1 *Corporate impacts: focusing on relationships and outcomes*

All of us need to accept responsibility for the damage done to the free-market system …

You have to focus on all the stakeholders. It's a new thing for us. Long-term value is only achieved if growth benefits all stakeholders in a company, from owners to employees, communities and even governments.

Henry Kravis, CEO, KKR

If my bank is to get involved with its neighborhoods, what should it do? What can it do?

Senior banking executive

Corporations, the most powerful wealth-creation engines in the world, create value with their stakeholders on a daily basis (Freeman, 1984; Freeman et al., 2007) or—quite simply—they don't survive. Co-creating value delivers safe products and needed services for many stakeholders, encourages clients to come back time and again, creates jobs for employees in safe workplaces, and provides adequate returns to investors for mutual benefits (Wood, 1991). Positive impacts satisfy consumers and improve employees' welfare with spillover effects that increase the quality of life of communities through increased investments, sustained commerce, and tax receipts. In short, businesses co-create value with—and for—a multitude of stakeholders, including shareholders. A rising tide of thriving business districts builds a broader tax base, retains and attracts even more businesses, enhances a qualified workforce and contributes, in a virtuous cycle, to defraying the collective costs of community infrastructure.

Co-creating value seems like a simple concept: work with stakeholders, make a net positive difference for them and for you, improve lives, and repeat. Yet, if co-creating enduring value were simple to achieve, even more firms would match actions with intent. However, the daily news headlines suggest that co-creating value with multiple

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stakeholders simultaneously—however important—is neither straightforward nor easy to implement.

Implementing a process that mindfully co-creates value requires re-examining many, often implicit, aspects of the value-creation process. We start by focusing on the *interactions* of a firm's relationships with its stakeholders and with the not-so-startling observation that firms have both financial and non-financial impacts (Freeman, 1984; Baron, 1995). Financial and non-financial impacts are often intertwined and indistinguishable from one another, making assessing a firm's impacts messier than a simple accounting rubric such as share price. Purposely expanding impacts to include financial and non-financial impacts has a silver lining: more problems due to the sheer volume of impacts to consider also expands the possible solution sets available for figuring out how to continuously create value.

Lumping together all financial and non-financial impacts, however, suggests a false choice between financial and so-called 'difficult to measure' non-financial impacts that can't always be monetized. Yet, financial impacts frequently have non-financial, intangible dimensions such as reputation, trust, or ability to attract top talent that are equally difficult to monetize and are ignored at the business's peril. A one-size-fits-all rubric to assess all financial or non-financial impacts does not exist. Pride, loyalty, trustworthiness, safety, and effectiveness, for example, might be perceived, assessed, and measured in very different ways by employees, consumers, neighbors, and regulators. This book suggests a more nuanced perspective is needed based on the impacts that firms have with investors, employees, through the production chain, with consumers, as well as a broader set of thought leaders that are listening to, watching and influencing the firm. Influencing the influencers is increasingly an important aspect of managing corporate impacts to co-create value.

Effectively co-creating value that endures suggests, at a minimum, undertaking mutually beneficial activities while preventing bad things from happening. Mitigating harm by installing sprinkler systems and fire escapes in case of a factory fire that can kill employees is simply in the firm's best interests. When a fire occurs, the increased scrutiny of preventable deaths might irreparably harm a firm's reputation—better to prevent the fire in the first place. Creating an unfortunate legacy, these value-destroying events hamper growth and damage a firm's ability to

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expand. It's simply in the firm's best interests to consider its financial and non-financial impacts: businesses are in the business of creating mutual benefits that positively impact stakeholders and the firm.

Co-creating value often targets stakeholders directly impacted by a firm's actions. This book suggests that direct effects, as well as spillover and multiplier effects, of a firm's actions (or inactions) are where value is created or destroyed with stakeholders. When growing firms hire 100 new employees, for example, they often emphasize only the net positive benefits without a concomitant understanding of the spillover effects of hiring on the local neighborhood through traffic congestion or increased demand for local housing affecting local neighborhoods through increased property values or undue pressure on municipal services for trash, sewage, water, fire services, and police protection. Over time, a narrow, firm-centric understanding of the positive and negative spillover effects of growth can affect the firm's ability to continuously attract top talent in the future.

Capitalism is under siege, in part, as the stakeholders impacted are not always accounted for; nor are a firm's impacts always positive, as value may be destroyed and lives irrevocably harmed. Nor are benefits to stakeholders proportional to their contributions or achieved simultaneously: poverty and disease endure and persist within a firm's sphere of influence (and those of business communities), while shareholder returns are near record highs. When the brunt of the burden is borne by stakeholders not reaping benefits, capitalism causes lopsided risks and tenuous rewards that may not endure over time. Lopsided equations of who contributes to value creation as well as who realizes the burdens when value is destroyed requires thinking beyond a firm's direct impacts to incorporate the value-creation process and potential for value destruction.

Value, easily destroyed, makes the headlines with extensive reviews of what happened, who is to blame, and often with outcries for new public policies to be put into place. Rather than an after-the-fact blame game, some businesses are getting ahead of the curve by understanding their direct and indirect impacts on stakeholders by managing for the positive and unintended negative impacts. Staunching value destruction is preferable to standing idly by. Yet managing the true impacts of a business can, in turn, improve competitiveness, making it better—and less costly—for a firm than doing nothing.

In short, firms co-create *and* destroy value with stakeholders. Firms impact, directly and indirectly, a series of stakeholders, including

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shareholders, having financial and non-financial affects. This book explores a corporation's multifaceted impacts expanding the conversation about mutual benefits by including the value created and destroyed by the firm. In doing so, we explore two questions about stakeholder engagement: *who* shares in the value-creation process (and is the firm's story about value creation inclusive of these stakeholders)? And in the process of creating value, *how* are benefits and risks borne through multiplier effects?

By focusing on four types of impact where value is created or destroyed, this book identifies managerial blind spots and opportunities for innovation. Examining financial impacts alongside employees, products, and information impacts suggests there is more to creating value than returns to investors. Confidence in leadership, trust, prestige, recognition, or loyal customers might be impacts valued more than returns. Focused on impacts, an inclusive stakeholder approach offers a holistic perspective of the value-creation process by: (a) examining material impacts, financial and non-financial, that might directly, or indirectly, affect a firm's relationships; (b) identifying spillover and multiplier effects; and (c) intertwining impacts to enhance competitiveness.

With an emphasis on impacts—the points of intersection between a business and its stakeholders through employment, finances, production, and information—this book explicitly includes employees, creditors, suppliers, and communities (e.g., thought leaders, the media, or government) in the value-creation process. At points of impact, where the firm and stakeholders intersect, opportunities exist for value to be created or destroyed. It is simply in a firm's best interest to choose to optimize its positive impacts while mitigating harmful impacts. If designing business interactions with stakeholders creates enduring value without destroying value, aren't we all better off?

Interestingly, in the tangle of firm–stakeholder impacts lies the 'sweet spot' of value being co-created, as well as the 'messy middle' of value being destroyed. Increasingly considered a messy middle, addressing corporate impacts is not going to get easier, yet they are exceedingly important. The sheer number and variety of impacts due to the volume of stakeholders impinging upon a business with opportunities to create (or destroy) value is accelerating. The interests of stakeholder groups expand and morph on a seemingly daily basis. Therein lies the opportunity to create, destroy, or dissipate value if myriad relationships are not understood in the light of their true impacts on the firm.

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While corporate impacts can seem a bit like chasing a moving target, resulting in an explosion of relevant relationships, the key is tying the impacts to the process of creating enduring value.

