

Sustainable Finance

<https://www.houseoffinance.se/shof-mfs-conference-sustainable-finance-august-20-21-2018/>

August 20, 2018

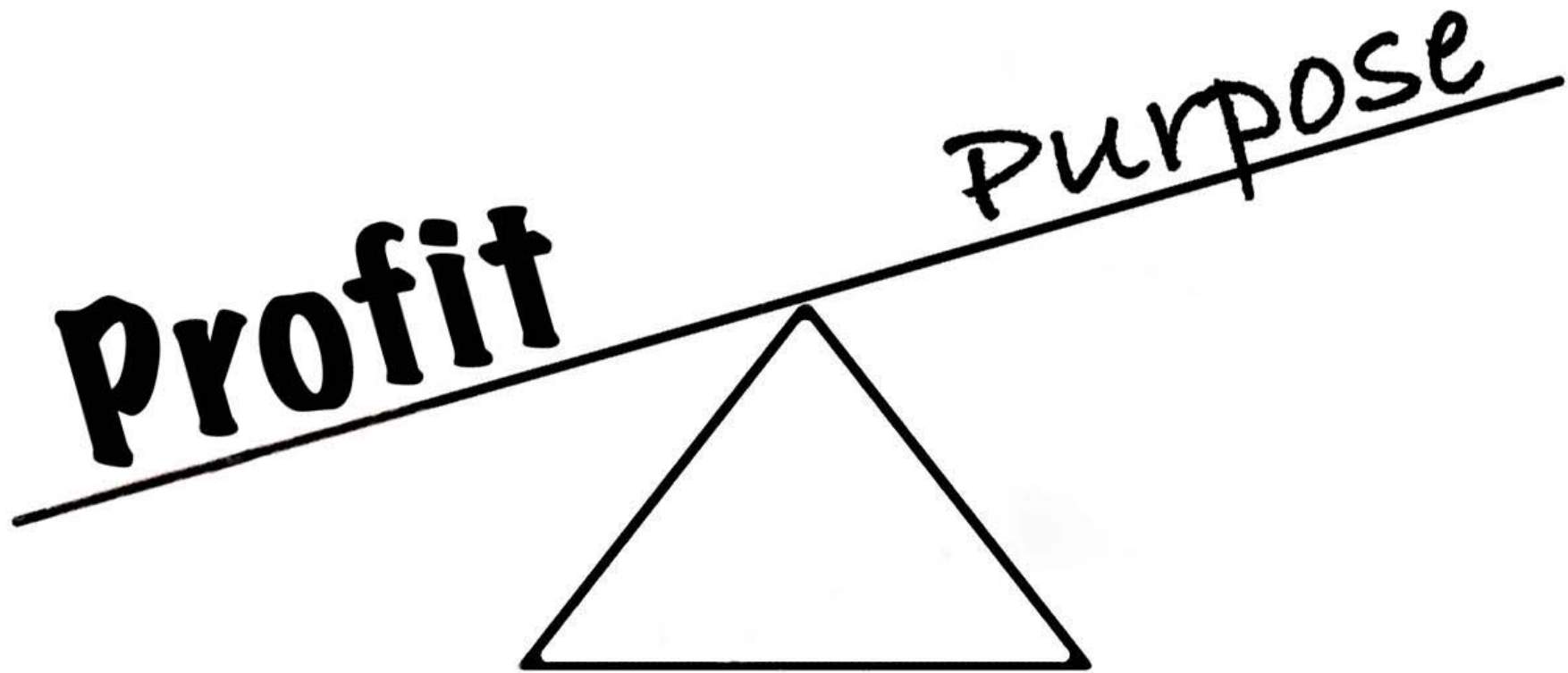
IVA Conference Center, Stockholm

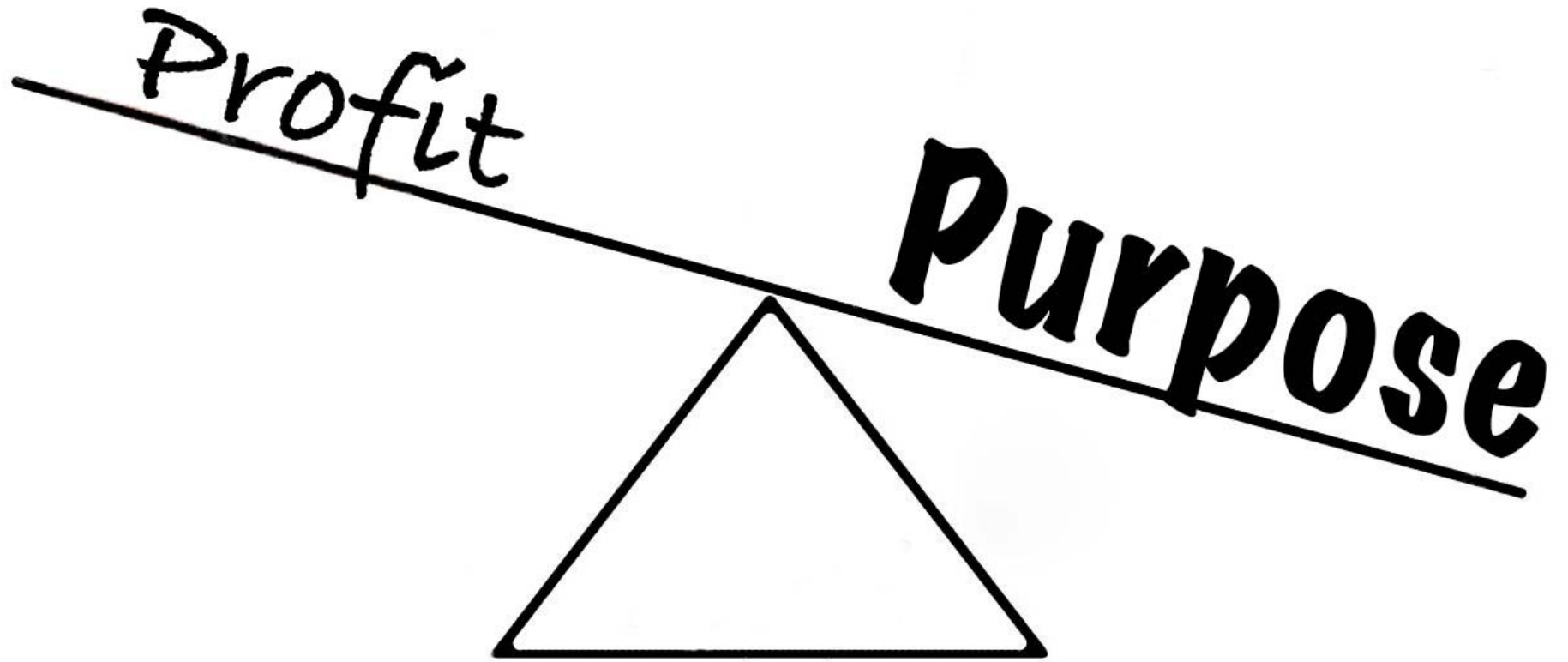
The Business Case for Purposeful Business

