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SESSION
REPORT

497

Value vs. Profit: Recalculating ROI in Financial and Social Terms



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Value vs. Profit: Recalculating ROI in Financial and Social Terms

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Background and Objectives

The world is in crisis and needs are continuing to grow. Traditional approaches to philanthropy, while supporting progress in many arenas, have fallen short of addressing the world's most challenging issues. The business community, in particular, has historically been an underutilized partner in social reform efforts, and is a sector that is still understanding and honing its role in philanthropy and contributing to sustainable development.

This seminar initiated a new series to help address the seemingly chronic challenge of too little capital producing too little good. The first program set out to explore the broader landscape within which "value" (financial, social, environmental) is created, examining innovative approaches for corporate engagement with society, moving beyond traditional ideas of corporate social responsibility, and examining new philanthropic models to more effectively leverage assets, including through investments and cross-sector collaboration. The program was constructed to enable business and philanthropy leaders, as well as other experts, to share their experiences and challenges in leveraging their core strengths and assets to achieve change - through approaches such as: mission-related investing, policy and advocacy, strategic corporate social responsibility, creating social and economic value through new products, value-chain enhancements and cluster development, and multi-stakeholder collaboratives.

The primary goals of the 2012 program were to:

1. Articulate a clearer depiction of the continuum of activity in the landscape of producing value and profit, and identify where/how key processes do and do not intersect (describing the landscape or system).
2. Identify the most important levers for change and how to move them to create a "seismic" difference in how social challenges are addressed.

**“Value and Profit?
How can business and philanthropy recalculate return on investment to include social as well as financial outcomes?”**



Clare Shine



J. Flynn Bucy

Critical Questions

In their efforts to achieve the dual goals indicated above, participants sought to identify the most active “hot spots for change” across the broader landscape of value creation of all types. In that quest, participants were challenged to wrestle with the following questions:

- How are new practices affecting policy, and what new policy frameworks are needed to stimulate greater innovation and uptake of progressive approaches?
- What new tools are needed to help evolve economic models that value a broader range of outcomes, moving beyond simple financial returns?
- What concrete steps are being taken – and how can they be expanded and deepened – to facilitate cross-sector collaboration and improve impact on economies and communities?



Program Director Nancy Smith with speakers (l-r) Raj Thamotheram, Buzz Schmidt, Mario Marconi and Lucy Bernholz

“How are new practices affecting policy, and what new policy frameworks are needed to stimulate greater innovation and uptake of progressive approaches? ”

Outcomes

Participants gave particular attention to the improving prospects for business to take a more active and intentional role in addressing social challenges and creating lasting value, as well as profit. Participants concurred that the distinct roles of various actors based on sector (business; government; nonprofit/social) are rapidly evolving, as are the expectations of stakeholders. It is no longer sufficient for the private sector to focus only on creating financial profit for investors; consumers, shareholders and stakeholders are increasingly demanding that business better account for its total impact. Similarly, social investors are pushing non-governmental/social organizations to better track their own impact and pressing



Panelists Talya Bosch, Jonathan Bee and Kyle Peterson discuss the role of business as a driver for social good

“ Money may make the world go ‘round, but it isn’t moving on its own – investors are driving it ,”

these organizations to also look at their net impact (investments, product sourcing, etc.), not just the results of their programs.

Participants focused on key levers for change and identified the need for strategic regulatory frameworks to be strengthened, both to incentivize positive change and better guard against abuses; for like-minded investors interested in sustainability to work together and create more political will to change investor practice to focus on the long-term and “net value creation”; and to enhance and create new tools and information sources to support the growing class of activist investors – across all enterprise types – to enable them to better understand the net impact of any given investment.

By the end of the four-day seminar, after analyzing how best to use business as a driver of social good, harness the power of investors, and develop better policies and regulation, as well as working together in small groups to identify the most important levers and actions for change, a more detailed map of the landscape emerged. The map helped to demonstrate the complex nature of the system and the very real fact that capital is flowing throughout and across the terrain – it is not contained within separate and distinct sectors. As one person put it, “Money may make the world go ‘round, but it isn’t moving on its own – investors are driving it. Let’s make sure we drive it to produce lasting value.”



Matthew Bishop

“The main challenge is not only working out where we are, but more importantly where we want to go,”

Next Steps

The main challenge for the ‘Salzburg Global Fellows’ following the seminar is not in simply redrawing our own maps and establishing where in the landscape our own organizations are located, but more in navigating this ever-changing landscape of creating social good and lasting value – not only working out where we are, but more importantly where we want to go.

In light of the recommendations surfaced in the first seminar, SGS is implementing the next seminar in December 2013 to focus more explicitly on innovations to empower and enable ‘business for good’. The program will share concrete strategies and innovations, proven and in process, and frame next steps to support systems change. Outcomes, which will further shape the series, will include a maintained network of proven change-makers working to shape a sustainable investment portfolio for the benefit of future generations.



Brian Walsh



Fellows of Session 497 - Value vs. Profit: Recalculating ROI in Financial and Social Terms

Crossing the Mountains and Building the Bridges between NGOlandia and Bizworld

Louise Hallman

Editor, Salzburg Global Seminar

This article appeared on the blog of Alliance magazine: <http://philanthropynews.alliancemagazine.org/crossing-the-mountains-and-building-the-bridges-between-ngolandia-and-bizworld/>

Although Salzburg Global Seminar says it likes to do things a little differently to most convening spaces – bringing together ‘all of the pieces of the jigsaw’ to solve ‘globally interactive problems’ creatively, as program director for gender and philanthropy Nancy Smith explained in her opening remarks – most of the 42 participants in the seminar ‘Value vs Profit: Recalculating the Return on Investment in Financial and Social Terms’, probably weren’t expecting map drawing to be part of that creative process.