Let's start by examining the direct and indirect stakeholders impacted by the 2010 BP oil spill in the Gulf of Mexico.

BP CASE STUDY: CORPORATE IMPACTS

On April 20, 2010, BP's *Deepwater Horizon* exploded and caught fire in the Gulf of Mexico, killing 11 workers and injuring 17 others (Hoffman and Jennings, 2011). Two days later the rig sank, causing the worst oil spill in US history. BP eventually capped the well on July 15, 2010 after almost five billion barrels of oil—19 times more than leakage from the 1989 *Exxon Valdez* oil spill—contaminated the Gulf (Fahrenthold and Kindy, 2010).

The BP oil spill directly affected a variety of stakeholders, including the neighborhoods and households living near the 16,000 miles of coastline composed of Alabama, Florida, Louisiana, Mississippi, and Texas (Mackey, 2010). Thousands of animal species were killed or injured in the six months following the spill. The spill also had far-reaching consequences for the industry, including stricter regulation for deep-sea drilling with the potential for more regulations in the future (Goldenberg, 2010a; Webb, 2010c).

BP faced massive financial consequences: 2010 was BP's first financial loss in 19 years, with $4.9 billion charged against earnings due to containing and cleaning up the oil spill in the Gulf (Webb and Bawden, 2011). BP's share price fell by more than 115 percent. Once Britain's most valuable company, by June 2010 BP's shares had fallen to less than half of their pre-spill value (Bryant, 2011). One day in early June 2010, BP shares plummeted by 13 percent, immediately wiping £12 billion off the company's value as news was released that oil well was not likely to be capped for two months or more. In 2015, five years after the oil spill, BP's share price still had not returned to the pre-spill value of more than $57. Pensioners dependent upon BP's dividend payout were acutely affected as the dividend was cut to 7 cents, less than half the level before the April 2010 Gulf of Mexico oil spill (Webb and Bawden, 2011). BP lost $103 billion in market value and says it faced more than $40 billion in spill related costs with civil charges and numerous lawsuits still pending (Larino, 2015).

BP's loss of $103 billion in market value is equivalent to wiping out (in 2010 dollars) Intel, McDonald's, Visa, or Disney. The loss in shareholder value was acutely felt by both the American and British governments as both wanted BP to survive, and not only for financial reasons (Webb, 2010a). BP

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accounted for more than 10 percent of dividends paid by UK companies, with numerous British pensioners relying on its dividend income. The company is headquartered in London and is a well-known British firm formerly known as British Petroleum; its privatization from state-ownership began in the late 1970s (Webb, 2010a). The United States government was concerned that if BP went bankrupt then it would not be able to pay the potentially billions of dollars in compensation to victims, leaving the US government footing the bill *and* being responsible for implementing the cleanup activities (Webb, 2010a).

BP's operations were directly affected, with production dropping to 10 percent less oil and gas being pumped compared with the year before (Webb, 2011). And presumably operating procedures, rig operations and oversight, and deep-sea drilling protocols, as well as the reporting relationships—including the very public sacking of BP chairman Tony Hayward in June 2010—were significantly changed, with BP taking on a laser-like focus towards safety after the oil spill. What is unknown to outsiders is the effect of the oil spill on employees. Did BP have to lay off employees due to the drop in production or were layoffs and loss of contracts outsourced, borne by suppliers of BP and their contract workers? Or did BP have to pay a premium to attract engineers or geologists to work for them? And were there negative spillover effects onto franchise owners that lost money or were unable to expand?

Expectations of future production were also lowered as BP sold assets worth $25 billion to create a cushion of cash to pay for spill-related costs (Webb, 2011) and BP dropped plans to drill in the Arctic owing to its tarnished reputation after the Gulf of Mexico spill (Macalaster, 2010). The reputation losses were only in part captured by the market value loss of $103 billion, as the company's brand value was also diminished due to the way BP had promoted its Beyond Petroleum program in the years before the spill, but failed to execute when a disaster arose (Healy and Griffin, 2004; Sweney, 2010). With a damaged reputation, BP may find it harder to enter new markets or bid for new contracts (Sweney, 2010).

Other spillover effects included a cut in BP's credit rating—after US politicians demanded the company deposit $20 billion in an escrow account to cover the cost of the *Deepwater Horizon* disaster, making it more expensive for BP to borrow money (Wearden, 2010). Within a week, Moody's, a credit rating company, followed with a cut to BP's credit rating (Gutierrez, 2010).

Months after the largest oil spill in US history, speculation remained rampant in business news outlets that BP might become a takeover target, go bankrupt, or need to be significantly downsized and reorganized as the share price collapsed and was expected to drop even further (Webb and Pilkington, 2010; Tseng, 2010). What about BP's competitors? Are BP's rivals such as

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ExxonMobil breathing a sigh of relief as the *Exxon Valdez* oil spill in Prince William Sound in 1989, previously the most notorious US oil spill, became yesterday's news with the BP oil spill (Hoffman, 1999; Hoffman and Ocasio, 2001; Hoffman and Jennings, 2011)?

Multiplier effects from the oil spill extended to the entire petrochemical industry, with new regulatory, political, and legal challenges. The Obama administration reversed an earlier decision and stopped offshore drilling until 2017, saying it had learned a lesson from the BP oil disaster. The cost and time delays in opening up new areas of the Gulf of Mexico to drilling affected the entire industry as more stringent safety measures were now required (Goldenberg, 2010a; Webb, 2011). Royal Dutch Shell, a competitor with an approved yet controversial drilling project in the Arctic, was required to upgrade its oil spill response plan, which delayed the planned start of the drilling until 2012 and then faced additional delays even after spending $4.5 billion on leases, equipment, and a campaign to persuade government officials (Broder, 2013). Shell initially refused to rule out pursuing damages against BP and other companies involved in the Gulf of Mexico disaster (Webb, 2010b).

The Obama administration sued BP and its partners in the *Deepwater Horizon* oil well disaster in the Gulf of Mexico, Trans-Ocean and Anadarko Petroleum. BP eventually settled with the Department of Justice in November 2012 for $4.5 billion in damages and pleaded guilty to 14 criminal charges while agreeing to pay fines to the Securities and Exchange Commission (Krauss and Schwartz, 2012). In later trials, BP was found grossly negligent, with the penalties and the appeal process still ongoing nearly five years after the oil spill (Larino, 2015; Stempel, 2014). BP faced hundreds of lawsuits filed by fishing interests, hotel chains, restaurateurs, even condo owners who say the spill ruined their holidays. The state of Alabama is also suing BP and other firms connected to the disaster (Goldenberg, 2010b; Larino, 2015).

In short, BP's financial loss of $103 billion in market value is only one aspect of the story regarding how BP co-created and destroyed value in the Gulf of Mexico oil spill. Only evaluating BP's financial impacts of the oil spill in the Gulf would miss the many financial and non-financial impacts on pensioners, financial analysts, partners, employees, suppliers, governmental contracts, local shrimp businesses and tourism companies, and neighborhoods, as well as consumers. Further, BP's prospects for co-creating value in the future are likely to be deeply intertwined with its responses to the 2010 *Deepwater Horizon* oil spill.

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This book suggests it is simply in a business's best interest to understand how it impacts its stakeholders to enhance its value-creation process and mitigate risks that destroy value. We start by briefly identifying corporate impacts extending beyond financial impacts to include non-financial impacts, personnel and workplace, products/services, and information (Evan, 1965). Briefly discussing each of the four impacts (financial, personnel, products, and information) in isolation allows us to deeply dissect each type of impact in the next three chapters while alluding to how they work in combination with one another in Chapters 5 and 6. It's not that one specific impact is more important than the other, nor that they all must be evaluated in sequence, nor that all impacts must be accounted for; rather the intent of having a deep description of each impact allows for different narratives to emerge of how a business co-creates value *with its many stakeholders*.