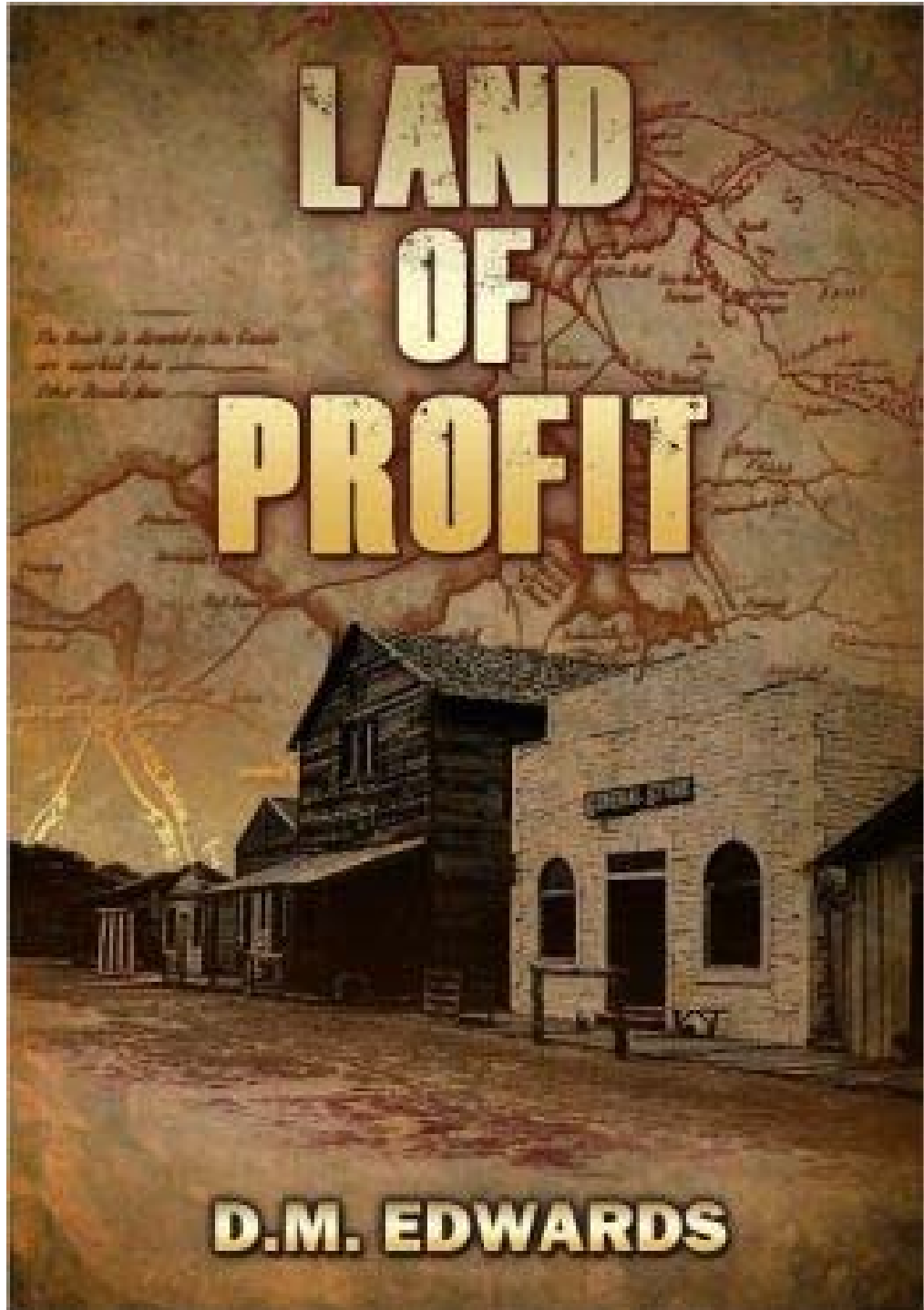


Professor Alex Edmans, London Business School
www.alexedmans.com | @aedmans

Swedish House of Finance, August 2018
(based on a TEDx talk, <http://bit.ly/csrtedx>)







LAND OF PROFIT

The book is divided in the best way possible that I have ever seen.

D.M. EDWARDS

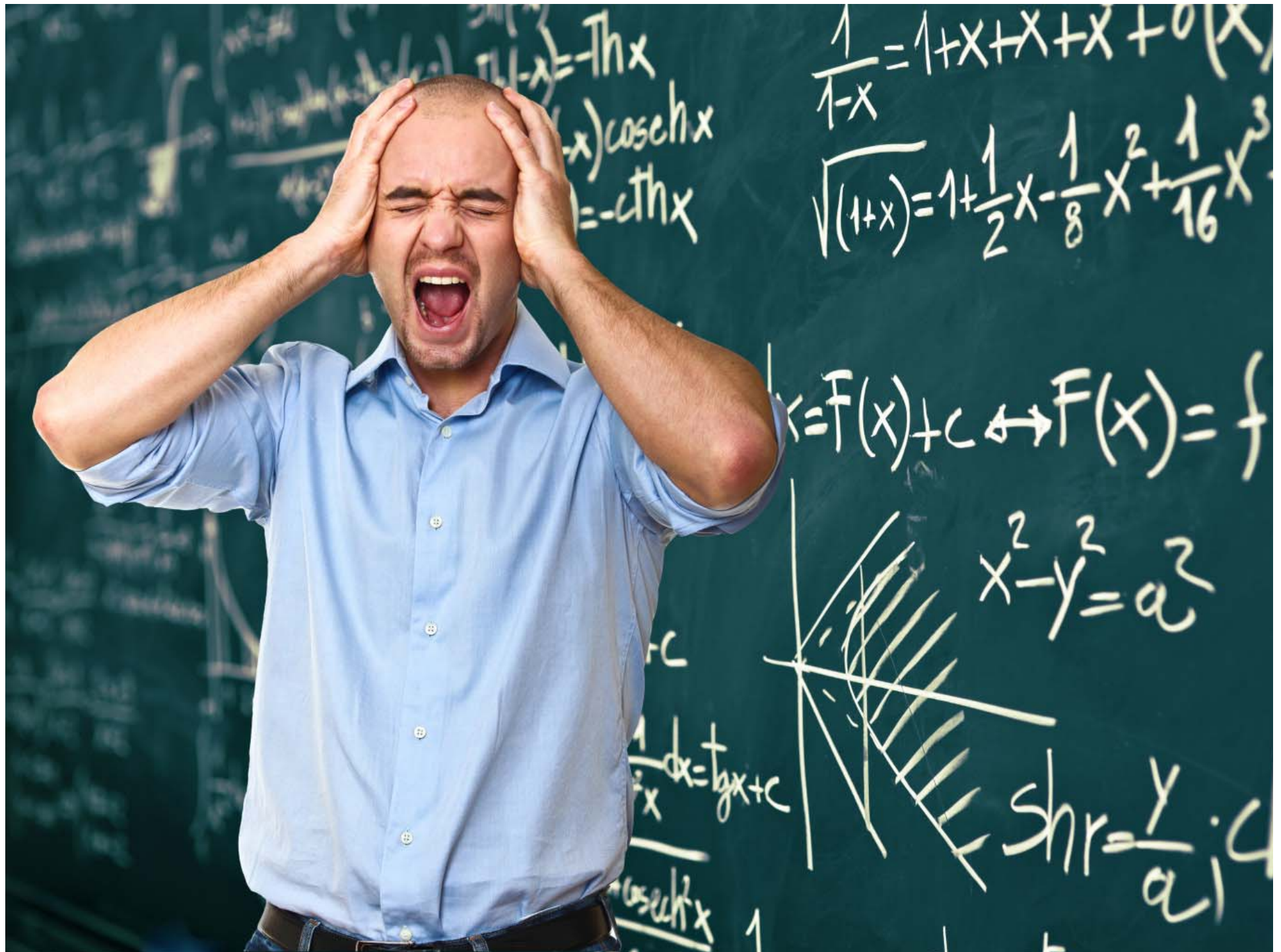
MARKS & SPENCE

M&S

M&S







Credit: The M&S Company
Archive









THE 100 BEST COMPANIES TO WORK FOR FORTUNE

GOOGLITES
Yes, the
employees
really are this
happy.