Eschewing the usual approach of opening a seminar by giving a lecture, Smith decided instead to draw a map of the landscape of producing social good and addressing social challenges, and encouraged participants to do the same; where did they fit in this landscape? How did they see the lie of the land?

With participants coming from 16 different countries and varied backgrounds, from individual social entrepreneurs to senior directors of foundations, from small to large non-profits, from strategic advisory organizations to large corporations, it was



Fellows Nancy Metzger and Wing Keith consider the various attempts to map the shared value landscape



Nanette Gesche

“ Where did they fit in this landscape? How did they see the lie of the land? ”

“Despite speaking a similar language, Bizworld and NGolandia still don’t fully understand each other,”

not surprising that people saw themselves and their organizations in very different places.

In the first attempt led by Smith, the two sectors of business and NGOs were represented as two lands – Bizworld and NGolandia – separated by a seemingly impassable mountain range. The mountains are starting to give way smaller hills, she said, and in the lower plains, small ‘hybrid’ settlements are starting to spring up, such as benefit corporations. But despite speaking a similar language – using terms like ‘value’, ‘profit’, ‘investment’ and ‘return on investment’ – the two lands still don’t fully understand each other.

Or perhaps instead, as another fellow suggested, the two lands are islands, with the rugged yet fertile isle of NGolandia in the process of building a bridge to the heavily built-up but increasingly resource-scarce Bizworld, which itself prefers the less permanent crossing of an aeroplane.

But neither of these two visions incorporates a number of important factors: where does government and regulation fit in? Where do foundations and individual philanthropists fit in? Where is the ‘base of the pyramid’ in this landscape? And where does society as a whole lie?

By the end of the four-day seminar, after hearing from speakers on how best to use business as a driver of social good, harness the power of investors, and develop better policies and regulation, as well as working together in small groups to identify the most important ‘levers and actions’ for change, a more detailed map emerged, complete with corporate social responsibility expanding into the ‘waters of social good’ more typically inhabited by NGOs, religious organizations and social entrepreneurs, armies of volunteers crossing backwards and forwards, individual and foundation investors on the outskirts directing their capital into the social good waters, and government pumping money into social good and additional ‘social impact’ ventures such as biodiesel crops.

Despite the wry smiles and chuckles at Schloss Leopoldskron, the visual metaphors proved a serious point – these multiple actors are often acting separately and their differences need to be bridged if society’s ‘wicked problems’ are to be tackled effectively.

Over the course of the session, participants from all sectors repeatedly spoke of the need for moving beyond their traditional parameters. Corporate philanthropy needs to go beyond traditional ideas of corporate social responsibility (which has long meant businesses ‘earning money over here in Bizworld and giving it away over there in NGolandia’, as one participant articulated), and work towards



Xiao Hongjun

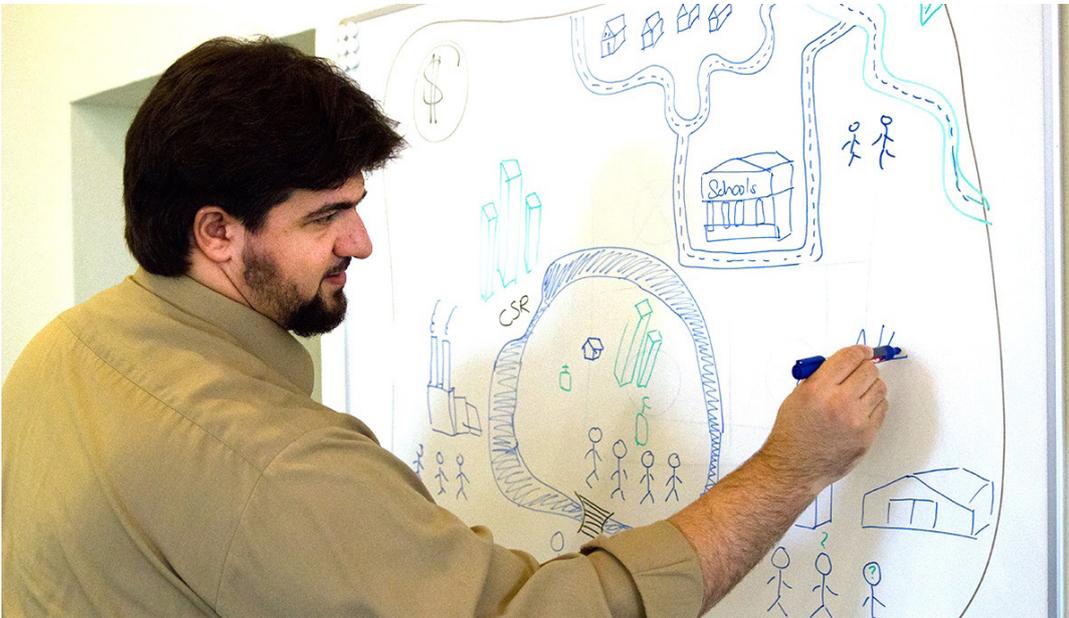


Melih Özsöz

creating shared value with Nestlé presenting their case study, together with their advisers from FSG.

Foundations need to go beyond just impact investing, said Buzz Schmidt of the F B Heron Foundation (pictured left) and consider ‘mission-related investment’, with all of their available capital and investments – endowments and pension funds included – to achieve greater impact on society.

And all enterprises, from businesses to foundations to non-profits, need to go beyond fulfilling their initial missions and look to how they can create – and more importantly measure – impact across all their activities.



