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HOW TO COMBINE PURPOSE AND PROFIT

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INTRODUCTION

Prof. **Henry Peter**

Head, Geneva Centre for Philanthropy

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KEYNOTE SPEECH

Alex Edmans

Professor of Finance and Academic Director of the Centre
for Corporate Governance, London Business School

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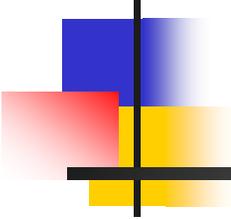

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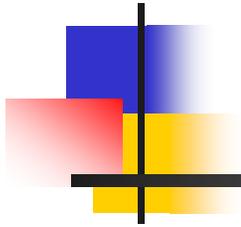
How Great Companies Deliver Both Purpose and Profit



Professor Alex Edmans, London Business School
www.growthepie.net | @aedmans

Geneva Centre for Philanthropy, May 2021

I. What Is A Purposeful Business?









THE CONSTANT GARDENER

THE HIGHLY ANTICIPATED INTERNATIONAL THRILLER FROM JOHN LE CARRÉ
& FERNANDO MEIRELLES THE ACADEMY AWARD® NOMINATED DIRECTOR OF *CITY OF GOD*





vodafone



m-pesa

Tax and our total contribution to public finances

The amount of tax paid by large companies is a matter of significant public debate and scrutiny.

Individuals and companies have legal obligations to pay tax; but those obligations do not extend to paying more than the amount legally required. Companies also have a legal obligation to act in the interests of their shareholders. Vodafone's shareholders include many of the investment funds relied upon by tens of millions of individual pensioners and savers.

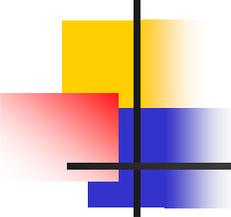
At the same time, individuals and companies must meet their responsibilities to contribute to the funding of public services and infrastructure, without which societies cannot operate effectively.

Achieving a transparent and effective balance between those obligations and responsibilities is therefore integral to operating sustainably.

£11.1 billion

In 2011/12, Vodafone contributed more than £11.1 billion in cash to the public finances in our countries of operation.

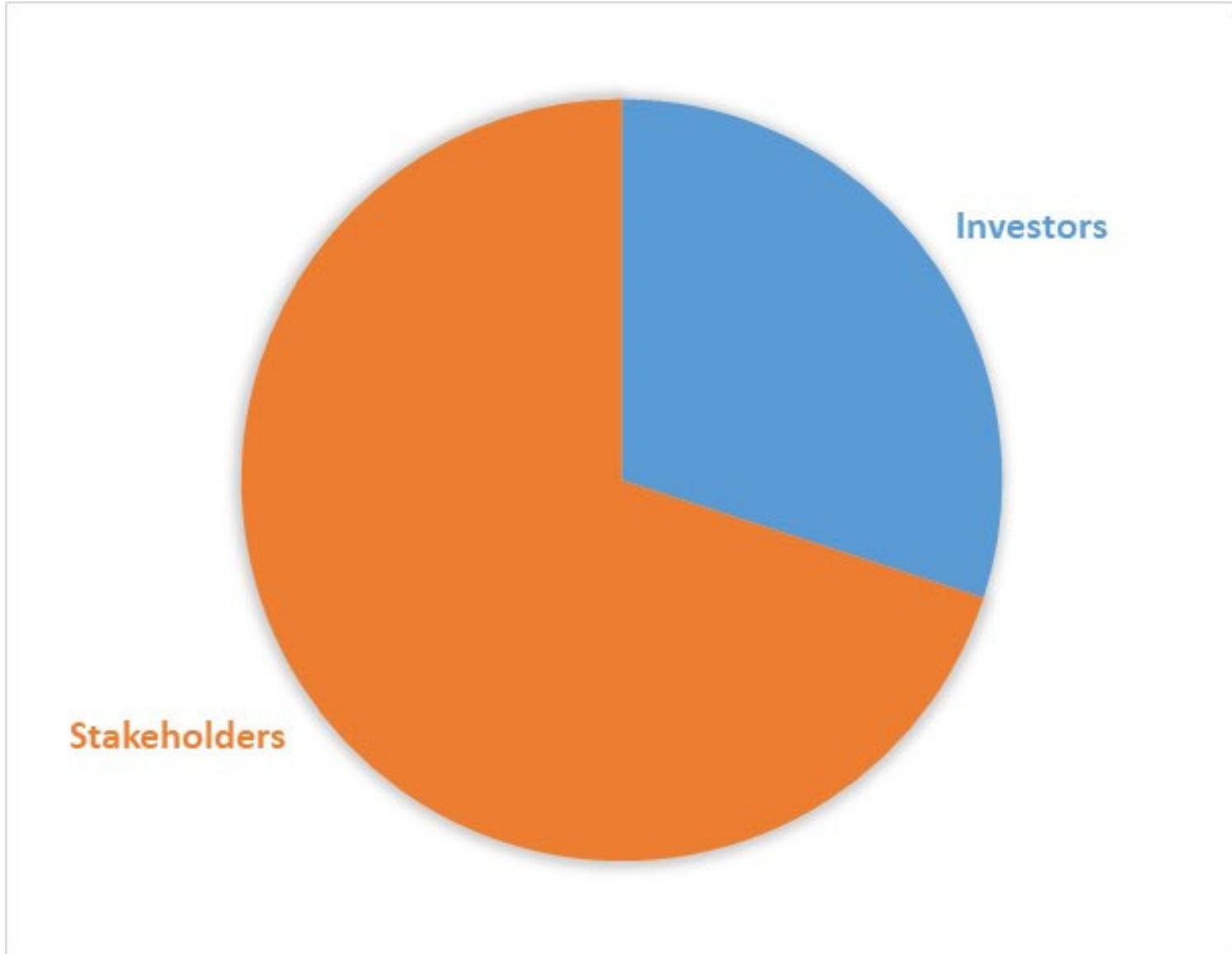
- Corporation tax is paid on profits, not on revenues. If a company makes little or no profit – for example, as a consequence of declining sales, competitive market conditions or a period of intense capital investment, particularly if funded through borrowing, it will generally incur lower tax charges than another similar company with higher profits. This approach is common to all countries as without it, companies enduring periods of low profitability would be faced with disproportionate tax demands and significant disincentives for investment in infrastructure. In a number of Vodafone's markets, including the UK, the cost of acquiring radio spectrum from the government, high operating costs, substantial levels of capital expenditure and sustained competitive and regulatory pressures have a significantly negative effect on the profits of our local businesses. In addition, in some markets, other taxes that are levied on revenue (together with non-taxation-based contributions such as spectrum fees) have the effect of depressing profit and so reducing corporation tax liabilities
- Taxation is local. Taxes generally fall due wherever profits are generated, and the tax liabilities that arise as a result are decided under the rules of the country that is host to the business in question. So, for example, a company operating