Financial impacts

Financial impacts are often the most readily described and easily measured impact for publicly traded companies as share price and accounting returns are required to be published on a periodic basis. Financial impacts are most easily monetized, reflecting an accounting of risks, costs, and benefits to assess performance. Performance incorporates more than just financial metrics as it reflects past investments, new ideas that are generating sales, how efficient operations are producing goods and services, serendipity, and avoiding the crises affecting a firm's financial war chest. Various constituencies are directly affected by the financial value created by firms, including shareholders and financial investment industries created to assess, compare, and share information on a firm's financial prowess relative to rivals, industries, or most admired firms. Comparisons to rivals, contributions to national growth, and growth projections for investors assessing publicly traded companies deciding on whether to buy, hold, or sell company stock are commonplace. Often the shorthand for commercial success, financial impacts assess the impact on the owners, those providing capital, as access to financial capital is a requirement for all firms.

Yet, a single-minded narrative of profit maximization is not serving the interests of the business community or its stakeholders (Stout,

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2012). The ostensible pursuit of short-term profits at all costs, as we saw in the BP oil spill case, can stymie businesses' growth potential; multiplying risks and ignoring new opportunities. Attention to human health and safety, risk mitigation, forestalling lawsuits, sharing information, trust, and the ability to work with stakeholders may be valued more than current cash flows for BP, for example. With even more stakeholders asking 'what's in it for me?' a financial payoff may not be the best answer, nor in the best interests of the firm.

Further, different firms are targeting different types of investors—particularly those investors that are focused on the long term. CEOs from Microsoft and Facebook are defending long-term investment strategies that don't provide immediate returns by asking investors to either be patient or to find another firm for their investment portfolio (Goldman, 2015). These firms are looking beyond short-term financial impacts to invest in future business growth. Investments in R&D, for example, can immediately benefit employees while in turn benefitting customers and investors in the long term. Without an adequate response to questions about how business co-creates enduring value with its many stakeholders, naysayers will continually undermine the financial value created by businesses.

Employees in the workplace impacts

Corporations directly impact—and are impacted by—employees and through workplace facilities. How a company engages its employees, builds its internal feedback systems (hiring, firing, training, and development processes), and facilities in which employees work (safety, security) increasingly helps to tip the balance in the competition for top talent (Turban and Greening, 1997). Employees and contract workers are often the first stakeholders to see gaps between the policies of a company or aspirations of its leadership and the way in which people are actually treated. Employee pride, retention, diversity, and loyalty as well as programs appropriately tailored to education, volunteering based on building skills and expertise, matching contributions, or internal training and development can contribute to employee effectiveness (Mackey and Sisodia, 2013).

Workplace impacts can be numerically accounted for as: workplace safety (accidents or deaths of employees and contract workers); number of regulatory violations (e.g., child labor and human trafficking

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policies); number of lost workdays per year; carbon, water, or energy consumption; waste and efficiency; as well as LEED certification of facilities. These workplace impacts often spill over to contract workers, partners, and suppliers as we saw in the fallout from the BP oil spill.

Overall, personnel and workplace impacts are a combination of both actual and perceived value. Being perceived as a trusted employer, an employer of choice, or winning 'best place to work' awards, alongside appropriate consumption of water, carbon, and energy or LEED certification of offices are not substitutes for headline-raising issues such as child labor, human trafficking, or unsafe workplace conditions, yet can often help when workplace conditions make headline news. A steady paycheck at living wages, for example, may be valued differently than safe working conditions or policies on human trafficking by employees or non-governmental organizations (NGOs) specializing in human trafficking. Adopting a co-creating value mindset suggests that both types of value, actual and perceived, need to be satisfied as risks can threaten the survival of the company and its ability to continuously create value as it seeks to retain its employees or expand facilities into new markets.

Product-based impacts

A third way that firms directly impact and are impacted by stakeholders are through day-to-day production and procurement decisions. In short, how a product is sourced, produced and delivered. Decisions that encourage (discourage) the use (misuse) of goods and services impact many stakeholders along the value chain: suppliers, suppliers of suppliers, distribution networks, clients (product purchasers), and consumers (product users). Whether it is a local barbershop offering free haircuts or a multinational company with production facilities and kiosks in numerous communities around the world, every organization impacts stakeholders through sourcing and delivery of its products or services.

Assessing the economic aspects of product/service impacts are quite common as they can be readily measured through, for example: pricing; loyalty of consumers; carbon, water, and energy consumption per unit of product; recycling programs or lifecycle analysis; traceability

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and accountability in the sourcing of pesticide-free or organic goods in grocery stores; or donations of in-kind products. Consumer behavior research about perceived value, especially the use of branded products, is of particular interest in assessing product/service impacts as allegations of exploitation or misleading disclosures in nutritional labels, cigarette packaging, and mortgage loan disclosures are well documented (Perry and Blumenthal, 2012).

Branded products have unique risks, as a brand promise might allude to specific aspirations, lifestyle choices, status, or prestige. If a brand promises eco-friendly manufacturing yet research uncovers unethical suppliers promoting unsafe workplace conditions, the brand can come under attack, such as when Greenpeace attacked Timberland (Swartz, 2010).

Increasingly, transparency regarding the sourcing and distribution of commodity products such as coffee, soya, rubber, water, and forestry products is demanded by consumers, investors, non-profits, and governments. Decisions about sourcing, packaging, advertising, social media, return policies or end-of-life recycling of products directly and indirectly impact other decisions, and thus have the potential to create or destroy value. Effectively addressing multiplier effects of products/services beyond economic impacts to include social and environmental impacts throughout the value chain is increasingly important for modern businesses.

Information-sharing impacts

Another, perhaps more subtle mechanism by which corporations directly and indirectly impact stakeholders is through sharing information. This is information that influences influencers, shapes opinions, or educates thought leaders and other critical stakeholders. Transparency and disclosure creates (new) value by connecting consumers with producers via location-based cell apps that review hotels, restaurants, or gas stations, for example. Information connects financiers through crowdsourcing with local independent musicians wanting to produce another album. It has never been easier to find a specific store, search for people with common food interests, or deal with food allergies, with friends, tips, blogs, and tweets to share ratings, rankings, preferences, and 'how to' videos. The value created

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through information-sharing communities is often overlooked and underappreciated, yet when value is destroyed and stories go viral, information-based risks multiply rapidly.

When recognized as a trusted partner, corporations can become convening forums that exchange information, enabling even more value to be created. By providing thought leadership or critical expertise, businesses exert influence far beyond individual products, services, or their physical locations to help others (local communities, potential consumers, regulatory agencies asking advice on promulgating new regulations) with skills, expertise, know-how, training, and outreach.

On the flip-side, a business can also irritate the media, regulators, industry bodies, opinion leaders, potential investors, or local communities and destroy value. As seen in the BP oil spill case, once a creditor publicly downgraded its evaluation of BP, other credit agencies followed suit, leading to cascading effects and ongoing speculation that can distract management while multiplying the risks of future growth.

Impacts of corporations' information-sharing are often highlighted in the wake of natural disasters or world sporting events (e.g., FIFA World Cup, the Olympics). During the 2011 Fukushima tsunami, the world's worst nuclear disaster since Chernobyl, for example, when information was scarce regarding safe shelters, electricity availability/outages, and safe drinking water, many companies made donations ranging from road-clearing equipment and logistical support to technology and satellites to coordinate information, gain access to water, medicines, and support to rebuild critical infrastructure. One silver lining of the tsunami is Japan's boom of green technologies, which resulted in the highest rates of renewable energy in the world in 2014 (Kageyama, 2014).

