

Lisette van der Maarel

“The idea of painting a picture with the Process Flowchart rather than prescribing a recipe is very helpful. In order to facilitate this way of thinking I would move away to the ‘process flow chart’ wording. In the NBS report on Business Models for Shared Value we refer to a ‘sustainability strategy roadmap’ for example.”

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Nancy Bocken
Day3:

Entrepreneurs’ Template
**KISS: Keep It Simple Stupid**

“Current business decisions are made on incomplete data and P&L statements only show a part of the reality. We aim to develop a business that is built on true value and Reporting3.0 plays a crucial role in this.”

Lisette van der Maarel

“A specific focus should be laid on the nano (personal), micro (organisational), meso (industry, habitat, portfolio) and macro (economic system) aspects of a business model. This is essential for ‘integral business model design’ and the question of collaboration, advocation, scalability. Those points are often ‘out of scope’, and possibly understandably out of scope in the ideation phase. We think it is essential to insert that thinking.”

Ralph Thurm

“One element we actually do well and I think is key is looking at the meso level and asking ‘with whom do we improve which impacts?’, because it sheds a light on the importance of the ecosystem, reflecting the idea (which is coming from Systems of Innovation) that innovation does not happen in isolation, but in collaboration and interdependence with other players.”

Raz Godelnik

“The model I use is called 10P and it works at a personal and ‘corporate’ level. The more aligned a person or organisation is, the higher the levels of performance (across every dimension). A brief synopsis:

1) Passion; 6) Proposition;
2) Purpose; 7) Products (and services);
3) Principles; 8) Pricing, profitability, process and productivity;
4) Plan, Practice/s; 9) Priority;
5) People and relationships; 10) Performance.”

David Plummer
Helping entrepreneurs make their business models more integral / sustainable

"Which capitals does the business model relate to? Can impacts on these capitals be measured? How? What are “common” material issues in the sector or industry, how to measure performance indicators in the context of thresholds, norms, and allocations?"

Lisette van der Maarel

"As a serial entrepreneur, lean business model consultant, and many time teacher of adapted Lean Launchpad methods (adapted for social impact, environmental impact, creative industry impact...) this assumption -- that entrepreneurs know what their business models are -- is not true at the beginning. It’s the start of the search for a business model."

Ralph Thurm

"I’ve been imagining how we’d use these Blueprints and frameworks in an Impact Venture Lab course we’re teaching now, and I think that’s the biggest stumbling block. What do you do when you’re at the start, investigating the ecosystem, starting your first experiments?"

Henk De Man
Cooperative Business Models

“Co-op Power’s business model includes our consumer-owners in an integrated model which brings them together as change agents in their local economies. It helps them aggregate their power as consumers, workers, investors, and voters to build the energy products and services, good green jobs and government regulations and policies that create the world they want to live in. It provides a platform where they can aggregate their market demand for clean energy, their talents and skills as volunteers and workers, their money, and their voting power.”

“Using this model, we’ve built 22 business entities, hundreds of good green jobs, and valuable energy efficiency services and renewable energy installations. We don’t move forward unless a solution works for justice as well as sustainability.”

Henk De Man

“Maybe it is good for Reporting 3.0 to do what Mark hinted on the other day: Take octopus as starter for a more concrete framework, and create a frame from it that helps envisaging, designing, prototyping, implementing, assessing and monitoring, and continuously evolving (ecosystems of) business models, in a way that helps organizations and ecosystems of them steering towards more integrality and sustainability.”

Bill Baue

“Henk de Man and Mark McElroy suggested using the IIRC Octopus as a starting point for building out a visual representation of Integral Business Models. I should note that the Data Blueprint Flowchart essentially does this. We started with the Octopus, added “impacts,” and then added “System Value”. So with that in mind, might it make sense to tweak the Data Flowchart into a more generic New Business Model Flowchart?”