SGS Fellow Majid Batterjee draws his working group’s map of the social good landscape

The main challenge for the ‘Salzburg Global Fellows’ now the seminar is over comes not in redrawing our own map and establishing where in the landscape our own organizations are located, but more in navigating this ever-changing landscape of creating social good – not only working out where we *are*, but more importantly where we want to *go*.



Beatriz Hernandez de Fuhr

“And all enterprises, from businesses to foundations to non-profits, need to go beyond fulfilling their initial missions and look to how they can create impact across all their activities”

Re-drawing the Social Impact and Enterprise Landscape

Image: Majid Batterjee *Head of Corporate Communications, Suliman S. Olayan Foundation, Switzerland*

One of the Working Group's took the challenge to "better articulate the landscape of social value production" to heart and created the diagram below. There is a full m

In the center is a "man made" moat that separates NGOs and social enterprises from the primary landmass

The bridge enables volunteers to move between these land masses, but there remains a question as to whether anything changes on the island as a result of volunteer efforts

On the main land mass, private and public enterprise reigns. They are having a positive impact by producing, creating, employing, etc; but there are also negative impacts depicted in the smoke/pollution, in obesity (the round bodies), and other destructive results.

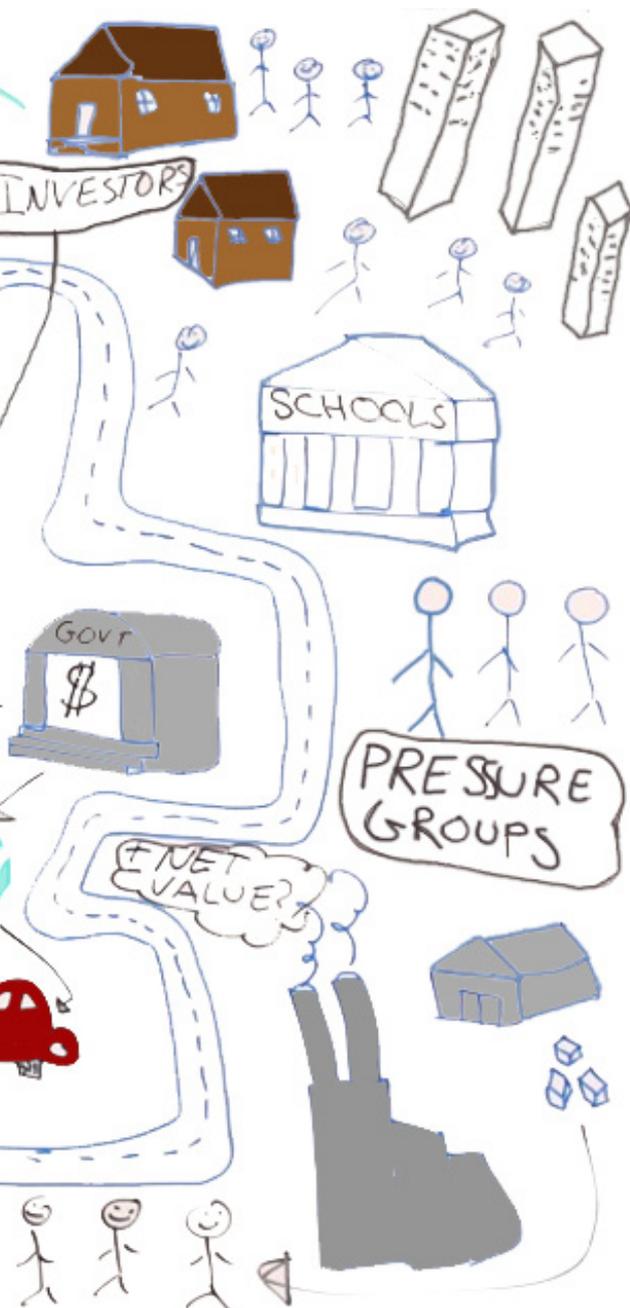
CSR is featured as an attempt to "reclaim" some of the landmass controlled by NGOs.

The populace is depicted in multiple ways, notably those who are aware of and questioning the impact of their efforts, regardless of where they work, and those who are oblivious to questions of net impact.

In the upper left quadrant they have depicted the "data bloat" that can arise with too much data and not enough analysis, application or a way to filter the information glut. Using technology (the numbers) can help move the data and allow it to be digested for use.



narrative description of the diagram, with the artist in action, available here: www.salzburgglobal.org/go/NGOlandiaVideo



There are streets and thruways that indicate how all of these enterprises and actors are, in fact, connected. This is especially true in following where the money is moving. From companies, from individual investors or philanthropists, from the public sector, supporting NGOs and individual charity, and so forth.

The public sector is also depicted, providing rules and regulations to oversee all of this activity. They have indicated the question related to ethanol policy and food security as an example of ways the net impact of public policies also need to be examined.

Education is highlighted as a means to keep the system moving and an opportunity for improving it. As well, pressure groups are indicated as another tool that can be leveraged to create change within the system.

Ultimately, they are demonstrating a “net value” understanding that raises multiple questions about how to improve social and economic impact – improving ROI in all senses.

We invite you to view the video and weigh in with your own perspective on the landscape and some of the complex challenges the narrator identifies.

“Value is created by every market participant, and value goes beyond monetary results,”

Capturing Value vs. Profit: A Fellow’s Perspective

Linda Mohapel

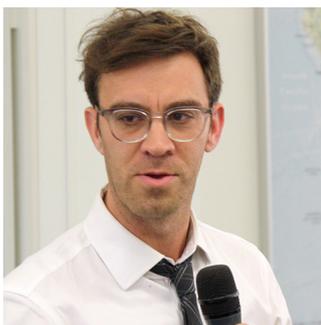
Consultant, IBM; One Planet MBA Graduate, Exeter University, UK

Day 1: Reviewing The Landscape: The Business of Producing Social Good

Sustainability is a trend word originally stemming from an environmental context. The nowadays much-used term “the triple bottom line” expanded the focus of financial returns to environmental and social concerns. Nevertheless, the three pillars are not yet equally weighted. Although accounting concepts are being adapted to explore the wider effects a company has on its surroundings (e.g. GRI, ESG standards...), we find ourselves in the incremental phase of changing a system which has existed for centuries.



