

CREATING AND CAPTURING VALUE FROM NATURE: EXPLORING THE VALUATION PROCESSES OF A NATURE-BASED FINANCIAL INSTRUMENT

Sustainable development has been defined as meeting the needs of the current generation without hindering the ability of future generations to meet their needs (WCED, 1987). There are two mechanisms through which sustainable systems are fostered: the reduction of harm and the regeneration of life. The regeneration of life involves fostering regenerative ecological systems, which are systems that maintain positive reinforcing cycles (Buckton et al., 2023).

Previous work has established that organizations gain value from sustainability by reducing harm in the present (in the form of costs), and in the future (in the form of risks) (Esty & Winston, 2006). Organizations may also experience increased revenues from sustainable orientation and intangible brand value. This can explain why organizations may invest in low-hanging fruit of sustainability, such as harm reduction, but it leaves the question about why a firm may invest in high-hanging fruit of nature regeneration. As planetary boundaries are breached and concerns over global ecological crises rise (Steffen et al., 2015), to achieve sustainability, organizations must go beyond reducing ecological harm; organizations must also invest in regenerating ecosystem health. However, estimates suggest that global funding of nature falls short of what is required to reach biodiversity targets (Deutz et al., 2020), an important indicator of ecosystem health. Further, nature is funded primarily through public capital and philanthropy (UN Environment Programme, 2023), leaving an opportunity to understand how more private capital can be targeted at nature regeneration.

In this study, we explore the question: *How do firms value nature regeneration?* We pose this question to better understand the conditions and challenges that firms face in organizing for nature regeneration. To investigate this question, we conducted a case study of a project to create a nature-based financial instrument to finance regenerative agriculture. It involved partnership between a bank and a stock exchange with engagement from other relevant actors in conservation, finance, and agriculture. Researchers engaged with this project over a two-year period between its launch and suspension. They used qualitative research methods to collect and analyze the data which included conducting interviews, organizing workshops, and observing regular project meetings. The researchers used process-based analysis to analyze and theorize from the data (Langley, 1999).

By analyzing the valuation processes captured through interviews and observation, we show the tensions which ultimately led to the decision to halt the financial instrument project, despite the partners' best intentions and years of investment. We find that though organizations identify the value of nature across-levels, they experience tensions between value created at a systems-level and the value they are able to appropriate through current value mechanisms at an organizational level.

Based on these findings, we build a process model for the valuation processes at play during the innovation and discuss how these affected the project's advancement. We argue that the challenges organizations face in pursuing nature regeneration is in part associated with the challenges of value appropriation across levels, time, and a system of actors.

This study contributes both theoretically and practically to strategy and sustainability. In strategy, a recent debate has emerged concerning the role of strategy in tackling ecological crises and contributing to sustainable systems (Wickert & Muzio, 2024). We add to this discussion by suggesting at the core to the debate is understanding how firms appropriate the value they create for social and ecological systems. By providing a process model for how organizations value nature regeneration we provide a lens through which strategy can integrate ecological considerations at a firm level (Bansal et al., 2024). We argue that the way organizations currently conceptualize value limits investment in nature regeneration and expand the notion of value in strategy beyond creation and capture as it is contextualized in value chains (Brandenburger & Stuart, 1996), to the creation and capture dynamics across levels, contextualized in systems. In particular, we make ecological systems present in the valuation discussion and draw implications for organizations seeking to appropriate value from land-based models. We build on the work that suggests the relevance of multi-level dynamics of valuation (Dembek et al., 2016; Lepak et al., 2007), by empirically exploring the valuation processes and mechanisms across-levels that unfold over the course of this project.

These findings are also relevant for advancing sustainability. It builds on perspectives which seek to understand how firms organize around regeneration, aligning organizational decision-making with ecological systems and acting in a way that allows for the systems to sustain life (Muñoz & Branzei, 2021, p. 510). It does so by exploring how firms are (or are not) able to appropriate value from nature regeneration and helps explain why a firm may choose to pursue certain sustainability projects. It discriminates between mechanisms of sustainability (i.e., harm reduction and regeneration of life) for their valuation differences. These contributions are relevant to understand the supply-side innovation processes of financial instruments that seek to channel private capital towards nature. This is particularly relevant to advance nature-based finance and biodiversity finance.