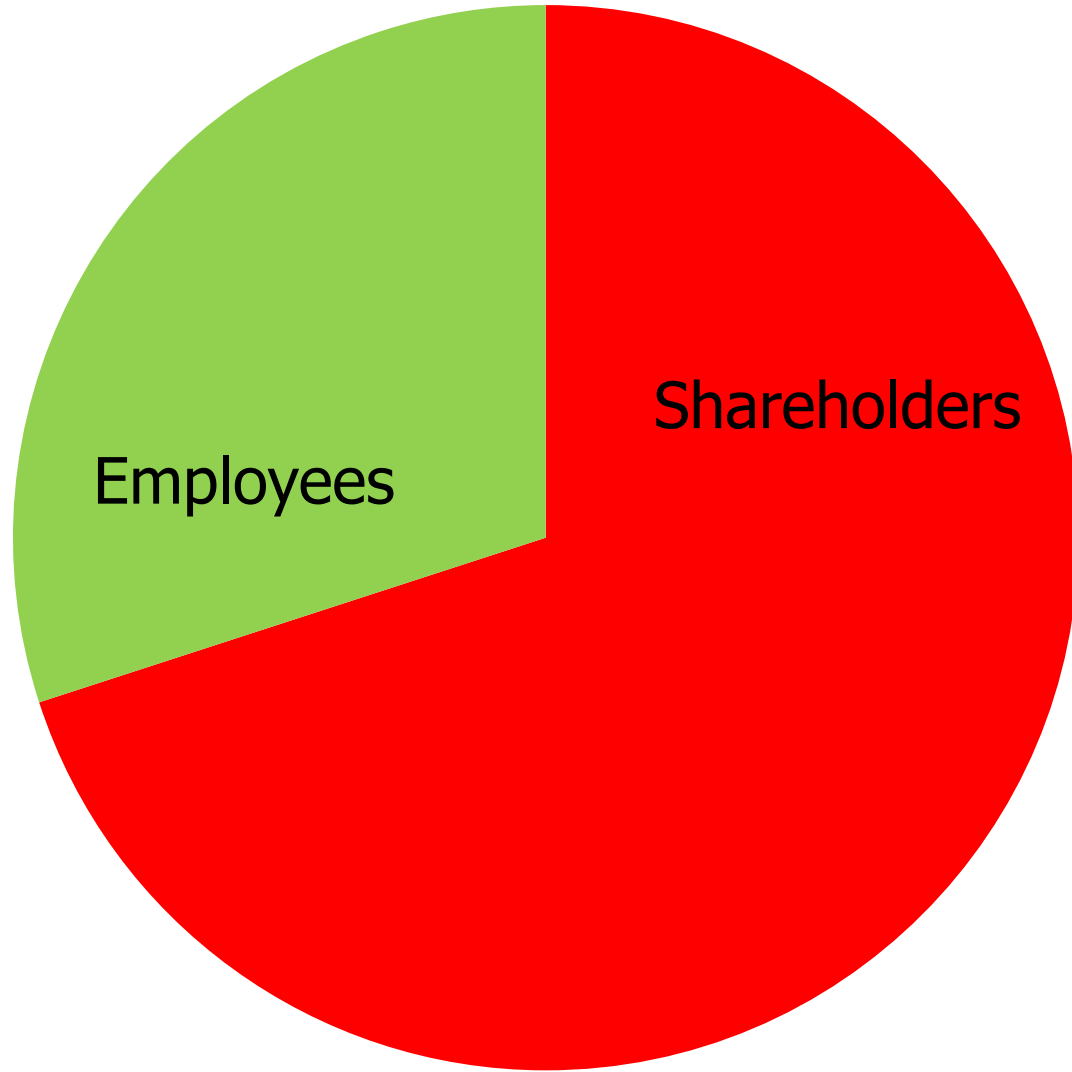
The “100 Best Companies to Work For in America” beat their peers by 2.3-3.8%/year over 1984-2011 (89%-184% cumulative)

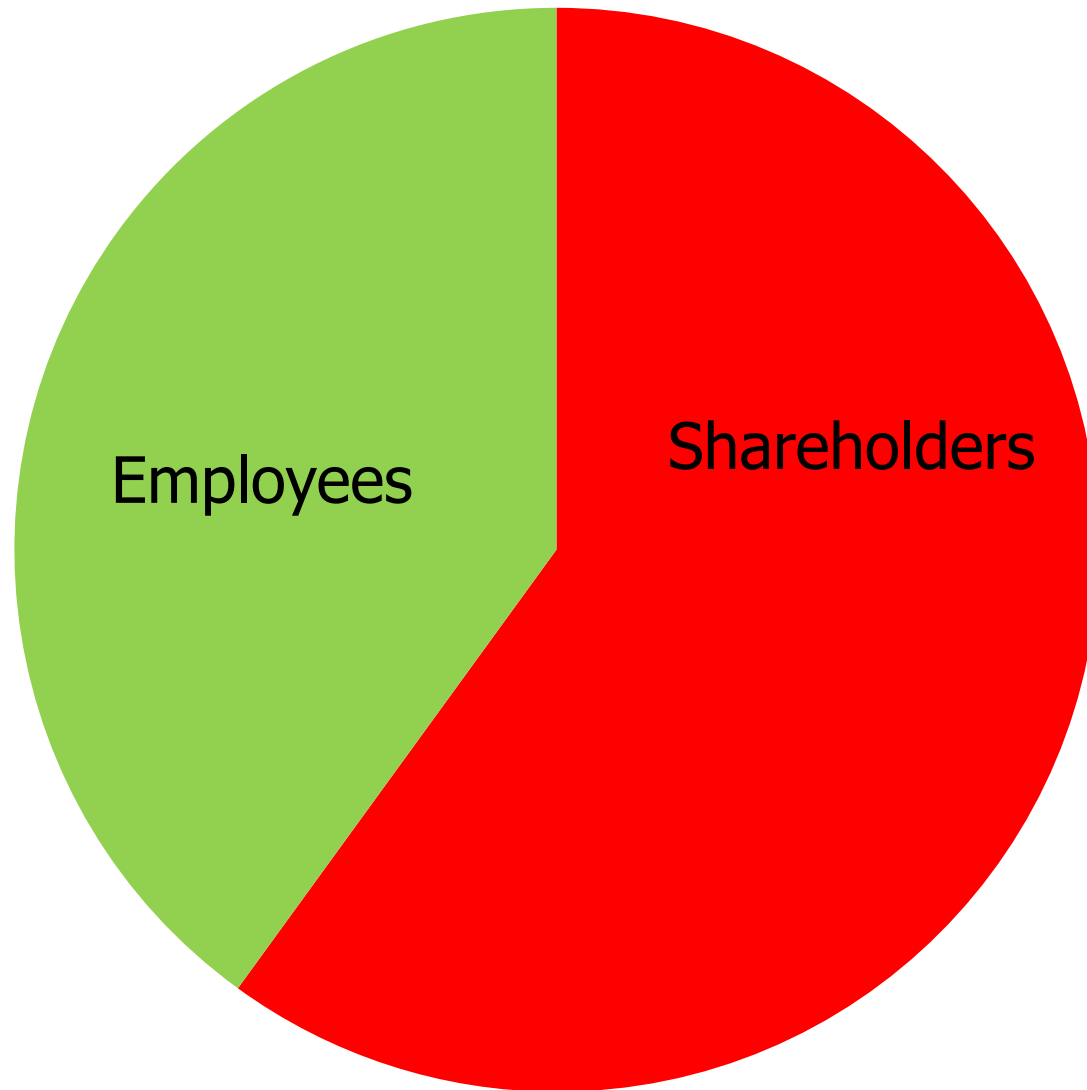
The image shows the exterior of a Costco Wholesale store. The logo is prominently displayed on the light-colored wall. The word "COSTCO" is in large, bold, red capital letters. Below it, the word "WHOLESALE" is in smaller, bold, blue capital letters, with three horizontal blue lines above it. The building is partially obscured by green and autumn-colored trees on the left and right sides. A white light fixture is visible above the logo.