SGS Fellow Linda Mohapel (l) with Helin Park and Susan Aloï



Jamie McCallum

How is the concept of sustainability understood by society?

Value is created by every market participant, and value goes beyond monetary results. In fact, it is much debated what impact corporations really have on society and the environment. The many inconsistencies in terminology about value and sustainability pictured sustainability more recently as new disciplines such as Corporate Social Responsibility (CSR), Philanthropy, or Environmental Management. But is sustainability really a discipline? The environmental challenges that we are facing concern ‘the one planet we have’, and can only be

effective if countries collaborate across borders. Also, the escalating inequalities of life between the rich and the poor, and the increasing connectivity of global businesses, make sustainability a macroeconomic topic rather than an isolated discipline of one department in a company.

Who is responsible for what?

The question of responsibility and action taking is key in this debate. The corporate world, governments, NGOs and independent research bodies, universities and entrepreneurs all have a part to play. Some questions were raised in addressing the issue of value versus profit:

- How can we move away from short-termism and promote long-term perspectives in investing and operations?
- Can new incentive structures bridge the way to producing increased social good?
- Does the agent theory distort the idea of responsibility and induce risk adversity?
- Is the informal economy key to change?
- Is our focus on metrics blinding our understanding of complex processes?
- What role does education play in an era of change and how can we agree on common values to follow in an ever more globalized world?
- How can we change deeply-rooted behavior (leadership and enablers)?
- Should we start questioning the basis of doing business - the concept of capitalism?

Day 2: Business as a Driver of Social Good

There is no doubt that social good is created on different levels. But of all market actors, what role do companies play in the creation of social good? And do companies realize that public good is one of the biggest potentials for growth?

The idea of 'shared value' is one concept companies are starting to pursue. The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Compliance and ecological sustainability can be seen as immediate risk mitigation. Shared value, in contrast, builds on long-term security of business activity by sustaining the health of the company and the surroundings it operates in. Nestlé, for example, focuses their shared value creation on Nutrition, Water, and Rural Development, as these reflect their core competencies focusing on operational improvements (i.e. the supply chain_.

Importantly, shared value can be created intentionally and unintentionally. Though it seems to be a natural concept that companies provide products society desires, the traditional way of doing business has ignored its harmful externalities

“The escalating inequalities of life between the rich and the poor, and the increasing connectivity of global businesses, make sustainability a macroeconomic topic rather than an isolated discipline of one department in a company”



Mauricio Justus



Ileana Jinich

“The real impact of a business can only be determined by its net impact, which, in turn, can only be assessed by a holistic analysis of all effects the business has on its surroundings”



Mary Browning

for ages and presents no longer a win-win situation. And yet there is no doubt that business growth can happen in line with social value creation.

The Western Union Company recognizes every social problem as a business opportunity. There is no trade-off between profit and social good, from their perspective. To anchor this vision within the company, employee’s performance is linked to sustainability metrics and so is the incentive scheme. Customer focus was also pointed out as being critical for producing social good. Placing the creation of social good at the heart of business operations clearly works for some companies. But what are some of the trade-offs between investment decisions and sustainable development? Should companies be obliged to off-set unsustainable practices in the future?

More transparency in business operations, risk mitigation, and investment portfolios would help to better understand the real effects a business has on society and the environment. PHINEO, a German not-for-profit corporation, aims to strengthen the social sector by building bridges between social investors and nonprofit organizations. As a service agent it offers a unique concept of impact analysis to improve the reporting and legitimacy of NGOs/NPOs, which is not only in the interest of donors, but also creates essential learning capacity for the organization.

The real impact of a business can only be determined by its net impact, which, in turn, can only be assessed by a holistic analysis of all effects the business has on its surroundings; positive and negative, direct and indirect, short-term and long-term, intended and unintended.

To assess ever more complex and far-reaching impacts we need to have the right information at the right place. There is certainly no shortage of information: 90% of the world’s data was created in the past two years. We now need technology to structure these data to supply meaningful information to diverse user groups. Markets For Good is an example initiative which aims at improving the system for generating, sharing, and acting upon data and information to strengthen the social sector.

Day 3: The Power of Investors & Policy – Lengthening Investment Horizons

Investors do not yet understand the additional value of impact investments and struggle to position these new products in their investment portfolios, a panelist suggested yesterday. Impact investing and investments in sustainability are not yet regarded as secure and profitable as traditional investment options.

Impact investments are capital ventures with the intention to generate measurable social and environmental impact alongside a financial return. This may require

longer investment horizons as impacts are longer-term outcomes. The investment community, however, is largely propelled by a short-term return cycle and increasing (solely) financial returns. That return is fundamental to an investment is not in question (else it would be classified as a donation or a loan), but the timeframe from the initial investment to first financial returns may require a substantially longer timeframe.

Following a trend in the food industry, the labeling of sustainable investments could help to provide more clarity and to build trust within the investment community. But does impact investing have the potential to become a mainstream product? And if so, how can we accelerate the share of impact investments on the market?