Lynn Benander
Day 4:
Intrapreneurs’ Template & Investor Engagement
AEP Business Model Transition Plan Assessment

Carolyn Hayman
Guest Expert

“The AEP strategic vision commits to a long term goal but it falls short of net zero, and expresses the intention to continue to invest in new fossil fuel generation capacity up to 2030. With no indication of the energy output envisaged in 2050 it is impossible to convert the forecast 33m Metric Tons of CO2 into gm/KwH and thus compare with the IEA target of 40g/KwH by 2050.”

“The AEP report references the contextual driver of the macro-level climate targets such as the Paris Climate Accord 2 degree target, but the report does not mention the Science Based Target initiative, and the company’s goals are not listed as approved by the SBTi on its Website.”

Carolyn Hayman

“The Reporting 3.0 eight general characteristics align well as a first analysis of how ‘thought through’ and ‘tight’ a transition plan really is, serving as a gap analysis, but should be considered from two angles: how much is really happening inside the company and how much really ended up in the released plan.”

Ralph Thurm

“It’s possible that AEP’s plan will be held aloft as ‘best in class’ but sadly it also seems that on some critical points -- e.g. no commitment to net-zero emissions -- this hard work and effort at AEP still does not allow for ‘best in class’ to be good enough to sufficiently tackle the systemic risks associated with the climate crisis.”

David Murray
David Murray asks: What about an ISO Transition Plan Standard?

“David, we would be totally in for ISO to be a player, there’s just one thing that bothers us immensely: fencing the IP they collect through others and ask considerable amount of money for each and every document they release, and only in paper format. If we talk about ‘green, inclusive & open’ as an ideal of what we’re striving for, this is not it.”

Ralph Thurm

“There’s another problem with ISO, next to the business model and the IP, and that’s how the Technical Committee’s are structured. TC 207 has only the mandate to deal with Environmental topics, so the possibility to go beyond “green” is really in the current structure not possible. Given the holistic approaches and systems thinking driven context of reporting 3.0, ISO I do consider as 20th century, while at reporting 3.0 we want to shape 21st century and beyond.”

Martina Prox

“The ISO community mindset and expertise, its structure, policies and processes, and its ring-fence business model flagged by Ralph are not at all conducive to advancing the work of initiatives like Reporting 3.0 which are rooted in systems thinking and practice.”

Alan Willis

“Echoing the various concerns raised above about ISO, the other I would add is the perhaps inescapable tension between “proceduralizing” sustainability (as ISO does) and supporting/driving innovation. The first is essential but it can hamper the second (which I doubt can (or should) be systematized in an ISO way).”

Gil Friend
Scaling Business Model Transitions Through Investor Resolutions

Natasha Lamb
Guest Expert

“Big oil is dependent on an expiring business model—one rewarded for extracting as much oil and gas out of the ground as possible, despite the physical limits of our atmosphere to absorb the emissions.”

“For the past 5 years, investors have pressed companies like Exxon to disclose their carbon asset risk in a world where global temperatures rise by no more than 2 degrees Celsius. And while these scenario analyses are necessary, they are not sufficient. Indeed, they do not adequately precipitate change on the business strategy level.”

“Investor representatives Arjuna Capital and As You Sow recently filed shareholder resolutions calling on ExxonMobil and Chevron Corporation, as leaders in the U.S. oil and gas industry, to produce a report explaining how the companies can transition their business models to reduce climate change risk and align with an increasingly decarbonizing energy market. These resolutions represent a next level in the maturation of our strategies, following in the footsteps of resolutions in previous years (and continuing this year) asking companies to conduct scenario analyses of potential climatic outcomes based on scientific extrapolations.”

“Companies don’t change because they should. And hopefully not because they are forced to. We hope they are compelled by looking clearly at the risk and cost of continuing with business as usual.”

Natasha Lamb
Preventable Surprises on Investor Leverage

“The US headquartered mega investors are conspicuous in their absence when it comes to climate action. Only one of the top ten largest (by AUM) investors in the world is signed up to Climate Action 100+ (Northern Trust). How can we stop them from voting with management to block climate resolutions? It’s the Asset Owner clients of these investors that have their ears, and specifically the CIOs of the largest AO clients of Blackrock, Vanguard, State Street et al, who need to be jolted into action right away.”