Information impacts—an oft-overlooked and underappreciated area of corporate impacts—affect many constituencies and, in turn, affect the value-creation process. Positive and negative information impacts can be direct or indirect, as well as perceived or actual. For example, financial analysts, potential customers, Facebook friends, regulators, the general public, and pundits opining about an organization, its products, and promotions is blurring the boundaries of 'relevant' communities; social media has enabled communities of users, thought leaders, consumers, beta testers, Facebook friends, and partners to be critical communities, extending traditional communities beyond local

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neighborhoods. Appropriately defining communities is becoming critical to creating—and mitigating risks of destroying—value.

Information shapes future expectations requiring communications that goes well beyond traditional newsletters, intranets, technical reports, lobbying, grassroots advocacy, and political contributions. The broadening and deepening of opportunities stemming from information impacts is both a challenge (misinformation) as well as an incentive for businesses to create new business models (crowdfunding, crowdsourcing) with many overlooked communities.

Table 1.1 provides an abbreviated view of just two types of impacts—financial and workplace—on various stakeholder groups, which is explored in more detail in Chapter 5. These few examples highlight the direct impacts that many firms already take into consideration. Yet, many firms undermine what they are already doing by limiting managerial focus on just these few, direct impacts and by attributing their corporate impacts, narrowly, to solely financial impacts.

BP, for example, operating for many decades as a company with the British government as a majority owner, had carefully created relationships with investors, employees, customers, government regulators, and communities, as well as its suppliers/distributors. Yet the conversations from BP prior to the oil spill were seemingly focused upon its financial impacts on investors, even though BP proclaimed itself as 'beyond petroleum' (Healy and Griffin, 2004; Sweney, 2010). The oil spill crisis broadened and deepened BP's focus to meaningfully engage and articulate the contributions from multiple stakeholders. BP has acknowledged its multiple impacts beyond financial considerations to include legal and political risks stemming from employee, product, and reputation impacts. Lessons from the oil spill suggest myriad stakeholders, with financial and non-financial impacts—often not included in a storyline businesses tell about themselves—increasingly important in how value is created and destroyed in an interconnected world. By leaving value-creating stakeholders out of the conversations and narrowly focusing on isolated impacts rather than multiple impacts, opportunities for co-creating value are missed. When value is destroyed, stemming the negative tide is often very difficult if a deeper understanding of how value is created and destroyed is overlooked.

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Table 1.1 *Examples of financial and workplace impacts on stakeholder groups*

	STAKEHOLDERS						
IMPACTS		**Investors**	**Employees**	**Customers**	**Government**	**Communities**	**Suppliers/ distributors**
	Financial	Share price; dividends; returns	Employee stock ownership programs; wages	Price; cost	Taxes; oversight	Sponsorships; economic disparities	Costs; price
	Workplace	Lawsuits; safety record	Safety; training; human trafficking; hours worked; benefits	Child labor; recalls	Oversight; jobs created; local content	Child labor; human rights; safety; jobs	Skills transfer

Multiplier effects

While direct effects of financial, employee, product or information impacts are frequently straightforward, corporations often don't consider their multiplier effects. BP, for example, was blindsided by numerous lawsuits and claimants allegedly impacted through the oil spill. Multiplier effects stem from everyday decisions but are often highlighted during headline-making events, such as a fire, a rogue trader, or an oil spill. Multiplier effects exacerbate a corporation's ability to continuously co-create value with consumers, governments, and neighborhoods.

Multiplier effects extend a firm's reach beyond its direct impacts to include impacts along the entire value chain, across geographies, and over time. Multiplier effects may directly or, more importantly, indirectly spill over to the value-creation process. Firms with global supply chains are particularly vulnerable to spillover risks. Focusing on the employment policies to eliminate human trafficking, for example, in factories owned and operated by a large multinational retailer is fairly straightforward. Yet if a factory operating under contract with a supplier-of-a-supplier has a fire, the multinational retailer might be heavily scrutinized about employment policies or workplace conditions in a factory they do not own or operate. The retailer, merely through the daisy chain of contracts with suppliers, is complicit by a supplier-of-a-supplier's employment policies.

After the oil spill in the Gulf of Mexico, for example, BP faced many claims from local tourism, shrimp, and fishing businesses physically affected by the oil spill. Communities further down the coast *without* oil slicks covering their beaches, however, also made claims without bearing *direct* physical impacts of the oil spill. They claimed the oil spill harmed or halted tourism in the neighboring region and in doing so had an impact— financially and non-financially—on their businesses, communities, and way of life. In this way, the impacts of BP were extended beyond the direct, physical impacts upon neighboring communities even if these further afield neighborhoods were not marred by the physical impacts of the oil spill.

Well-intentioned businesses might narrowly focus on financial returns, fulfilling contracts for clients, or creating safe workplaces, but a narrow focus on direct—and predominantly financial—impacts is simply not sufficient for twenty-first-century firms. Corporations'

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impacts extend and multiply beyond direct impacts with investors, employees, and consumers through the value chain, across geographies, and over time.

Multiplier effects along the value chain

Multiplier effects along the value chain extend a firm's interests to suppliers and the suppliers of suppliers, clients who buy the product, consumers who use the products, and governmental agencies or others that monitor, rate, or review products. Multiplier effects extend the reach of an enterprise to both ends of the value chain, across multiple geographies, and over time in a 24/7 social media frenzied world. Multiplier effects are important because they can significantly enhance mutual benefits or rapidly accelerate the costs/externalities borne by stakeholders and in doing so expand the risks for the firm.

Focusing on a firm's extended value chain explicitly links consumers' interests with suppliers' designs by creating feedback loops, for example. Tying consumers' recommendations for safety features for children with product designers reimagining the next generation of products creates mutual benefits for consumers, suppliers, and the firm. In this way, consumers help dictate changes in design, manufacturing, or sourcing of raw materials.

In a related fashion, multiplier effects stemming from one firm often ripple throughout an industry sector affecting many other firms. For example, BP's *Deepwater Horizon* spill affected the entire deep sea-drilling industry through regulations and increased scrutiny. Industry-level multiplier effects during the global financial crisis contributed to the demise or detriment of numerous investment banking and real estate firms. 'Too big to fail' firms such as JP Morgan and Countrywide failed, while global giants Goldman Sachs and Citigroup had their operations significantly affected. Multiplier effects can indiscriminately affect swaths of firms within an industry.

After the BP *Deepwater Horizon* oil rig exploded killing 11 people, for example, the ensuing oil spill created a crisis for the company *and* the petrochemical industry. While BP had already established a 'beyond petroleum' presence with deep relationships throughout many Gulf of Mexico communities, extensive partnerships, alliances with international NGOs such as the Nature Conservancy, university experts available in drilling and capping wells, as well as a robust legal,

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media, public policy, investor relations and operations team, missteps still occurred (Healy and Griffin, 2004; Healy, 2014), which lead to the sacking of BP CEO Tony Hayward (Macalaster, 2010).

Despite being the US's largest-ever oil spill, more than two months passed for BP's stock price to drop by more than 50 percent after the oil rig exploded (Stout, 2012). BP was able to recover far more rapidly because it had developed—and was able to *leverage and learn* from—an extensive stakeholder network developed prior to the crisis and upon whom BP relied upon as soon as the spill occurred. Leveraging myriad relationships to spearhead a multifaceted recovery effort, in the end, was applauded. The relationships forged and relatively rapid responses throughout BP's extended stakeholder network, created from an extensive stakeholder network developed prior to the crisis and upon whom BP relied upon as soon as the spill occurred, helped its recovery.