COSTCO
WHOLESALE

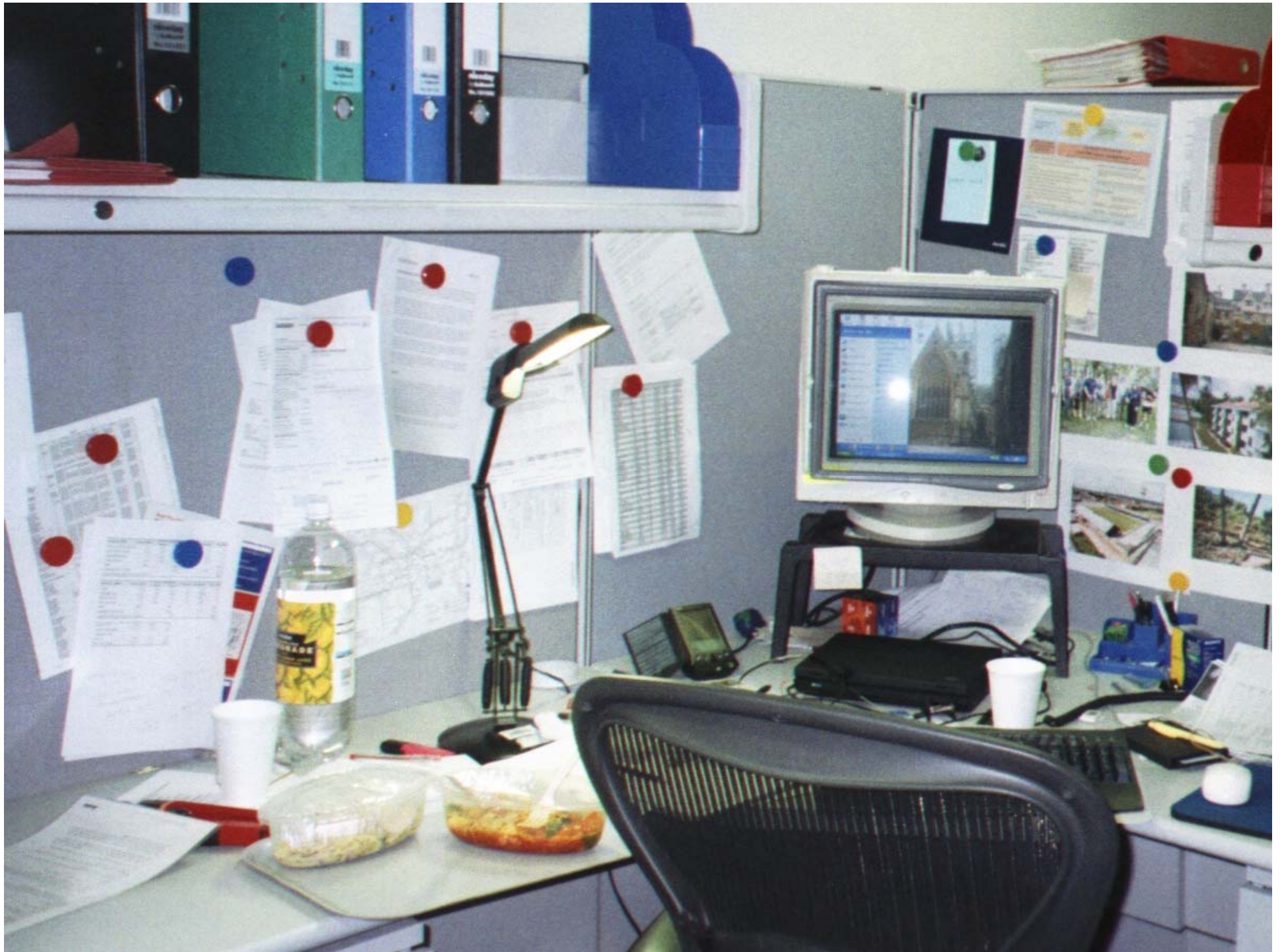
“Costco's management is focused on ... employees to the detriment of shareholders. Why would I want to buy a stock like that?”

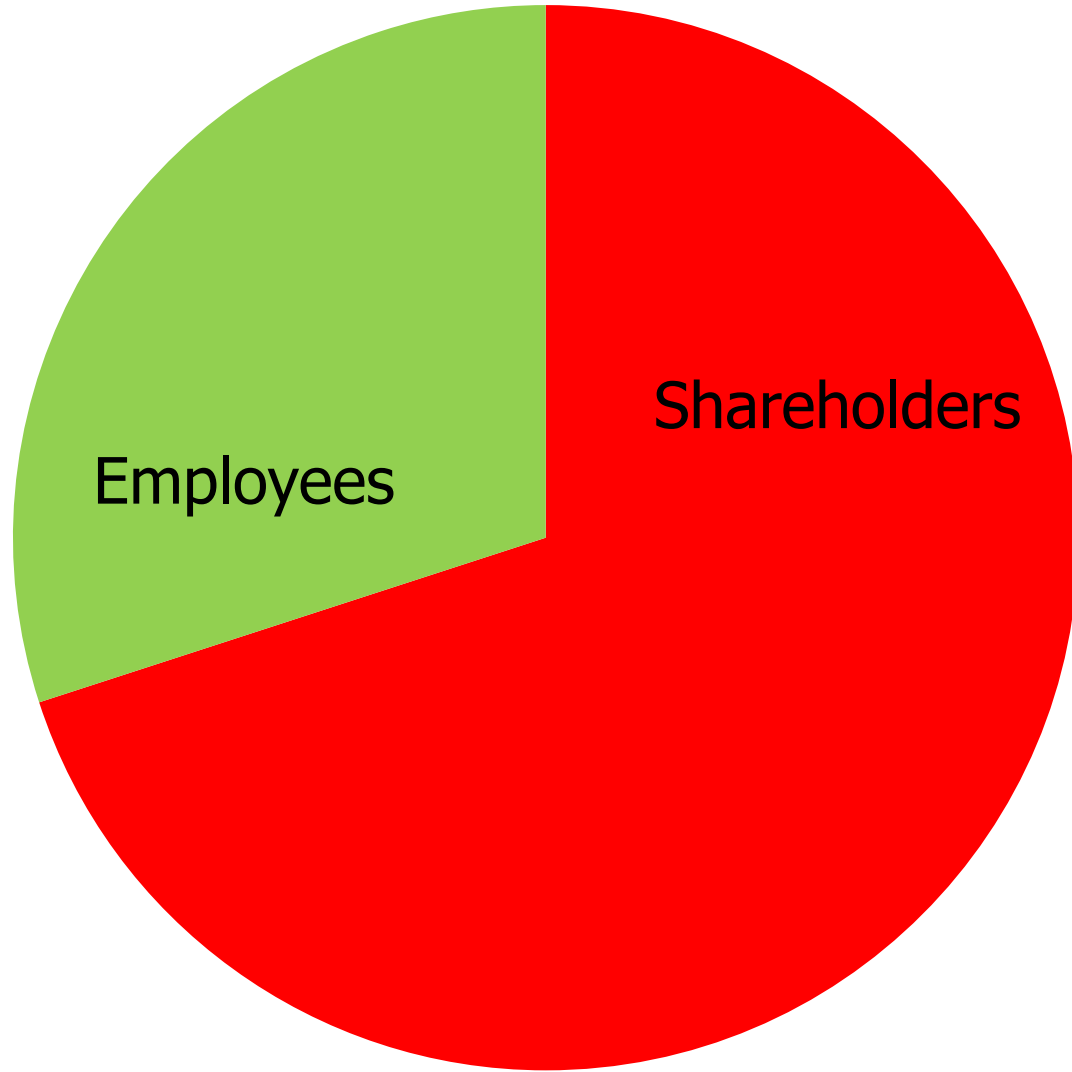
-- Equity analyst, quoted in BusinessWeek