“Who has the asset base to acquire shareholdings to make companies make the transition to a low carbon economy at the required speed?”

“At Preventable Surprises, we’re attempting to create multi-angled pressure points on these mega investors by e.g. working with the C40 group of global city leaders who are acting on climate, and the RE100 of companies making positive public proclamations about their desire to contribute to climate mitigation. Many of the active members of these groups may not yet have realised that their pensions are being managed by firms who are actively blocking action on climate.”

“There are 3 other reasons why we’ve had limited impact from existing resolutions and we need to address these in order to do better: 1) Existing resolutions have asked for scenario analysis, not transition plans and scenario analysis disclosure (SAD) can be easily gamed. 2) Investor action has not really been industry-wide. 3) Fossil fuel companies are very resistant to change.”

David Murray

Carolyn Hayman

Dr. Raj Thamotheram
Synergies, Scalability, Stranded Assets

“Recent research advocates the role both of start-ups and incumbents and the interaction between them to lead to industry-wide transformations.”

Maya Hoveskog

“My starting point is that we need to act fast and at scale to achieve exponential change - we have as Johan Rockström points out to start thinking exponentially. It means that we have to acknowledge that shareholder resolutions are an important tool, but their impact is eventually limited.”

Raz Godelnik

“A new bottom-up movement is underway. But we need to add a top-down layer and complete a seamless flow of information from nano (personal) to micro (organization) to meso (industry, habitats, portfolios) to macro (economic system design). SCALABILITY is the biggest challenge.”

Ralph Thurm

“I’m searching for the phrase “stranded assets” here but can’t find it. Are there examples we can cite of companies/industries voluntarily “stranding” their own assets before they’re forced to do so?”

Gil Friend
Small v Big / Nimble v Sluggish

“Large corporates modify their business model at an operational level reasonably often. This is often due to stakeholder pressure on a given topic (water use, pollution, lack of jobs for community members etc.) In this case a corporate is small and nimble. It is also reactive.”

“At the other scale, plastic pollution is getting a lot of bad press at the moment. This is a larger, complex, systemic issue which needs careful thought to avoid unintended consequences. In this case the companies are big and sluggish. This is also reactive.”

“Small companies, naturally innovate and reposition themselves more often. Small and Nimble. This is proactive.”

“Large companies are now starting to grasp, AI, big data and all that goes with it. In terms of revising their business models. This is proactive approach. I can only think of two large companies that proactively changed it’s business model Umicore and Pearson. They have fallen into the Big & Nimble quadrant - are they transformational - quite possibly…”

David Baxter
Transformational Change, Big & Small

“I think that for transformational changes, collaborations are important. In particular cooperation on an institutional level (e.g. politics) are decisive in order generate transformational changes and change the rules of the game.”

Tabea Bereuther

“We know that about 90% of business models out there right now are “business-as-usual” reactors, with another perhaps 6% being adaptors, doing various versions of CSR and sustainability. The shapers are in the minority, with 4% or less going for transformative, thriveable outcomes, and of those, 31 who actually design their businesses according to context-based principles, at least on carbon.”

Robin Lincoln Wood

“Companies play a crucial role in transforming markets and society, and sustainable entrepreneurship as a mission-driven process aiming at a sustainability transformation of markets and society can be pursued by either small pioneers or large incumbents. Business models of small and large companies co-evolve to create a transformation change which is far more powerful than looking at one or the other in isolation.”

Maya Hoveskog

“To Tabea’s “However, for bigger ones it might be easier to have an impact on societal/institutional level,” it’s however a great challenge for the bigger ones to (1) drive fundamental change and (2) acquire/absorb fundamental change and change agents. With notable exceptions to both rules of course.”

Gil Friend
Day 5:

Conclusion & Synthesis: System Value Creation
Strategic Leadership Architecture, Business Models and Future Value Systems

Mark Van Clief
Guest Expert

“The New Business Models Blueprint is inaccurately titled -- it actually transcends the micro level focus suggested by its name, scaling upward to transform industry ecosystems and in turn reformulating the global economic system (with cascading rebalancing of ecological and societal systems.)”