Julius Landell-Mills



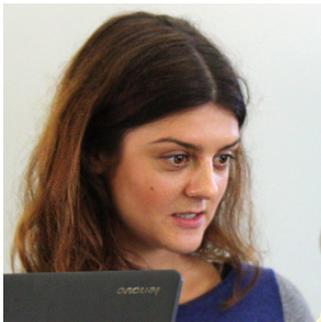
Craig Schreiber shows how capital flow the system to create social value

“Labeling sustainable investments could help to provide more clarity and to build trust within the investment community”

New policies are demanded, e.g. one could argue for an obligation to carry a certain amount of ‘impact investments’ in the portfolio, to leverage the development of ‘social good’. Simultaneously, calls are being made that only a change in attitudes, stimulated by good leadership, can ultimately drive sustainable development.

Although the current investment landscape often seeks the quick return, impact investing is no longer unknown and is becoming more transparent. New forms of impact investment may delay financial returns, but similarly to a venture capital firm assisting a start-up in the early-stages of growth, the corresponding upside through growth and further spin-offs is enormous, especially when social and environmental benefits are factored in.

“Quite simply, shared value is the policy and practices that accompany and that are employed to bring about competitive advantage while addressing a social problem ”



Sara Godfrey

Interview with Kyle Peterson Explaining Shared Value

Kyle Peterson

Managing Director, FSG, USA

This interview appeared on the blog of Alliance magazine: <http://philanthropynews.alliancemagazine.org/interview-with-kyle-peterson/>

‘Value vs Profit: Recalculating Return on Investment in Social and Financial Terms’ saw the use of a great many terms – like ‘shared value’, ‘impact investing’ and ‘collective impact’ – that have caused some confusion for those new to the field of social impact investing and corporate philanthropy. To clear up some of the confusion, SGS Editor Louise Hallman spoke with Kyle Peterson, Managing Director of FSG (formerly the Foundation Strategy Group), authors of the concept of ‘shared value’.



Kyle Peterson speaks on improving social sector business

SGS: For the uninitiated, what is shared value?

KP: Shared value is often confused with a lot of things. It’s not to be confused with ‘shared values’, which are the personal preferences of people within the company. Quite simply, shared value is the policy and practices that accompany and that are employed to bring about competitive advantage while addressing a social problem. So it’s basically finding an opportunity, and deriving profit or reducing costs by what we hope would be solving a social problem. We talk about three levels of

shared value, because even that can be a bit abstract. Is it corporate responsibility? No it's not corporate responsibility. This is not ethics. And this is not philanthropy, although philanthropy can be a tool to accelerate shared value. But shared value comes in three different forms.

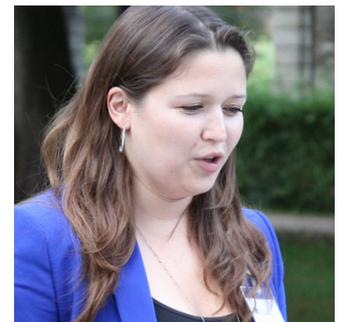
The first form is reconceiving products and markets. A great example of this is Nestlé's cube, which is sold in developing countries and fortified with nutrients. They are actually able to sell it for a higher price, so they derive more profit from this product which is improving the nutritional load for people with malnutrition in the developing world. Another example is GE Healthymagination. Their 500 EKG machine is portable and battery operated; you can bring it to India and a doctor can do a heart test for the price of a bottle of water, which was inconceivable ten years ago.

Second is redefining productivity in the value chain. This is basically about trying to improve the way companies maintain their value chain through all their operations and to be very sophisticated in what they buy and what they sell. Of the three, this is the idea that is most understood because it brings in the idea of sustainability: companies need to think about their footprint and they need to mitigate to make sure they're not doing harm. We've always paid attention to that and it's very important, but a lot of the time that conversation – or that impulse to mitigate harm – comes from some vague notion of responsibility. For some companies that's a great driver, but for many and most it is not. So really the way to drive productivity in the value chain is to bring down the cost, and if you can reduce costs and companies can figure out 'we're spending this amount of money on energy' or 'our trucks are not fuel efficient so we need to change them because that's going to reduce costs significantly and that's a significant thing for us'. It would be a wonderful thing for society if you could make that connection, which I know seems so obvious! But guess what! The 20-30 year history on sustainability that exists here in Europe and that most companies get – I don't care what anybody tells you – has not filtered into the American corporate scene at all. (There are little things here and there, but most of it is PR.) This is actually deriving real value for the company and at the same time getting societal benefit.

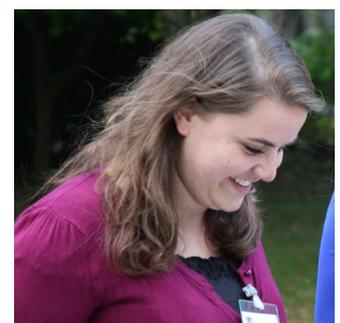
The third form is what we call 'enabling local clusters'. This can be a bit hard to understand, but companies don't thrive just within the four walls of their operations. Even if they've got the best and the brightest to make decisions, they depend on a lot of things in society: talent, good roads, you name it – and those things have to be strong. If companies don't get involved in some cases, and have a weak enabling environment, it constrains their ability to thrive.

So this is investment, and we saw it in many cases. CISCO Systems, for example, saw a great constraining factor in the number of routers they wanted to sell in emerging

“Companies need to think about their footprint and they need to mitigate to make sure they're not doing harm,”



Leslie Onkenhout



Roos van Kleef

“We assume that ideas around ethics and compliance already exist in a company. If those things aren’t solid, then a company should not migrate to shared value ”

markets and now by training hundreds of thousands of network administrators, they’re able to increase their sales.

SGS: What is FSG’s role in this?