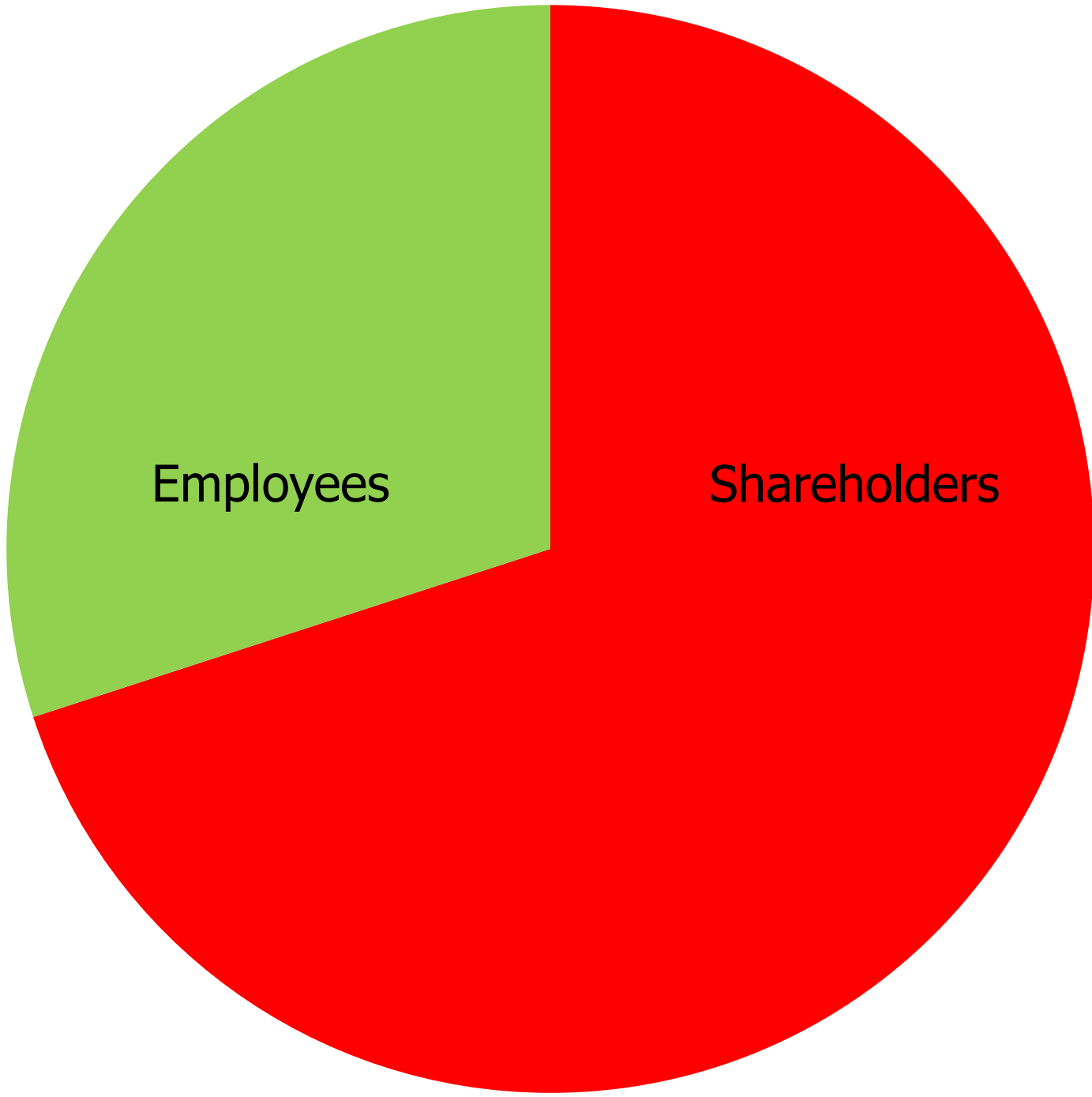






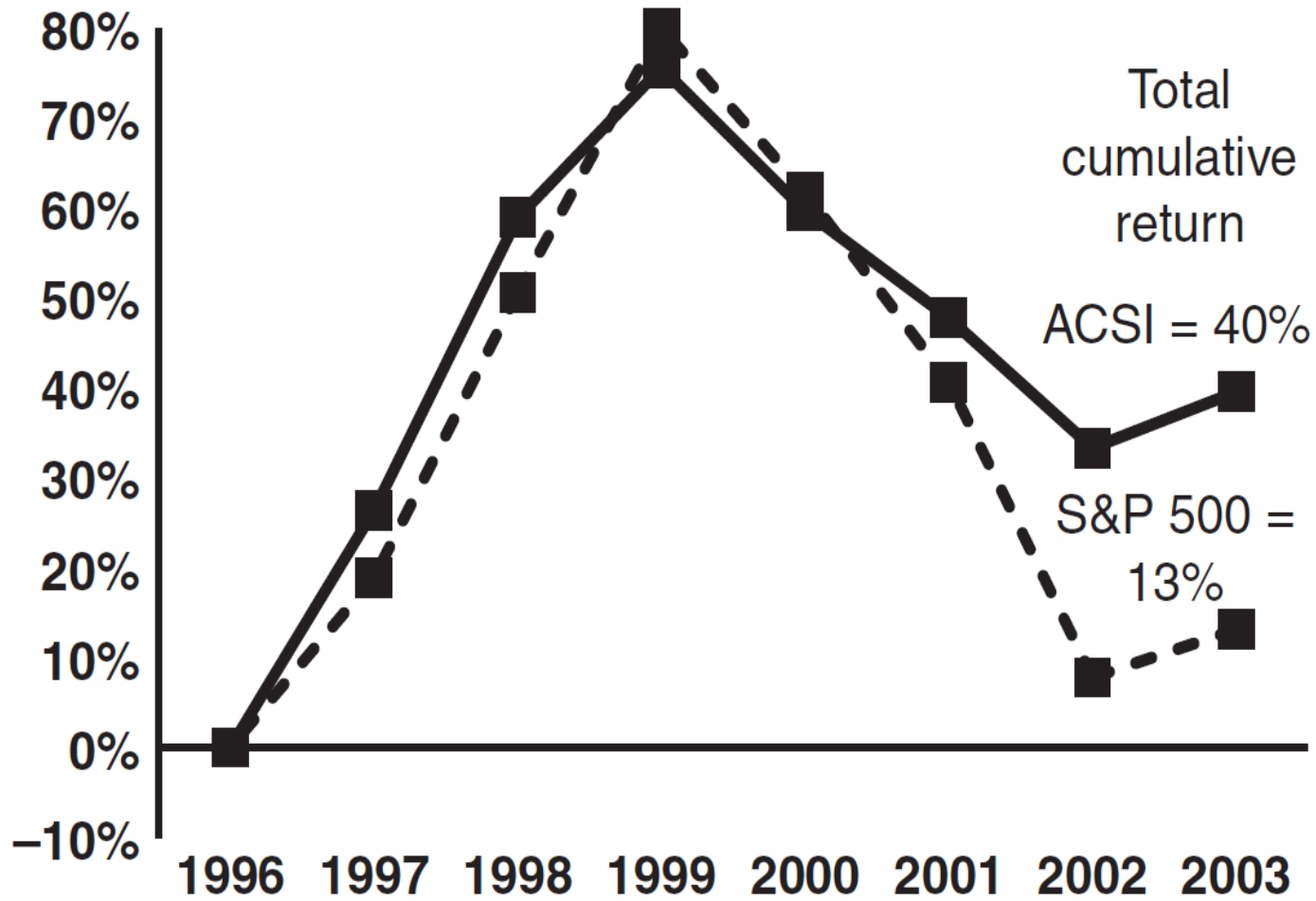






Employees

Shareholders



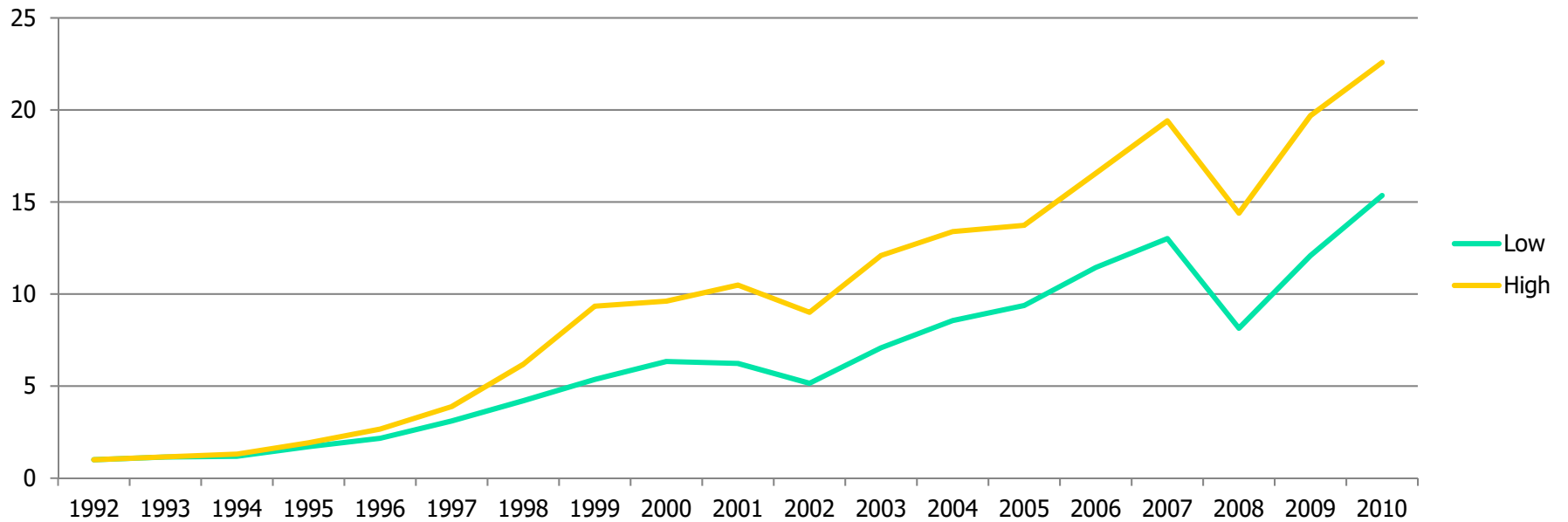
Fornell, Mithas, Morgeson, and Krishnan (2006)

Portfolio	α
High-ranked companies (full period)	3.98%* (1.93)
Low-ranked companies (full period)	-1.08 (-0.55)
Difference portfolio Full period	5.06* (1.86)

Derwall, Guenster, Bauer, and Koedijk (2005)



Innovest
Strategic Value Advisors



Returns to High and Low Sustainability: Eccles, Ioannou, and Serafeim (2014)

THE WALL STREET JOURNAL.

MARKETS | YOUR MONEY | JOURNAL REPORTS

Does Socially Responsible Investing Make Financial Sense?

Some think it gives investors an edge, but critics point to poor results

Wed, Jan 27, 2016, 1:16pm EST - US Markets cl

Dow ↓0.04% Nasdaq ↓0.46%

More On COST

QUOTES

▶ **Summary**

Order Book

Options

Historical Prices

CHARTS

Interactive

NEWS & INFO

Headlines

Press Releases

Company Events

Message Boards

Market Pulse

COMPANY

Profile

Key Statistics

Costco Wholesale Corporation (COST) - NasdaqGS ★ Watchlist

149.13 ↑0.63(0.42%) 1:16PM EST - Nasdaq Real Time Price

Prev Close:	148.50	Day's Range:	148.25 - 149.57
Open:	149.29	52wk Range:	117.03 - 169.73
Bid:	148.96 x 100	Volume:	1,006,371
Ask:	149.03 x 100	Avg Vol (3m):	2,297,590
1y Target Est:	171.57	Market Cap:	65.58B
Beta:	0.791041	P/E (ttm):	27.93
Next Earnings Date:	2-Mar-16 📅	EPS (ttm):	5.34
		Div & Yield:	1.60 (1.04%)



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Investment Strategy

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January 24, 2016 3:14 am

Quants are the new ethical investors





Putting It Into Practice



1. Excellence

- Simply being excellent at what you do has major impact on customers, employees, suppliers, the environment, and society
- The most socially destructive actions are not errors of commission, but errors of omission
- Implications:
 - Excellence is the best form of service, not reducing carbon footprint or making sacrifices (e.g. giving penicillin for free)
 - (Almost) all companies play a role in serving society
 - All employees play a role in companies
 - (Almost) all tasks play a role for an employee



2. Purpose

- A company's *intrinsic* reason for existing
 - Profits are an *extrinsic* goal
- The glue that binds the organisation together
- Purposeful companies will make investments even if they don't lead to predictable profits

May 2016

The Purposeful Company
Interim Report



**BIG
INNOVATION
CENTRE**

February 2017

The Purposeful Company
Policy Report



2. Defining Purpose

- *Who* it exists for and *why* it exists
 - “Who” is important to guide trade-offs. Customers are important, but who else?
 - Olam: “endeavours to generate economic prosperity, contribute positively to social wellbeing and manage our stewardship of the environment by providing sustainable agricultural products and food ingredients”
 - John Lewis: “ultimate purpose is the happiness of all its [employees] , through their worthwhile and satisfying employment in a successful business”