“In the current and foreseeable future, the most significant megatrends and risk/opportunity include climate change and impact on business models, cyber risk to the business model and to some extent the Sustainable Development Goals. Business models need to align future value creation to the achievement of COP21 / Paris Accord targets of essentially net-zero GHG emissions by 2050 (as established by the IEA) and the SDGs.”

“Perhaps the most important factor in achieving necessary transformation at Reporting 3.0’s micro (corporate business model), meso (industrial ecosystems), and macro (global economic, ecological, and social systems) levels is the Fit-to-Role alignment at Work Levels 5, 6, and 7 (respectively) of corporate and investment boards, C suites, and managers.”

“Fiduciary Duty as currently (mis)understood and (mis)applied has dropped the ball on meeting these ethical and business responsibilities, requiring a new level-setting toward what we call the “Strategic Duty” of Directors: the duty of Corporate Boards and Investment Trustees to steer companies through turbulent times by setting long term strategies for sustainable current and future value creation within the constraints of systemic risks and emerging existential risks.”

Mark Van Clief
Conclusion & Synthesis: System Value Creation

Strategic Leadership Architecture, Business Models and Future Value Systems

The Corporate Life-Cycle Stages & Future Value (FV)

Adapted from © 2016 Bartley J. Madden Value Creation Thinking

Corporate Life Cycle, FADE & Becoming a Failing / Failed Business Model

Example Companies

<table>
<thead>
<tr>
<th>stage</th>
<th>company</th>
<th>future value (HOLT% future)</th>
<th>median 5yr return on capital (HOLT CFROI)</th>
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<td>10.7%</td>
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<td>Invest for Innovation</td>
<td>Alphabet, Amazon, Facebook</td>
<td>29.9%</td>
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<td>Highest Performance</td>
<td>Apple, Netflix, Amazon</td>
<td>29.9%</td>
<td>10.7%</td>
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<tr>
<td>Create Innovation Renewal</td>
<td>Alphabet, Amazon, Facebook</td>
<td>29.9%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Fix Value Creation</td>
<td>Walmart, Apple, Netflix</td>
<td>29.9%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Maturity / Growth</td>
<td>Costco, Netflix, Amazon</td>
<td>29.9%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Fix Growth Strategy</td>
<td>Apple, Netflix, Amazon</td>
<td>29.9%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Data source: Credit Suisse HOLT Score, June 2016
This is a market and industry commentary and not a research document.
Strategic Leadership Architecture, Business Models and Future Value Systems

Corporate Life-Cycle, FADE & Probability of Becoming a Failing or Failed Business Model

<table>
<thead>
<tr>
<th>Company Life-Stage</th>
<th>Early Growth / Turnaround</th>
<th>Star</th>
<th>eCAP</th>
<th>Cash Cow</th>
<th>Failed / Failed Business Model</th>
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</thead>
<tbody>
<tr>
<td>Early Growth / Turnaround</td>
<td>32%</td>
<td>13%</td>
<td>3%</td>
<td>21%</td>
<td>31%</td>
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<tr>
<td>Star</td>
<td>12%</td>
<td>29%</td>
<td>26%</td>
<td>17%</td>
<td>16%</td>
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<tr>
<td>eCAP</td>
<td>4%</td>
<td>16%</td>
<td>63%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Cash Cow</td>
<td>10%</td>
<td>13%</td>
<td>12%</td>
<td>36%</td>
<td>35%</td>
</tr>
<tr>
<td>Failed / Failed Business Model</td>
<td>13%</td>
<td>7%</td>
<td>2%</td>
<td>18%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Work Levels: The Organizational Benchmark for Effective Strategy, Structure & Shareholder Alignment

- **Key Pointers**:
  - Work Levels Management Structure Design is the lynchpin between Business Strategy & Management Structure, Incentive Design & Talent Management - to drive executional accountability & grow longer-term Enterprise Value
  - At what Work Level are key executive roles designed & held accountable today?
  - At what Work Level do executives spend most of their time?
  - Achieving Business Model & Business Eco-systems transformation for a VUCA world requires Work Level = WL 5/6/7 performance metrics & incentive designs