Exxon's stock price, on the other hand, dropped far more rapidly just a few days after the *Exxon Valdez* oil spill in 1989. ExxonMobil spent days, and some would argue months or years, denying the spill and then was hamstrung with its defensive stance throughout the oil recovery process, hampering its stock price and casting doubt on its ability to generate future earnings.

Yet, positive multiplier effects from the BP spill also occurred. Can you name any of them? Likely not as many (newly created) innovations, interestingly, received much less national or international media coverage. Operational changes and an enhanced focus on safety would be a positive multiplier effect for BP's operations in the Gulf that likely extended to all the firm's operations worldwide. The drilling industry, more generally, benefited if collaborative partnerships and new businesses specializing in cap and contain technologies were created.

Net impacts and combining impacts

To assess net impacts, defined as mutual benefits net of costs, the indirect and multiplier effects of corporations' relationships need to be considered. Imagine for a moment that your firm has just one supplier, one consumer, one regulator, and one employee. How many relationships might, theoretically, affect your ability to create value? Focusing solely on the four direct relationships would sub-optimize your effectiveness, as there are 24 possible relationships (4-factorial or in mathematical

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notation, 4!, which is 4 × 3 × 2 × 1). Now think about a real-world organization. Does the firm focus solely on its direct relationships? Or does it look beyond the urgent, direct relationships to examine the risks, rewards, and perceptions of other, indirect or seemingly dormant yet influential, stakeholders?

Understanding the multitude of direct, indirect, and net impacts is helpful when examining what is important to a wider set of constituencies such as governments, service providers, advocacy groups, or non-profits. As more stakeholders become more involved in shaping a firm's value-creation process—in developing countries with foreign direct investment; during urban renewal projects when permits for growing business are required; or when governmental oversight is required for manufacturing controversial products—what is of value may change, and change rapidly, for relevant constituencies. If a firm's survival is at risk, if growth is desired, if a crisis occurs with employee layoffs, or the facility is shuttered, governments, service providers, and advocacy groups can enhance or tarnish a firm's reputation with spillover effects. The BP example discusses the downside risks and multiplier effects in more detail.

Quite often, unfortunately, stakeholder impacts are simply reduced down to financial contributions to a firm's bottom line for its shareholders. A more inclusive narrative of creating jobs, however, discusses benefits for the town, the employees, the firm, and the consumers. A holistic, integrative narrative of business acknowledges the many and varied impacts of business and hiring employees, capitalism and the value-creation process is increasingly under siege (Porter and Kramer, 2011; Crane et al., 2014a, 2014b).

Seemingly simple everyday decisions about employing local talent, for example, have potentially far-reaching impacts that can undermine (or reinforce) other stakeholder relationships. Figure 1.1 depicts how multiple stakeholders might be inextricably intertwined in the value-creation process as discussed in more detail in Chapter 5. Hiring local talent, for example, can set the stage for a company in tune with the way the (local) world works, attracting a larger pool of talented applicants, encouraging more consumers to buy from a 'well-respected' company that treats its employees well in a virtuous cycle. Alternatively, being perceived as a company that seemingly does what it wants regardless of the community in which it resides and being culturally *insensitive* to local preferences may unwittingly stir up

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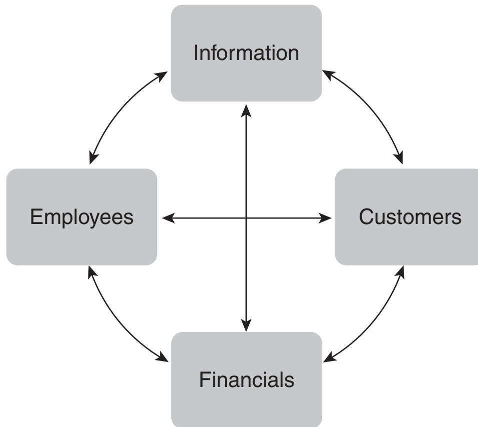

Figure 1.1 Combinations of corporate impacts

animosity that extends far beyond the local community, the physical products, and the ability of the firm to compete effectively.

If a hotel, for example, deepens its relations with its employees by creating training and development programs benefitting all employers in the hospitality business, value can be co-created with ripple effects on consumers, investors, and through a reputation (information effects) for being a good employer. These improved employee relations create value, which spills over to other stakeholders, as shown in Figure 1.1; thus the firm creates a mutually reinforcing means to continuously create value.

In other words, a firm is helping others help themselves while also helping itself in the process. Will other communities look upon the hotel as a trusted partner and welcome it as it expands into new communities or will it just examine its potential for a tax contribution? Similarly, if the hotel obeys local laws yet voluntarily goes beyond compliance on human rights, for example, when the law is silent, does it make it a trusted partner differentiated from its rivals? Or, do the financials trump all considerations? Small contributions, in their own way, over time, make a difference. And when multiplied by a million (products, customers, employees, lives touched in the product process), the impacts can be quite astonishing! Many firms are multiplying their legacy of good (or harmful) impacts.

Aggregating financial and non-financial impacts assesses how value is co-created (or destroyed) by the firm. That is, thinking about how

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Box 1.1 Food for thought

Is the firm aware of and appropriately addressing its multiple impacts?

What value is being co-created (or destroyed)?

What direct impacts are creating (destroying) value? Do you know the multiplier effects of your corporation? How your legacy of good is being expanded?

How can a firm best align, leverage, and learn to create positive multiplier effects?

What issues, industries, and nation-states create exponentially helpful (or harmful) impacts that enhance (mitigate) your competitiveness?

stakeholders work together in different combinations makes for a more versatile, flexible, and resilient value-creation process. Rather than a static, hub-and-spoke, one-dimensional view of a firm as a wealth creator, by envisioning the firm as a network of stakeholders, with multiple interactions that ultimately create value, many different types of value are created. An impact perspective creates new questions to consider, identified in Box 1.1, which are explored throughout the book.

Why now? And why bother?

What's different today? First, a crisis can put at risk a firm's survival (Heineman, 2008). With a firm's survival threatened by individuals' rogue initiatives such as JP Morgan's London Whale, one employee may bring down a multibillion-dollar, century-old company in less than a year. Seemingly epiphenomenal events are occurring with far more frequency as businesses previously considered 'too big to fail' are failing.

It's not just once-in-a-century crises affecting firm's survival an operational decision can, if not properly managed, affect survival (Griffin, 2008; Heineman, 2008). Routine decision processes without an adequate understanding of the true impacts on the firm can quickly become a head-turning, top-of-the-fold newspaper story that goes viral on YouTube, blogs, and social media sites, causing employees to

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be fired or firms such as BP to be heavily scrutinized. It's not a matter of *if* a crisis is going to occur, it's a matter of *when* it will occur.

Survival can be at stake due to multiplier effects rippling through an industry. Some beef processors went bankrupt after reports about the use of 'pink slime,' a meat-based additive to ground beef composed of fatty scraps treated with citric acid to kill bacteria. As public outcry grew, pink slime was banned by the US Department of Agriculture from school lunches for children in primary and secondary schools (Korn, 2014). Retail companies such as McDonald's and Kroger, a grocery store, said they would no longer use pink slime. As demand waned, two of the largest beef producers of pink slime closed plants and fired employees. Yet two years later, pink slime was making a comeback as beef prices climbed (Korn, 2014). So, cascading impacts might ebb and flow over time as public attention moves on to new topics.