2. Defining Purpose

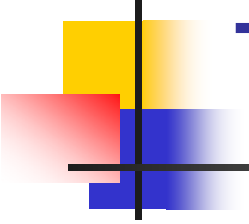
- Purpose is only meaningful if the converse would also be reasonable
 - A purpose “to serve customers, colleagues, suppliers, the environment, and communities while generating a returns to investors” is meaningless
 - *Who*: Olam’s environmental focus, John Lewis’s employee focus are meaningful
 - *Why*: Costco provides “quality goods and services at the lowest possible prices”
- But purpose is more than just a definition
 - Embedded internally
 - Communicated externally

3. Incentives for the Long Term



- Common focus is on the level of pay
 - But £5m pay is 0.06% of a £8b firm
- Much more important is the horizon of pay
 - Affects decisions, which have percentage point, not basis point, effects on firm value
 - See "Stop Making CEO Pay a Political Issue" (*Harvard Business Review*), <http://bit.ly/politicspay>; "Link Pay to Wider Societal Benefits" (*Financial Times*), <http://bit.ly/ftceopay>

3. Incentives for the Long Term (cont'd)



- Edmans, Fang, and Lewellen (2017): vesting equity linked to
 - Cuts in investment (R&D, capital expenditure)
 - Analyst forecast revisions
 - Positive earnings guidance
 - Just meeting earnings targets
- Flammer and Bansal (2017): long-term compensation improves
 - Return on assets, net profit margin, sales growth
 - Innovation (number, quality, novelty of patents)
 - CSR (environment, customers, society, esp. employees)



4. Employees: Two Old Attitudes

- Free Disposal: viewing junior employee time as a disposal resource
 - Artificial internal deadlines
 - Unnecessary analyses. "Presentations are for us, not for the client"
 - Long hours seen as a rite of passage; can be compensated by salary
 - Culture of instant responses, always need to be on email
- Hierarchy
 - Valued by job title, not ability
 - Huge waste of employee initiative



4. Employees: Two New Attitudes

- Partnership
 - Financial ownership: give shares to all employees
 - Task ownership: Japanese Andon system
- Investment
 - Giving opportunities, e.g. presenting at meetings
 - Mentorship: one-minute praisings and reprimands
 - Mental and physical wellness, e.g. UBS “6 weeks – half a million steps”, Global Health Day



4. Employees: Reporting

- What gets measured gets done
 - Just because something can't be quantified doesn't mean it can't be measured
- Most firms already report employee engagement scores, diversity percentages, volunteer hours
- Potentially to think about
 - What areas of EE are strong / weak? Concrete plans for room for improvement
 - Communication and representation
 - Other dimensions of diversity
 - The output, rather than input, of volunteering

4. Employees - Reporting

EMPLOYEE DIVERSITY**

ACHIEVED/
ONGOING

AIM We will report on gender diversity in the UK, Republic of Ireland and our wholly-owned businesses worldwide by 2015, we will aim for 30% female Board members and 35% women in senior roles.