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**Work Levels and Value Added Innovation**

<table>
<thead>
<tr>
<th>Work Levels</th>
<th>Longest Strategic Horizon (eng. accountable horizon)</th>
<th>Enterprise Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Global Inter-generational Transforming Economy, Financial, Political &amp; Military Systems, Relationship Building, Global Business &amp; Societal Innovation</td>
<td>Beyond 30 years (7 years)</td>
<td>Future Growth Value (FV), as % of Enterprise Value</td>
</tr>
<tr>
<td>6 Hybrid/Global Transformational</td>
<td>Up to 20 years (7 years)</td>
<td></td>
</tr>
<tr>
<td>5 Transformational Systems Global Innovation and Integration</td>
<td>Up to 10 years (5 years)</td>
<td></td>
</tr>
<tr>
<td>4 Breakthrough New Product, New Service, New Channel and New Market Innovation</td>
<td>Up to 5 years (3 years)</td>
<td></td>
</tr>
<tr>
<td>3 Profit</td>
<td>Value Stream and/or Process, Technology, and People Innovation</td>
<td>Up to 2 years (yearly)</td>
</tr>
<tr>
<td>2 Transformation</td>
<td>Quality and Continuous Improvement</td>
<td>Up to 1 year (quarterly)</td>
</tr>
<tr>
<td>1 Continuous</td>
<td>Excellence Excellence</td>
<td>Up to 3 months (assignment task)</td>
</tr>
</tbody>
</table>

**Sources**
- Credit Suisse HOLT 1990 – 2015, minimum market capitalization $25bn
- Adapted from book “Beyond Earnings” by Bryan Mattes / David Holland / Credit Suisse HOLT
- 5yr Business Model probabilities

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This is Market and Industry Commentary and not a research document.
**Future Value and Strategic Leadership: The Math**

Mark Van Clieaf
Guest Expert

“This need for global inter-generational transformation requires a cognitive capacity and levels of systems thinking for handling complexity attained by only about 5% of the world’s adult population.”

“The recent NACD Survey of Directors identified that major disruptive industry change (58%) and business model disruption (46%) were the top two biggest concerns and risks for Directors.”

“75% of companies in the S&P 1500 have NO capital efficiency performance metrics disclosed in their measurement and named officer incentive design. When your cost of capital exceeds your return on invested capital (ROIC) over a 5 to 7 year performance period, you don’t have a viable business strategy, business model or business system – that’s the key threshold from a business and shareholder value perspective! Value Creation 101.”

“Over the last 5 years in the S&P 1500, some 450 companies overpaid their named officers over $15 billion in total compensation more than was warranted based on their 5 year relative ROIC compared to their industry sector ROIC.”

Mark Van Clieaf
“Closing the sustainability gap will not happen unless we close the organisational transformation gap, which only happens when we close the leadership/values gap. We’ve spent a decade trying to get this conversation going, but unless sustainability mavens get real about this, we are basically screwed.”

Robin Lincoln Wood

“Residual income provides a useful measure of financial performance that, like any of the social and environmental metrics we use, is context- and capital-based. It is predicated on the view that investors are entitled to receive a sufficient return on equity, which if satisfied fulfills the duty and obligation owed to investors.”

Mark W. McElroy, Ph.D.

“The scary thing is, the vast majority of corporations are NOT even financially sustainable if their trends continue!”

David Baxter

“I’m never surprised by sustainability/systems blindness. I’m always surprised by basic business blindness.”