Systematically assessing impacts as a result of a crisis is not new, but the stakes are now higher if learning from crises doesn't occur. What is new is the need for rapid learning about how direct impacts and multiplier effects affect survival and ability to co-create value. Not all organizations flirt with dismissal after a crisis threatens survival. Siemens emerged more fortified after allegations of corruption. Timberland changed its sourcing requirements to focus on tracing sustainable inputs once Greenpeace ran an expose (Swartz, 2010).

Similarly, when the Australian government proposed a super-tax for resource-based companies during the global financial crises, the resource sector—including Rio Tinto—took out full-page advertisements to actively, and successfully, advocate for public sentiment to drop the tax (Henisz, 2014). In this book, we explore how firms co-create value by learning to incorporate their economic, socio-political, legal, and ethical impacts into the narratives about the business.

Further, conceptualizing a business as merely a wealth creator for investors is often not sufficient in today's 24/7 global information-rich world. Companies are far more than mere money-makers as they engage many stakeholders in the value-creation process. Sure, companies make money or else go out of business. Yet companies create jobs, make customers happy, build opportunities where there weren't any before, and provide information that might not otherwise be available even if the talk is only about value created for shareholders. By

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expanding the economic pie, building a more robust narrative about co-creating value with stakeholders, firms are creating enduring value.

Corporations are uniquely qualified

Making positive impacts, mitigating harm, and satisfying multiple stakeholders continually over time is simply in the best interests of firms. Corporations are uniquely qualified to co-create value with multiple stakeholders due to their scale, scope, and unique resources.

Corporations have scale. Some corporations are larger than some governments in the post-World War II economy while governments—the traditional source for foreign direct investments as underwriters for the earliest explorers, and designers of the Marshall Plan and Bretton Woods Organizations after World War II—are no longer the primary source of foreign direct investment. Foreign direct investment by private enterprise now surpasses government aid and public-sector donations (Zoellick, 2011). Multinational corporations, unlike many governments, have a global scale and scope whereas governments focus more directly on national, regional, or local populations.

Corporations, unlike many governments, often choose the products they produce, how to produce them, and in what quantity. Corporations can choose to be thought leaders as well as business leaders. Corporations are uniquely qualified to create value since they are in the business of satisfying people's needs. Providing products, goods, and services (e.g., a Tata Group commitment to build the low-cost Tata Nano automobile) that respect consumer desires, government restrictions and are mindful of their environmental impact can create value continually over time.

Corporations have scope. Firms are financially and culturally exposed across continents and numerous neighborhoods. They have the ability to align, leverage, and learn from their multiple vantage points. Certainly, operating across multiple countries is more complex; it creates more information and more noise while creating an opportunity for information arbitrage. As more companies have global supply or distribution chains, the proportion of firms operating in more than one country has increased since the 1950s. Growing at an increasing rate, the acceleration of globalization has made the problems (and the actors contributing to the problem set) more complex, but the solution set has also expanded. New expectations call for learning

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about new ways to create value. As value is co-created (or destroyed) across a broader landscape, many more actors are involved: multilaterals, international NGOs, religious elders, and community groups, for example, with both financial and non-financial motivations requiring more than financial justifications for business decisions.

Corporations are unique. Staffed with uniquely qualified personnel, corporations have technical experts, management expertise, and convening power. Corporations have the ability to plan, prioritize, and create performance targets (e.g., key performance indicators, KPIs) to piece together multifaceted supply chains with sophisticated distribution logistics. Corporations create jobs and employ people. Multinational corporations address challenges affecting multiple communities, with multiple points of interaction with federal, state, and local regulators and administrators, and can convene multi-stakeholder discussions.

Private enterprise is innovative in its governance systems by embracing a wide variety of mechanisms for ownership (family, publicly traded, private, social enterprise, benefit-corps, institutional pension funds, religious affiliated organizations, etc.), allowing it to adapt across generations and geographies, reflecting the changing mores, needs, and aspirations of the owners. The chameleon-like qualities of corporations allow them to adapt to different conditions across the globe across issues, industries, and nation-states to create distribution, transportation, and pricing solutions (Griffin, 2010).

Firms striving to be self-sufficient are points of national pride due to their outreach efforts in satisfying stakeholders. International companies such as Tata Group in India; Toyota in Japan; LVMH (Louis Vuitton Moët Hennessy) in France; and Banco do Brasil in Brazil frequently adjust to changing requirements around the world.

Corporations are often able to rapidly respond to trends by shifting allocations and drawing on their networks for needed expertise. Corporations' responses to crises are often faster, broader, and more effective than those of many local governments directly affected by a crisis. Organizational reach (scale and scope), leadership, distribution, logistics, and rapid response (e.g., ability to respond to hazardous material spills) while having an extended enterprise unaffected by the immediate local crisis are all qualities that enable a corporation to respond more effectively to crises than some governments.

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Branded businesses have unique risks. Branded, consumer-driven companies such as Cadbury, Nike, Unilever, or Matsushita must meet changing global expectations while maintaining their competitiveness to thrive. Companies whose branded products have government restrictions preventing them from selling directly to consumers (e.g., British American Tobacco or Diageo's premium drinks) have an added hurdle to meet regulatory approvals that differ country-by-country due to custom, taste, and traditions. Pharmaceutical companies—whose direct-to-consumer branded products such as Cialis, Vioxx, or Viagra rely on insurance or government reimbursements—face unique risks as they rely heavily on government and public approval to remain in business. Despite these risks, consumer-driven companies are likely to be first movers in addressing myriad financial and non-financial impacts.

Sparking new conversations

This book aims to spark new conversations about the impacts of firms by incorporating direct and indirect impacts as well as multiplier effects. Addressing the positive and negative impacts of firms identifies ways in which value is co-created or destroyed—along the entire value chain, across geographies, and over time. We expand value creation beyond solely financial value (Harrison and Wicks, 2012) as the multiplicity of ways in which a firm creates values helps the firm be resilient in times of turbulent change. By expanding our understanding of how a firm impacts stakeholders, a firm can better withstand the material risks, crises in confidence, strong regulatory headwinds, new economic realities, salient social issues, or hiccups in operations that inevitably emerge in modern businesses.

Articulating and demonstrating the multiple beneficiaries in the value-creation process is a hallmark of successful businesses. By understanding the impacts on local governments, the natural environment, neighborhoods and civil society groups, as well as beta testers and traditional stakeholder groups—employees, investors, and clients—the firm anticipates the inevitable questions 'what's in it for me?' and 'what's in it for others?' The relevant question now becomes: do you have your narratives of impact and value creation ready?

A traditional view of the firm-focused predominantly on financial impacts-leaves many other, important, constituencies of the firm

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unaddressed and isolated. Financial impacts, important in and of themselves, are even more powerful when in combination with employees' wages and the ability to retain loyal consumers, for example, is when value is shared, grown, and expanded.

Adding in employee impacts incorporates contract workers and workplace conditions. A focus on products and the production process with the delivery of services connects the firm to many stakeholders in the value-creation process. And finally, flows of information tie the firm together with more distant stakeholders. The media, public policy, special interest groups such as environmentalists, financial institutions, business associations, and numerous non-governmental groups affect the value created by the business. Information sharing shapes the real and perceived impacts of a firm which, in turn, shapes how stakeholders perceive the firm.

The Starbucks agreement with the Colombian government, described in the following text, highlights the importance of multiple stakeholders working collaboratively over a period of time with mutually beneficial impacts—financial, employee, product, and information—that enhance the reputation of both Starbucks and Colombia.