YOUTH EMPLOYMENT AT M&S**

ON PLAN

AIM By 2016 we aim to have offered support to 5,000 young unemployed people in the UK with 650,000 hours of training and work experience in order for 50% to find work within three months of their placement as part of our Make Your Mark and Marks & Start

YOUTH EMPLOYMENT OUTSIDE M&S**

ON PLAN

AIM By 2016, we aim to work with 100 of our suppliers and share best practice in order to open up more vocational training and work placement opportunities for young unemployed people. We aim to collaborate with other companies to encourage them to do the same.

MARKS & START**

ON PLAN

AIM Since the launch of Marks & Start in 2004, we aim to have helped 15,000 people from disadvantaged groups including young unemployed people, single parents, people with disabilities and those at risk of being homeless by offering work placements in our UK stores, offices and suppliers factories by 2016. We're aiming for 50% to find employment within three months of completing their placement.

UK AND ROI RETAIL SKILLS

ON PLAN

AIM Our learning and development programme responds annually to the operational needs of the business. As a minimum, we will continue to provide at least an average of 1.5 days of training per year on retail skills for our Customer Assistants up to 2020.

WORKING FLEXIBLY

ACHIEVED

AIM We will report on our employees' uptake of working flexibly in the UK by 2015, then take action and set a target to make a significant increase in the levels of working flexibly (e.g. non-maximum hours working, job shares, flexitime, remote working) in our UK and Republic of Ireland operations by 2020.

SUCCESSION PLANNING

ACHIEVED/
ONGOING

AIM By 2015, we aim to make internal appointments to 70% of our top 150 most senior vacancies.

RESPONSIBLE LEADERSHIP

NOT
ACHIEVED/
ONGOING

AIM Our top 100 business leaders will receive training on Responsible Leadership by 2015.

UK AND ROI RETAIL SKILLS FOR NEW CUSTOMER ASSISTANTS

ON PLAN

AIM In addition to an ongoing learning and development programme for our existing Customer Assistants, we will also continue to provide an induction programme lasting up to six months for newly recruited permanent Customer Assistants up to 2020.

WELLNESS

ACHIEVED/
ONGOING

AIM We will establish measurements and report on wellness for M&S employees by 2015 to supplement the more traditional measures of employee engagement, considering external best practice.