Gil Friend
“With the best will in the world, the most elegantly designed business models (and reporting, data and accounting systems) will never fulfill their intended purpose until seven connected “larger system” elements have been fixed:

1) corporate governance systems, policies and practices as prescribed (constrained?) by company law and regulation;

2) work levels and roles (organizational design) in a viable system;

3) leadership, temperament, culture and succession planning (board & C-suite incumbents);

4) compensation and incentive design and metrics (NB. performance evaluation criteria and measures);

5) fiduciary duty of (a) directors and (b) pension fund trustees (key aspects of corporate law and pension fund legislation);

6) financial markets and institutional investor alignment with long-term, sustainability-based value creation; and

7) corporate reporting and disclosure that is

(a) decision-useful for investment decisions and oversight by asset owners, and

(b) necessary for stewardship, governance and accountability oversight purposes.”

Alan Willis
“One idea is filing transition plan resolutions at an industrial scale, or convincing major investors to withhold votes against directors of companies who fail to produce transition plans to sustainable business models.”

Thomas Murtha

“MetaIntegral would like to suggestion adding one Key Characteristics of an Integral Business Model - An explicitly multi-perspectival and anti-bias approach that could be labeled Multi-perspectival/anti-bias.”

“To create the effective new thriving systems we’re envisioning, it’s not enough to just include more forms of capital. Multidimensional thinking is crucial for regenerative and thriving design—it is important to understand the ontological, epistemological, and methodological relationships between the capitals and how they relate to all aspects of building new business models, including alternative ownership models.”

Shanti Gaia
Reporting 3.0 Ecosystem Redux

“I believe that most companies (and their leadership) have not kept pace with the development in sustainability thinking. We have moved way beyond incremental improvement and are entering a new paradigm. This paradigm requires the integration of business functions and more importantly the integration of business data. Companies create the wrong data (in the sense of transformational business models anyway). Until we start to fix the data issue, we can’t unlock the value contained within these business models, because we can’t effectively model it financially. And if we can’t do this, we can’t sell the business case to the leadership.”

David Baxter

“One has to see the Blueprints in combination with Beta Testing, Advocation Partnership, the Academic Alliance. Being too prescriptive doesn’t work as flexibility must be given to explore the opportunities on a case-by-case basis, it should also bring out the full fantasy and brilliance of our partners in the network.”

“One has to see the Blueprints in combination with Beta Testing, Advocation Partnership, the Academic Alliance. Being too prescriptive doesn’t work as flexibility must be given to explore the opportunities on a case-by-case basis, it should also bring out the full fantasy and brilliance of our partners in the network.”

Ralph Thurm

“The templates need one more layer down, not to make them a ‘cooking book’ but to allow more precise answers to questions that allow for better guidance on gaps detected and actions to fill them. This will lead to recommendations as we also inserted them in the other Blueprints that are already released. These recommendations will be for entrepreneurs and intrapreneurs, but we will also look at the perspective of investors, governments & multilateral as well as standard setters.”

“The Blueprints are the fundament where Advocation Partners can build the Reporting 3.0 house brick by brick, client by client. Governments, multilateral and foundations will need to supply the roof so that we can all stay warm and dry inside the house. Standard setters taking our advice on board and implement the recommendations will make sure that the stones and the mortar are all in line with the building plan. Investors need to make sure that the land the house is built on, the materials that are used and the energy needed are in line with the planetary boundaries and social floors, not overstretching or taking more than a fair share. That is ethical investment.”

Ralph Thurm
Conclusion

Facilitator’s Conclusion

This week’s virtual dialogue on the Second Exposure Draft of the Reporting 3.0 New Business Models Blueprint has been exhilarating! The wide-ranging input provides Ralph and me as co-authors with ample material to significantly improve this important document as we draft the Final Report for release at the 5th International Reporting 3.0 Conference at KPMG in Amsterdam in June -- where many of you will be speaking in the Blueprint release sessions, and attending.

Thanks to all 35 participants, and particularly our Guest Experts, for the generosity of time, attention, and creative thinking. We appreciate the deeply collaborative process of co-creating these Blueprints for transforming the ways we build businesses, with more healthy and holistic outcomes in mind. As one participant communicated off-platform: “What an impressive thing, process, tool, group, etc, you’ve done!” (which I would edit slightly to “we’ve done,” as this is truly a community effort.)

Bill Baue
Senior Director, Reporting 3.0
FACILITATOR