

Responsible Investing

Doing Good While Doing Well

Today's increasingly competitive and socially minded economy demands that businesses address concerns beyond their bottom line, bridging gaps and impacting communities for the better—not just for profit.

At the same time, people want to be business-smart about doing social good, especially in the face of what has happened on Wall Street and in financial markets around the world. From socially responsible mutual funds and property investing to venture philanthropy supporting social entrepreneurs, entire industries are evolving to meet the growing demands of investors—including how to measure both the financial and social rewards.

On September 24, 2008 **Solomon McCown & Company (SM&)** hosted a discussion to explore the ways in which individuals and companies successfully invest in practices that address concerns beyond a business's bottom line. This discussion was the tenth in our award-winning "**SM& Presents**" panel series that examines topical communications issues, and it attracted more than 150 asset managers, wealth managers, attorneys, nonprofit and foundation leaders, real estate and health care executives. Our distinguished speakers were experts in a variety of fields, each tied together by the common commitment to responsible investing: Joseph Keefe, President & CEO of Pax World Management Corp; Jerry Rappaport Jr., President & CEO of New Boston Fund; Vanessa Kirsch, President & Founder of New Profit, Inc.; and Helene Solomon, CEO of Solomon McCown & Company. The discussion was moderated by Shirley Leung, Business Editor of *The Boston Globe*.

Defining "Doing Good"

Socially responsible investing—or SRI—has become a popular buzzword embedded in the lexicon of journalists, businesspeople and mission-focused organizations. But what exactly does it mean?

Originally, as Joe Keefe pointed out, "socially responsible investing...had its antecedents in religious investing. [It was] a sort of values-based investing; the notion that you would exclude certain things. One can see traces of this values-based investing as far back as the mid-18th century, when the Quakers prohibited members from participating in the slave trade and Methodists preached against engaging in industries like tanning and chemical production, which were infamous for poor working conditions. In the 1950s and '60s, changes in the political climate gave birth to new models of SRI, but they still focused on what *not* to invest in—guns, liquor, tobacco, napalm and other sin stocks or industries."

"It was greeted rather skeptically on Wall Street because the notion that you could have market or above market returns by shrinking the investment universe was thought to be sort of counter intuitive," Keefe noted. "And indeed, you were making those judgments based upon values that really didn't have financial underpinnings."

But that has changed. A lot.

"What we are calling sustainable investing is an evolution of that ... and is indeed an emergent investment discipline," Keefe said. He defines sustainable investing as "the full integration of environmental, social and governance factors into investment analysis and decision making."

In the real estate field, responsible investing has taken the form of principles like New Boston's triple bottom line fund, which combines financial return for investors, urban economic development, and environmental and community sustainability. Jerry Rappaport described the activities as focusing on everything from "green building... and green operating practices" to ensuring "a concurrent impact on the surrounding community and sharing profits with nonprofit organizations and small developers."

Vanessa Kirsch noted that New Profit is "using the concepts of venture capital in the nonprofit sector. Our donors are not getting a financial return but...they can see on a quarterly basis the impact of their dollars."

Clearly, responsible investing is changing how people allocate their money in many fields. But the evolution is far from over. In fact, many experts believe it will grow more dramatic as America enters a new economic revolution. Keefe explained: "Over the next several years... we literally have to undergo a sustainability revolution equal in significance to the industrial revolution that ushered in the modern period. And sustainable investing will be the investment arm of that new political economy, I think, just as the sort of classic conservative economics...the Milton Friedman notion that the only duty of the corporation is to make a profit was the investment arm of the industrial revolution."

Quantifying Social Returns

Sustainable investing, triple bottom line funds, venture philanthropy and corporate social responsibility are all tools that respond to the best spirit of American capitalism in a shifting economy. However, all of these vehicles require a system of metrics. Why should someone invest in social change? What is the impact of each investment?

Helene Solomon argued that articulating impact is integral to the success of responsible investing. Organizations must have the right words to articulate impact "because at the end of the day, whether you're a venture philanthropist, a mutual fund investor, or a private investor, you want to understand impact...in addition to or above and beyond the dollar return," she said. "And if we have learned anything in recent weeks, it's that...there's got to be a value proposition that is beyond the dollar sign."

In real estate, Rappaport indicated that "measures examine a variety of factors, including job production, workforce housing units created, community involvement, local and affirmative hiring, and more. But those metrics have to resonate. "We wanted measures that had impact in the community, that sold with our investors, and—equally important—that were measurable."

Real estate isn't the only sector that's experienced success measuring the intangible returns on investment. As Kirsch said, "There's been a big myth out there that...you can't really measure the performance of nonprofits and that's really not true." Working with Bob Kaplan, who started the 'balanced scorecard,' a strategic planning and management system used to align 'business' activities to the vision and strategy of the organization, New Profit has created a "dashboard of ways of measuring the performance of our portfolio on a quarterly basis." This reporting is not only beneficial when attracting investors, it also helps the nonprofit organizations learn from their performance and improve delivery to have a greater impact next quarter.