KP: We have two roles. Michael Porter and Mark Kramer (co-founders of FSG) are the authors of shared value, so one way that we help is just by getting the ideas out. And we’re going deeper. We do research on these issues by industry, by cross-cutting issues like measurement of shared value and getting those ideas out. Secondly, we work with companies in a think-tank/consulting role. Companies hire us and say: ‘OK, that all sounds wonderful but what the heck should I do? If I’m at Nestlé in India, where should I go and how does it work? How can we actually get our products down to the base of the pyramid?’

SGS: You said that this isn’t corporate responsibility, and there has been criticism that creating shared value doesn’t address all the issues that a corporate responsibility approach would. How would you address those critics?

KP: I think they overlap and I gave you an example of sustainability, but I think your point probably is that there are some issues around ethics and compliance that shared value does not incorporate. We assume that those ideas already exist in a company and then build upon that base, and we always start from talk about that. If those things aren’t solid, then a company probably shouldn’t migrate to shared value.

Interview with Andrea Rickert

Motivator, not a Watchdog – Analyzing the German Non-Profit Market

Andrea Rickert *CEO, PHINEO, Germany*

This interview appeared on the blog of Alliance magazine: <http://philanthropynews.alliancemagazine.org/interview-with-andreas-rickert/>

PHINEO, the German ‘NGO ratings agency’, was launched in 2010. It offers analysis of where best donors should grant their money in a hectic market of 550,000 NGOs in Germany. CEO of PHINEO Andreas Rickert took part in the Salzburg Global Seminar session ‘Value vs Profit: Recalculating Return on Investment in Social and Financial Terms’ in October 2012. After his presentation in the ‘Improving the Social Sector’ panel, SGS editor Louise Hallman sat down with him to find out what PHINEO is doing to bring about these improvements.



Les Hems



Andreas Rickert takes questions from Fellows in Parker Hall

SGS: What exactly is PHINEO?

AR: PHINEO is a new organization. Some of you are familiar with New Philanthropy Capital in London – we basically took their approach and applied it to the German situation. So what we are doing is analysing social issues in Germany to figure out what is the role of the social sector and where are the funding gaps. We analyse in a very rigorous way non-profits in Germany to give donors information about where to get involved or where to give their money.

SGS: So how do you go about analysing the non-profit sector?

AR: We are now 32 people, so even though we started two and a half years ago, we are already indicating there is a need for independent information. But nevertheless, with 32 people, we cannot cover the entire sphere and landscape in Germany. I have to make an adjustment to the number of 550,000 non-profits in Germany – not all of them are actively doing fundraising, so out of those roughly 20,000 are doing fundraising and they are primarily interesting for us because they are out there asking for money. As we would like to get information to donors, we should provide information on those.

Whenever we analyse, we need to have a deep understanding, and we need to know the context in which an NGO is trying to make a change, so that is why we have chosen the approach of sector reports. So we take a topic like child poverty, or dementia, or climate change, and then we just analyse it at a meta level – what is the role of the social sector, what are the funding gaps, what are the approaches, what are the target groups, etc – and then we invite all organizations active in this field in Germany to be analysed. And through this approach we can channel the organizations which are relevant for our analysis and then it is an open process. We invite them to be analysed, so they don't pay for that, and it's risk-free. Our guess is

“We take a topic like child poverty, or dementia, or climate change, and then we analyse it at a meta level: what is the role of the social sector, what are the funding gaps, what are the approaches, what are the target groups?,,



Michelle Kaffenberger



Robert Filipp

probably about a quarter of the organizations active in this field take up our offer to be analysed by us.

SGS: What would be the benefit for a non-profit to agree to be analysed?

Perhaps you're going to turn around and tell them they're not worth investing in or that they're not doing a very good job!

AR: The benefits are twofold. Firstly being analysed by an independent party and getting feedback from an independent view is a great tool to improve your work – so it's a learning tool. And this is what we know the organizations are really using it for. We have done an evaluation and about 80 per cent of the organizations that we have analysed are using the feedback we are giving to them for their own further development. So this is one advantage.

The other thing is that the ones that do pass our due diligence positively are shown publicly. So that's the point – we're just showing the good ones and we're not blaming anyone publicly, so there's no real risk in our analysis. The ones that are shown to the wider public – probably little more than 100 organizations – can use it themselves to do fundraising, and whenever we are in contact with donors we give the advice that they might choose one of the charities or organizations that we recommend.

SGS: So do you ever tell potential donors not to invest in someone because they haven't passed your analysis?

AR: No.

SGS: You only ever tell them which are the good ones?

AR: Exactly.

SGS: So you also wouldn't tell a donor if a charity or organization had declined your services?

AR: No, because we are not a watchdog. We are out there to motivate.

SGS: You said those organizations that don't do well in your analysis still use your analysis as a learning tool. Are you passing them on to specific other partners who are able to improve their processes or do you just say 'here's a report, you're going to learn from it, work it out for yourselves'?

AR: Exactly. There have been a lot of questions coming from NGOs after they have received our feedback about whether we could help them to become better. This, of course, is a good sign that they respect our results and our feedback, but also of course we can't do that because it is a conflict of interest: we cannot help an organization to become better and then next year have our team analysing if they are good enough. So that is why we leave them alone with the feedback and we just make clear to them that they are working on it themselves. There are

“The NGOs that do pass our due diligence positively are shown publicly. So that's the point – we're just showing the good ones and we're not blaming anyone publicly, so there's no real risk in our analysis for the NGOs,”

other consultancies out there that could help them but we are not making any recommendations about with whom they should work.

SGS: What are the criteria within which you analyse NGOs for your donor reports?