STARBUCKS' PUBLIC–PRIVATE PARTNERSHIP WITH COLOMBIA

In cooperation with USAID, Starbucks announced in 2014 a public–private partnership to support coffee growers in Colombia (USAID, 2014). The Colombian coffee market is traditionally difficult to penetrate due to cultural barriers to entry, such as local pride, the cultural relevance of coffee, and the economic importance of the industry (Economia, 2010). By cooperating with the Colombia Coffee Growers Federation (FNC), implementing the 'Centro de Apoyo al Caficultor,' providing research on coffee beans, and supporting small coffee farmers and the coffee sector as a whole to increase coffee quality, quantity, and pricing is leading to positive multiplier effects for Colombians, USAID, the FNC, and Starbucks, with measured development and prosperity. On the same day as the Starbucks–USAID partnership in Colombia, news was released of another Starbucks partnership with a restaurant and distributors, Alsea SAB (ALSEA*) and Grupo Nutresa SA (NUTRESA), to expand the Starbucks brand in Colombia.

Purposefully working with governmental agencies, civil society organizations, and communities to build capacity and provide market-based

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solutions to societal problems such as employment and education requires new narratives about businesses that extend beyond profit maximization. These problems (and the opportunities embedded in the challenges) are too large for any one organization to tackle in the short term. Yet we as citizens, business leaders, or government officials all stand to lose or gain in the long term if the focus is merely on financial impacts. Seizing these opportunities requires a different kind of approach by private-sector leaders and will require them to, at the very least, attempt to understand public-sector priorities and work with civil-sector leaders (Edelman, 2014).

For Starbucks in Colombia, creating positive corporate impacts is part of a larger conversation about managing risk, leading organizations, and co-creating value. Actively addressing corporate impacts before policy requires a mandated change in behavior and can result in greater autonomy, a wider range of options to address issues, while enhancing trust. Focusing on direct impacts—such as financial indicators, employee satisfaction, product safety, or public perceptions of the firm—is not new for many firms, yet the impacts are often assessed separately, in isolation from one another. Focusing predominantly on share price or profitability before other considerations, for instance, reduces a firm's internal conversation to financial affects and prohibits a deeper understanding of the firm's wider-reaching impacts on employees, products, and perceptions.

How the book is organized

In this book, we explore how firms co-create value by focusing on four impacts and three multiplier effects that create (or destroy) value. We take a close look at a firm's impacts to better understand the processes, resources, and mindsets driving (or stalling) the co-creating value process. The first part of the book examines four direct impacts: financial, employees, products, and information. Elaborating on each of these direct impacts, we look at impacts in various combinations to assess net impacts and understand indirect, multiplier and spillover effects.

In the second part of the book, we look at underlying myths about value creation, destruction, and redistribution. Once value is created, perceptions of loss are felt more deeply than gains (Kahneman and Tversky, 1979) so we examine shifting pressures stemming from competition, public policy, and civil society affecting a firm's value-creation

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process. In the third and final part of the book, we explore how impacts and the processes of co-creating value change across different issues, industries, and nation-states. The book concludes by looking at the art and science of creating value amid shifting expectations going forward.

Chapters 1–6 lay the analytic groundwork regarding the corporate impacts of a firm by focusing on the points at which firm co-create or destroy value with their stakeholders. This first chapter introduced key concepts underlying the book: how all of a corporation's impacts—both financial and non-financial—are often given short shrift, with a focus predominantly on financial impacts or direct impacts. Yet corporations create value with profound effects well beyond the boundaries of a firm through multiplier effects influencing products, the value chain, and employees in the workplace, as well as shaping information and perceptions. Multiplier effects are changing expectations of what is valued and how value can be continuously created, across geographies, for multiple stakeholders. In the next chapter (Chapter 2), we start with the tradition view of a firm and its financial impacts. We elaborate on a firm's non-financial impacts by discussing employees in the workplace and products and services in Chapter 3. The impacts of information-sharing and how information blurs the boundaries of communities is examined in Chapter 4. Chapters 5 and 6 expand our focus to combine impacts and include net impacts, spillover effects, and multiplier effects. Each chapter is detailed in the following text.

Chapter 2 examines financial impacts by exploring four different mindsets about how creating (destroying) value is related to creating (destroying) value for shareholders. These four mindsets about financial impacts uncover different assumptions, processes, and expectations about creating mutual benefits: who benefits? Do others benefit and, if so, how? The first mindset focuses on win–win mutual benefit scenarios promoting efficiencies and sparking innovation. These win–win scenarios may improve product yields, increase throughput rates, or decrease the amount of carbon, water, and energy required to make and transport a product. The second mindset focuses on headline-grabbing 'parade of horribles' crises wherein nearly everyone loses. In the wake of crises there is an opportunity to reconfigure resources and priorities to examine future financial, workplace, product, and information impacts. The third mindset examines what happens when other stakeholders benefit but a return is not evident

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for shareholders. Shareholders may expect a return, in time, creating an investment opportunity or if no return is expected, a cost center may be created. And finally, the fourth mindset about financial impacts examines scenarios when shareholders receive benefits but other stakeholders are harmed. That is, if mutual benefits for multiple constituencies are claimed but some stakeholders may be harmed, these activities can be perceived as pernicious behaviors.

Chapter 3 examines two additional corporate impacts beyond financial impacts: employees in the workplace (including conditions and personnel) and products (sourcing and distribution networks, including customer impacts). By more broadly conceptualizing corporate impacts to simultaneously include workplace and product impacts alongside financial impacts, a broader set of opportunities for co-creating value is explored. This in turn creates new opportunities for co-creating (new) value.

Chapter 4 examines a fourth, often overlooked yet increasingly important impact: the impact of information. By examining if, when, and how a corporation can be a convener of information, a trusted partner, or an enabler of others by sharing appropriate information about how it operates it is creating (new) value. Disclosing who it supplies from, the intended and unintended consequences of its products, as well as the externalities it passes off to other stakeholders, information is another means by which an organization impacts and is impacted by others.

Chapters 5 and 6 explores net impacts, spillovers and the ripple effects of impacts by examining multiplier effects of corporations—the impacts of stakeholders on still other stakeholders, which in turn are often attributed back, rightly or wrongly, to the focal firm. Multiplier effects come in different forms and guises but have one trait in common: they can upend who benefits and for how long the benefits last by destroying value. We focus on one multiplier effect by tracing the traditional product-related multiplier effects throughout the entire value chain. We then layer on social and environmental multipliers impacting different components of the entire value chain. By adding in feedback loops we illustrate how suppliers of suppliers in the value chain, often examined in isolation from one another, are increasingly interconnected.

In Chapters 7 and 8 we unpack some long-held myths about corporate impacts as well as looking at how expectations are changing

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a firm's value creation process. In Chapter 7 we examine five long-standing myths stemming from age-old beliefs about a corporation's impacts during the value-creation process. In Chapter 8 we focus on the future by examining how expectations of businesses are changing at an accelerating pace. Our focus shifts to networks of businesses and examining businesses as embedded within public policy and civil society. We explore how the Venn diagram of private, public, and civil society sectors is changing expectations of businesses and changing the prioritization of financial and non-financial corporate impacts.