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While the tools for measurement are still developing, most investors interested in being socially responsible ask the same question: “Does it really pay off?”

“I take issue with the notion that sustainable investing is somehow an alternative investment strategy for happy times and...when the going gets tough, you’ve got a flight to safety,” Keefe said. “There’s so much evidence that sustainability works... that it performs, that companies that integrate environmental, social and governance (ESG) benchmarks into their strategies do better.”

The rate of return is measured differently in philanthropy. “In a down economy like this, there’s going to be fewer philanthropic dollars and we have to make sure [we’re] using those dollars to the highest, best use,” Kirsch explained. “This requires a significant amount of due diligence, management and strategy to ensure real results—just like in venture capital—and it’s exactly what venture philanthropy organizations like New Profit are doing on behalf of philanthropic investors.”

Down economy or not, the time is now. Responsible investing “is the fastest growing source of capital,” Rappaport said “Investors are looking for socially responsible choices that will give a bang for the buck. It is the right strategy at the right time.”

But the real bottom line goes beyond financial return. As Rappaport concluded, “There’s a responsibility to our grandchildren to do this, and there is a payback on this environmentally responsible and socially responsible investment.”

Looking Long-Term

However, the returns are not always immediate. “Sustainable investing is a long-term strategy,” Keefe said. “You can make money doing anything in the short run, doing the most terrible things.” It’s time to change the emphasis from short-term rewards at the expense of long-term damage, and instead look at creating long-term value, he said.

“It gets back to the word sustainable in some ways,” noted Solomon. She also emphasized the importance of taking “a long view at sustainability and profitability and community vitality, which is for all of us.”

The nonprofit market is also growing by thinking long-term. Traditionally donors looked at the overhead cost of organizations and, if it was high, considered the organizations too wasteful to warrant investment. But that’s shifting. “If you’re an organization that’s about to scale, you’re investing a lot of money in your overhead because you’re going to have a ten-fold return five years from now,” Kirsch explained. By considering the long-term potential of scaling, donors will overlook the high overhead costs to increase impact.

Unfortunately, private investors aren’t the only ones guilty of looking short-term. Kirsch pointed out that “government initiatives are very short-term oriented,” and other panelists even argued that current public policy is partially to blame for the near-sighted market outlook. They all agreed that changes must be made.

Changing Policies

Keefe believes that “the government has a role to play in ameliorating social ills and optimizing social income as a partner in the creation of these markets.”

While government already spends a significant amount of money on delivering social services, it is often ineffective. Kirsch called for a “new philosophy of government that is around government being an investor in nonprofits and not actually the one executing and implementing social services.” With more long-term investing policies, nonprofits could make a greater impact and better address many of the social and economic problems the nation faces today.

Communicating the Value of Doing Good

Whether in the public, private or nonprofit sector, investors want to be sure they’re making the best use of their money. How can communicators convey to them that responsible investing produces solid returns?

“The flesh and blood of it is in the results,” Solomon said. *Boston Globe* Business Editor Shirley Leung agreed that outcomes and results are the best way to communicate the messages of socially responsible organizations and investments. But as Solomon noted, “There are so many entities, so much terminology, and so many different ideas, and in some cases, the technology of the movement is just ahead of language. For this reason, it’s important to have precise language, clear messages and a strategic plan to help communicate these great ideas in a way investors understand. Warm and fuzzy is part of it but we have to meld it with...the hard data and merchandise it,” Solomon concluded.

Of course, in the nonprofit sector where “warm and fuzzy” is what donors are used to, the shift towards investment language is confusing and, according to Kirsch, can be uncomfortable. “They’re used to charity, but the sector doesn’t like the language ‘charity.’” New Profit is among the first nonprofit sector organizations to apply both business principles and business language to philanthropy. “We are *social entrepreneurs*; we are a *venture philanthropy fund*. That is very confusing to people.”

Confusing as it may be, business lingo is necessary to garner credibility for the overall responsible investing movement. Keefe pointed out that every other investment discipline claims to be the best, and by investing in their strategy, investors can do better and earn the most return. When it comes to sustainable investing, the proof is in the pudding. The data and results in the industry back up the claim that a sustainable investment discipline produces returns. So Keefe called for bolder language and more forceful messaging, arguing that it’s time to “take on traditional investing and say this is a better approach.”

Not everyone will be convinced right away. “I think we are still ahead of our time in terms of getting the angry old men to accept that sustainable investment is worthwhile,” Rappaport said. “But the more women we get running our organizations and on those boards, and the more youth we get on those boards, the more chance we have to pull this off.”

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