AR: They cover two different dimensions. The first thing is that we are looking at the organization itself. How competent is it? How efficient is it? What are its governance structures, their finance structures, etc? This is regarding the organization. Then we look at potential impact of their project. So here we look at the underlying theory of change. Do they have the right approaches to reach target groups and their beneficiaries? Do they have instruments in place through which they get information from the beneficiaries so they can learn while they are working with them? So we are not making any evaluation ourselves, but we are looking at whether they have instruments in place which a kind of evaluation can be made from.

SGS: You said it was free for non-profits to take advantage of your services. Do donors pay for your services to receive your reports?

AR: No, and that is the thing about PHINEO – basically we are working in a market in which neither of the market participants are paying for the services.

Of course there is a need also for someone to pay us! As we are introducing a totally new infrastructure into the market of the social sector in Germany, we needed some organizations to believe in these new structures and new systems,



Peterson and Rickert



Krishnan Vasudevan

“How competent is an NGO? How efficient is it? Do they have the right approaches to reach target groups and their beneficiaries? Do they have instruments in place through which they get information from the beneficiaries so they can learn while they are working with them? ”



Eric Lee

and luckily a broad group of partners from the social sector as well as from the private sector – comprising the big foundations like Bertelsmann Foundation and the umbrella organization of foundations in Germany, and also private-sector organizations like the German stock exchange, KPMG, PriceWaterhouseCooper, etc – are giving us money so that we can make our services available to all parties.

SGS: Coming back to the 20,000 non-profits that you said are looking for donors, do you ever expect to be able to provide analysis on all those or are you hoping to set a standard so that other people can join in and follow your lead?

AR: Of course I would like us to cover as many as possible, but there are two restrictions: a) our resources and b) the willingness of the organizations to be analysed. Because of the second point, I'm not optimistic that we will ever have the data from all of them, but I hope that the incentives for being analysed are becoming clearer so that more and more volunteer to share their data. The other point is that, whilst we are not probably in the position to analyse all of them, we also encourage organizations themselves to report on their own activities. Nowadays a lot of organizations are not very transparent about what they do, how they do it and what kind of results they get, etc., so we are encouraging them to not just wait for PHINEO to analyse them but work on their own communications and their own strategies, to show to the wider public what they are doing with the money they are receiving.

SGS: Currently you only work in Germany, but is PHINEO looking to expand in other countries?

AR: We are getting a lot of questions from other countries on whether we could set up something like PHINEO in Denmark, or in Spain, or in Singapore – and of course, from a personal point of view, I would like to do so. From a market point of view, I see there is a need for PHINEO in all these other places as the landscape pretty much looks the same – but we will not do it as PHINEO, and there is a good reason for that. I think you always need a strong partner in the country to set up an organization like that because it's not only that you need the resources, you also need an understanding of the landscape and of the relevant stakeholders in these countries, and I wouldn't know who to involve in somewhere like Denmark or Singapore. This is the reason why we are going the other way, where we're trying to encourage local stakeholders, local champions to just take our model and to set up organizations like us in their own countries, as we did with the NPC model. We took the NPC model, adjusted it to the German circumstances and built it up in Germany, and now NPC and PHINEO are looking for the next country to take the same approach.

“I'm not optimistic that we will ever have the data from all of them, but I hope that the incentives for being analysed are becoming clearer so that more and more volunteer to share their data,”

Interview with Buzz Schmidt Foundations – the Pioneers of Social Impact Investing?

Buzz Schmidt

Chairman and Director, F B Heron Foundation, USA

This interview appeared on the blog of Alliance magazine: <http://philanthropynews.alliancemagazine.org/interview-with-buzz-schmidt/>

The F B Heron Foundation was established in 1992 with the mission of ‘helping people and communities to help themselves’. Although not the largest foundation by endowment, it has gained a strong reputation in the US for its forward-thinking impact investing and mission-related investing. In 2012, the 20-year-old foundation announced a change in strategy, citing that: ‘The world has changed, and so must we. It’s time for a new approach.’

Speaking at the Salzburg Global Seminar session on ‘Value vs. Profit: Recalculating Return on Investment in Social and Financial Terms’, F B Heron Foundation Chairman and Director Buzz Schmidt spoke of the strategic role foundations can play in the emerging philanthropic model of blending both social value and impact with profits. SGS Editor Louise Hallman spoke with Schmidt to discuss his ideas further.

SGS: Where do foundations fit in this emerging new model of philanthropy and social value? Are they just the pursestring-holders or can foundations be more strategic than that?



Buzz Schmidt explains the power investors can have in creating social good

“We all benefit from more exchange between the social sector, the private sector and the government ,”



Ayat Abdel Mooty

“Foundations like to think of themselves as society’s venture capital, but they have been slow to take risks with respect to their endowments and even, to a significant extent, with respect to their annual grants, which comprise a relatively small percentage of their capacity to engage with society,”

BS: Foundations like to think of themselves as society’s venture capital, but in my view that really is a significant misnomer. Foundations have been slow to take risks with respect to their endowments and even, to a significant extent, with respect to their annual grants, which comprise a relatively small percentage of their capacity to engage with society. So as we look at some of the elements of an emerging social investment philanthropy engagement opportunity, we will be calling on investors of all kinds to think differently about how they invest their capital in enterprises – hopefully, if everyone thinks rationally, in enterprises that provide net positive impacts for the key attributes of a successful, robust, sustainable, regenerative society.

But doing that is going to be very difficult for some investors because anything that’s different will send off alarm bells. The financial equation that so many individuals, middle class and down, face for themselves and their families is so tight right now that taking risks, thinking differently about financial return beyond traditional risk-return parameters, will be a difficult sell. It will need to be explained and modelled, it will need pioneers. There are a few institutions and a few individuals that are really in a position to pick this up, but the top of the list to provide transformative finance for society has got to be foundations, which have at least a putative social mission.