More specifically, Chapter 7 examines five longstanding myths about a corporation's traditional responsibilities. Addressing impacts by giving away time, talent, or money to charities and good causes is explored in detail. When framed as a philanthropic giveaway, corporate impacts can become unnecessarily limited to foundations, employee volunteer hours, or donations of in-kind products, most often with a cost center mindset. Rather than giving away money, this book suggests that corporate impacts are about creating value by creating net positive mutual benefits. A second longstanding myth is that corporate impacts are important only for large, generally multinational firms with excess resources. Large, multinational firms with seemingly abundant resources can be unsuccessful without clarity of focus regarding their desired (and actual) corporate impacts. Alternatively, organizations with relatively few resources can be extremely successful in deploying targeted resources to achieve a desired impact. A third myth about corporate impacts is the overwhelming number and variety of requests received due to market failures, government failures, or gaps in coverage. Firms might feel unprepared to add yet another responsibility to their own plate because government, multilaterals, neighborhoods, parents, or others failed to do their job or to do it properly. Fourth, we examine the tension between managing local impacts while struggling with their role as a member of a larger company. And finally, the fifth myth: managing corporate impacts is equivalent to being in compliance with local, extant law. As industries and firms routinely shape regulations, being in compliance may be merely an initial ante rather than a stretch goal that creates value.

Chapter 8 takes a step back from focusing on day-to-day decisions to examine how shifting expectations in the private sector, as well as in governments and civil society, affecting a firm's ability to

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create enduring value. Shifting expectations of who shares in the value-creation process are explored, as well as changing expectations of value and how value might be defined by competitors, governments, or neighbors. We examine changes in competitiveness, regulations, and cultural beliefs, which are permanently shifting the demands on corporations. The implication for co-creating value is straightforward: a firm can either choose to adapt to changed expectations of what is valued and how value is shared or face continued threats, slowdowns, and resistance from various constituencies. As expectations for businesses stemming from competitive markets, regulatory environments, and attitudes/beliefs are increasing ever-faster, businesses are expected to keep up. Converging interests makes thriving in this complex milieu even more interesting as the opportunities for creating value and providing solutions expand exponentially.

Creating mutual benefits with global competitors, parochial public policy, or engaged civil society organizations requires going beyond traditional descriptions based solely on a corporation's financial impacts. Workplace conditions, wages, benefits, products, services value chain, and information impacts are part of a new narrative, widening the solution set of ways in which the firm can co-create value with others. Simply put, as the problems facing firms become more entrenched and more complex, broadening the solution sets to be more inclusive of multiple impacts expands the ability of the firm to co-create value. Value is created by interweaving in innovative ways the financial, personnel, product, and information impacts that satisfy stakeholders.

Chapters 9–11 explore how contextual factors affect the value-creation process. Exploring how variation in issues (Chapter 9), industries (Chapter 10), and nation-states (Chapter 11) significantly alter the ability of a firm to co-create value, we consider how information flows and information-sharing affects value creation. We begin by examining how complex, thorny issues thwart managerial autonomy by stymieing the ability of firms to exert influence and share information (Chapter 9). In Chapter 10, we explore how some firms within specific industries are well-positioned to address different impacts by effectively aligning initiatives (what they choose to do) and mechanisms (how they achieve an impact). And finally we explore the implications of corporate impacts in a global context when operating in multiple nation-states with varying levels of compliance and

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governance, civil society participation, and varying comparative advantages in Chapter 11.

More specifically, Chapter 9 focuses on creating value by converging information, interests, and issues to create influence in the value-creation process. In this chapter, we address the limitations of a narrow narrative about an issue-by-issue approach or a stakeholder-by-stakeholder approach. Rather than traditional issue-by-issue or stakeholder-by-stakeholder approaches, thinking about corporate impacts means considering employees, for example, as citizens, consumers, and voters, as part of the value-creation process. When introducing a new product, for example, considering how employees as neighbors, bloggers, or consumers might react favorably or unfavorably broadens the potential for understanding how value is created or destroyed by creating disparities. Convergence means examining a portfolio of activities that benefits multiple groups by integrating policy, production, and employee impacts, for example. That is, simultaneously lobbying regulators, engineering changes to products, and educating employees and their families on the importance of preventing water-borne diseases for pharmaceutical companies or beverage companies dependent upon fresh water converges, with mutually reinforcing benefits, with employee, product, and information impacts.

Chapter 10 examines the value-creation processes by separating initiatives (*what* firms are doing) from mechanisms (*how* they achieve desired outcomes). Initiatives might be deployed within specific functions (e.g., employee relations, advertising, procurement) or cut across the entire organization (e.g., governance, development, climate change). Similarly, mechanisms deployed may be narrowly construed as solo activities directly controlled by the firm to more collaborative (e.g., cross-sector or public–private) partnerships. Aligning initiatives and mechanisms highlights new outcomes, new mindsets, and new opportunities for addressing old problems. Firms acting unilaterally via foundations and employee volunteer time or cooperatively with other businesses can be uniquely qualified to address literacy issues or crime in local neighborhoods. Corporations with access to specific resources or convening power might be uniquely positioned to exert leadership, enabling others to address thorny issues traditionally resistant to solutions, such as access to medicines, poverty alleviation, or promoting peace through commerce.

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Chapter 11 focuses on how multinationals create or destroy value when operating across multiple nation-states. We highlight a key tension within multinationals: the desire for uniform responses while also being locally responsive (Bartlett and Ghoshal, 1989). By expanding Bartlett and Ghoshal's focus on a firm's product-market to explicitly include a firm's socio-political/cultural context, being locally responsive might require customizing workplace conditions to local neighborhoods while also being in compliance with global standards on human trafficking, wages, or hiring child labor. In light of the growth of global accountability standards such as the United Nations Global Compact (UNGC) or the Global Reporting Index (GRI), pressures are mounting for unifying, overarching, comparable practices that are also locally sensitive. Creating value with customized approaches adapted to the particular customs, beliefs, and traditions community-by-community while harmonizing policies across the globe with limited resources can lead to opportunities to leverage and learn from one location to the next. The chapter concludes with a discussion for firms 'stuck in the middle' without credible community involvement and without unifying global themes on corporate impacts.

We conclude in Chapter 12 by examining the art and science of the value-creation process by highlighting how corporations are co-creating value in innovative ways and identifying new areas on how enduring value is co-created. For example, with information and trust as centerpieces of their business models, Google, Airbnb, and Uber are turning business models upside-down and innovating by sharing information. With a central focus on sharing and searching for information, disclosure and trust become paramount as information drives financial returns (rather than financial returns driving disclosure); attracting specific employees while remaining compliant and ensuring the safety of their consumers are challenging the ways in which products and services are delivered and value is created (or destroyed).

Drawing upon lessons from leaders, we offer new research questions about co-creating value in light of managing a firm's true impacts. We explore the implications of identifying and appropriately addressing a firm's true impacts. Multiplier effects, creating opportunities for being doubly productive (or doubly harmful) in creating value are changing how firms compete. Firms not creating mutual benefits—or that are unwilling to articulate mutual benefits—are at risk, with growth, survival, and competitiveness on the line. When trust is lost and a crisis

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strikes, the way in which firms are able to create value going forward amid the myriad expectations, motivations, constraints, and resources is non-trivial, as BP is finding out. This book suggests co-creating value means focusing on the myriad ways in which corporations impact others: how a firm co-creates (destroys) value in mutually beneficial (or unbalanced, harmful) ways that endure over time.

Looking ahead

The next chapter, Chapter 2, examines four mindsets about the financial impacts of a firm, revisiting Friedman's (1970) mantra that a firm's first and foremost responsibility is making profits without fraud or deception. By expanding Friedman's shareholder-only perspective and testing its underlying assumptions, we explore what happens when co-creating value with others is explicitly included in the process of value creation. Expanding relevant impacts to include financial and non-financial impacts on shareholders and other constituencies, we identify four mindsets underpinning the value creation (destruction) process. These four mindsets create a foundation to help us explore how monetary impacts are related to personnel, product, and information impacts in Chapters 3 and 4.

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