EXTEND EMPLOYEE HEALTH SERVICES

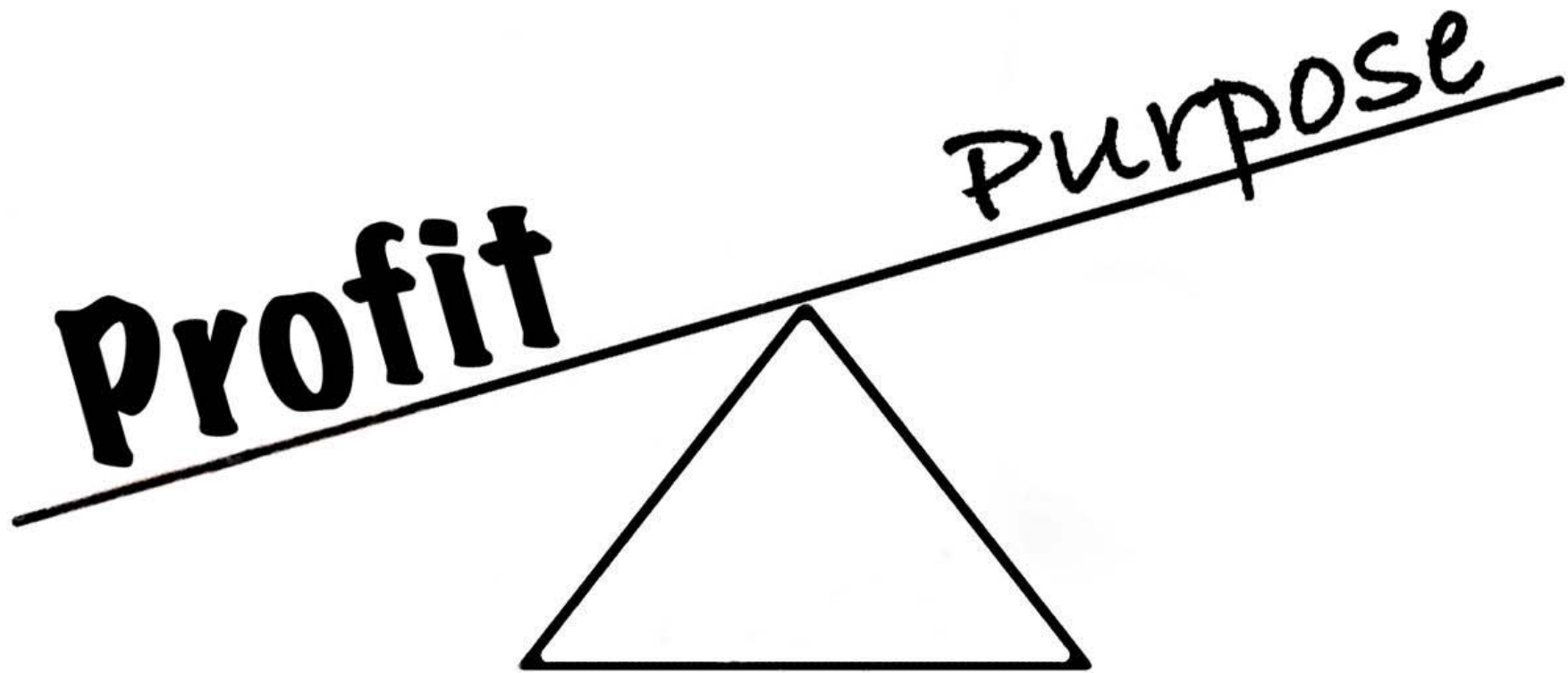
ACHIEVED/
ONGOING

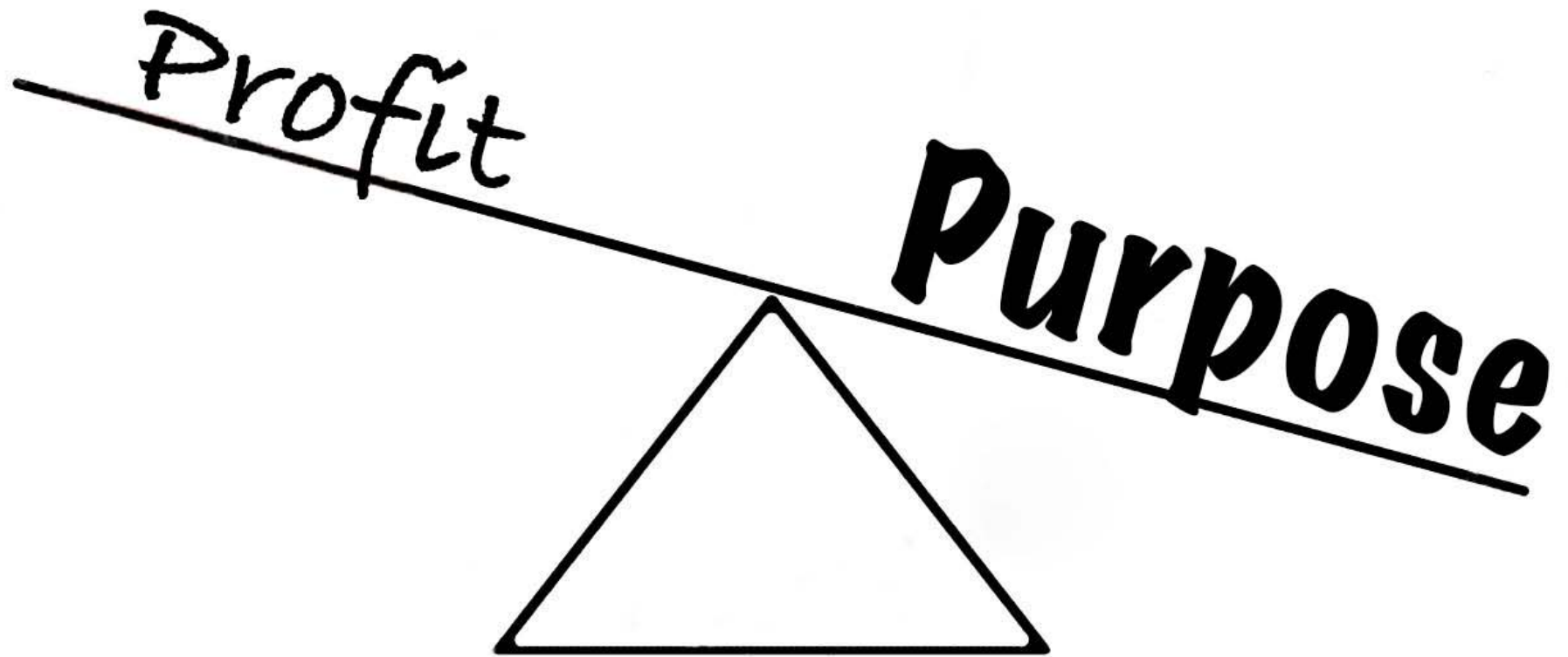
AIM By 2015, in the UK and Republic of Ireland we will provide additional health services and policies to employees including: encouraging healthy eating, promoting exercise and mental health awareness. We will provide support and advice tailored to the needs of an ageing workforce.

NUTRITIONAL LABELLING - EMPLOYEE CAFES

PREVIOUSLY
ACHIEVED

AIM Continue to improve nutritional labelling by making it easier for employees to manage their diet and extend it to include UK employee cafés (up to 2015).



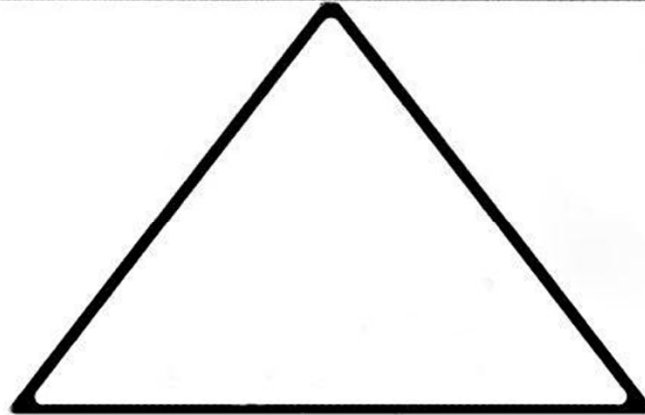


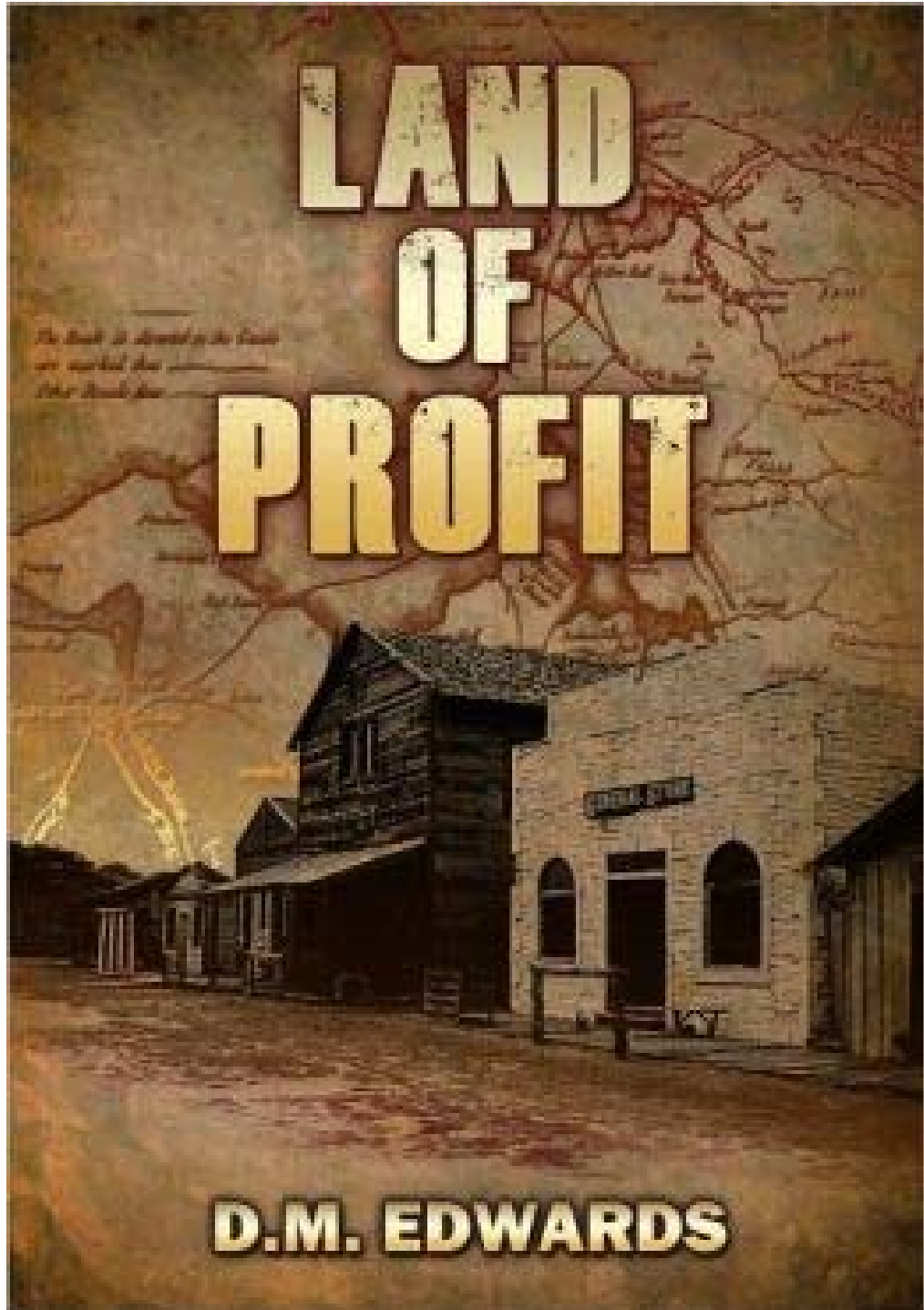
Yes!



Profit

Purpose





LAND OF PROFIT

The book is divided in the best way possible into chapters that are easy to read.

D.M. EDWARDS