SGS: Is the F B Heron Foundation one of these pioneers? You recently announced a change in strategy that will eventually see you investing 100% of your endowment.

BS: Well we were pioneers even before that, actually. We’re at between 40-50% of our endowment today, which would certainly put us in the top quarter of a percentile with respect to our interest in this area. There may be another handful of other foundations that are looking at things in this way. We have been very conscious of doing this, and doing it correctly; maybe we’ve been too cautious as we’ve not wanted to fall on our face and create another barrier for adoption of these kinds of investment principles by other foundations. So we’re much more confident now of our ability to achieve impact as well as a reasonable financial return – even a competitive financial return – and we’re ready to ramp it up and take it to 100% over the next two or three years.

SGS: You say you’re looking to achieve impact as well as financial return. Is one more important than the other or are you looking for those win-win situations where you can have both?

BS: We’re definitely looking for win-win situations. We don’t think there’s any inconsistency. In fact, we believe – though maybe we can’t fully prove it yet – that attention to society’s critical needs for sustaining capital is the mark of a company that will not only achieve great things for society but also achieve a superior long-



Saeed Owusu-Brobby

term financial return. We think that rather than being a trade-off between the two, they are part and parcel of the same operating perspective.

SGS: You said you consider the F B Heron Foundation to be a pioneer. Have you seen many other foundations following your lead or is the process still very slow?

BS: It's definitely very slow. We've had some triumphs: the leading financial adviser to foundations and a number of other types of institutional investor, Cambridge Associates, has established a mission-related investing division. And it has a number of regular clients that have expressed great interest and that have at least dipped their toe into the mission-related investing water. There is a lot of interest on the part of foundations in an area that is increasingly being called 'impact investing'. This is often conflated with mission-related investing but there is a difference.

We refer to mission-related investing as the full range of debt equity, private equity, cash-equivalent-type investing that we do across the portfolio that has an impact on the mission of the organization. Impact investing typically refers to very direct investments, more private equity type investments, in specific, very socially focused ventures – social enterprises. Whereas we will find impact across a much broader range of investments. I think Heron's early involvement has been taken as support for impact investing and has helped spur on impact investing – and although that's a part of what we do, it's not the totality of what we do – and there's lots of interest from foundations, though not a lot of activity yet, in that impact investing part of the universe.

SGS: Before taking up your position at the F B Heron Foundation, you set up GuideStar in the US and UK, enabling others to access and use financial and organizational data on non-profits active in those countries. What sort of entrepreneurial opportunities do you see within the philanthropy sector?

BS: I think that there are immense opportunities for entrepreneurs, established companies, rating agencies, foundations themselves – particularly if they'll do it collaboratively among themselves, which is not their tradition(!) – to help us understand how our enterprises impact society.

And it's not just if they've achieved their mission, which might be to fill hospital beds or to eliminate malaria. There are other things that all of these institutions and enterprises that we invest in do; they all impact society in multiple ways. They all have an impact on our natural environment; they all have an impact on human capital development; they all have an impact on other systems that they touch – the communities that they operate in, the highways they use, the telecoms systems they might build, the networks of relationships geographically, other organizations they might assist, the supply chains they establish – and a robust society needs our enterprises to be strengthening that stuff, right?

“We believe that attention to society's critical needs for sustaining capital is the mark of a company that will not only achieve great things for society but also achieve a superior long-term financial return.”



Jennifer Sigler

“ I would love to see a number of analysts looking at companies differently, looking at non-profit organizations differently, looking at cooperatives differently, building a new vocabulary that is supportable with data. It might be qualitative data, it might not be measurable, but it needs to be faithful, descriptive and compelling ”



Charmaine Gravesandy

So how do we figure that out? How do we know? We can't measure all this stuff, so we need to be creative but we need a lot of people looking at it. I would love to see a number of analysts looking at companies differently, looking at non-profit organizations differently, looking at cooperatives differently, building a new vocabulary that is supportable with data. It might be qualitative data, it might not be measurable, but it needs to be faithful, descriptive and compelling. And I think there is just tremendous opportunity there and tremendous need for it. Once its value is recognized, I think there'll be multiple business models to pay for it.

SGS: Coming back to this week's seminar, what sort of outcome, impact and value do you see coming out of it? [The F B Heron Foundation provided financial support to the seminar]

BS: I have to admit, I don't go to that many conferences, and this isn't technically a conference; it's a formative process where we're taking disparate viewpoints and experiences and trying to build some new capital in understanding an issue. But what is different about this, what is really exciting from my point of view, is that this really enables a holistic view of the issues. We did not get trapped talking about impact investing alone or non-profit performance alone, or looking at negative behaviour and poorly behaving corporations – which have been the subjects of other conferences.

Instead, we were able to really take an expansive view. We were able to think about how all these enterprises impact society and how we as investors really have a responsibility to think very broadly about it and not to automatically put non-profits in one bucket, large companies in another, SMEs in another, and these new social enterprises in another, but rather to see that we really ought to be looking at the whole thing. And there are consistent ways to be looking at these different enterprises across that continuum, and actually when you think about it, that continuum is not what we think it is! They're all mixed up in their impact! And that kind of recognition has huge implications for portfolio development, for other investment strategies and for sourcing resources for ventures that impact society. So, I think it was very successful in doing that. Clearly there are at least three or four significant threads that are emerging from subgroups of people who are keen to develop different aspects (I'm involved in a couple of them). So I think it was highly successful.

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Salzburg Global Seminar

Founded in the wake of World War II, Salzburg Global Seminar brings together emerging and established leaders from every region of the world to broaden thinking, challenge perspectives, encourage collaboration, and build networks that support future cooperation.

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