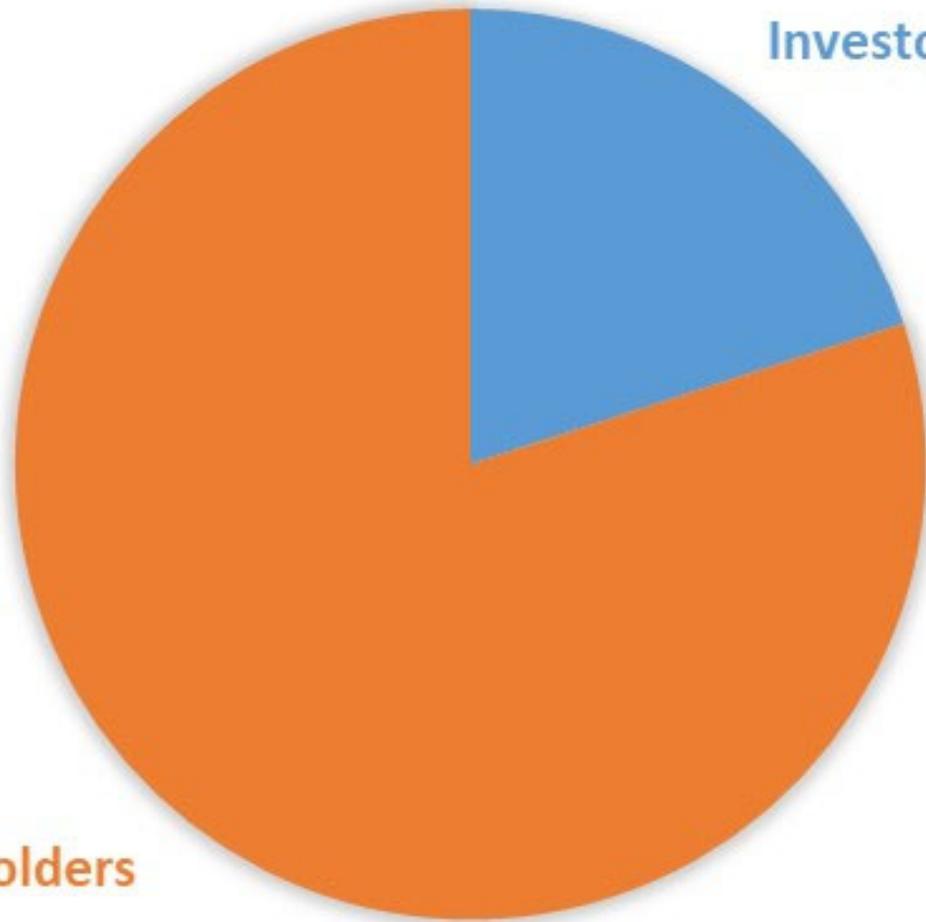


Vodafone

- Which of these decisions created most value for society?
- Which of these decisions, if not taken, would have led to most public outrage, or worsened Vodafone's ESG rating / reputation?

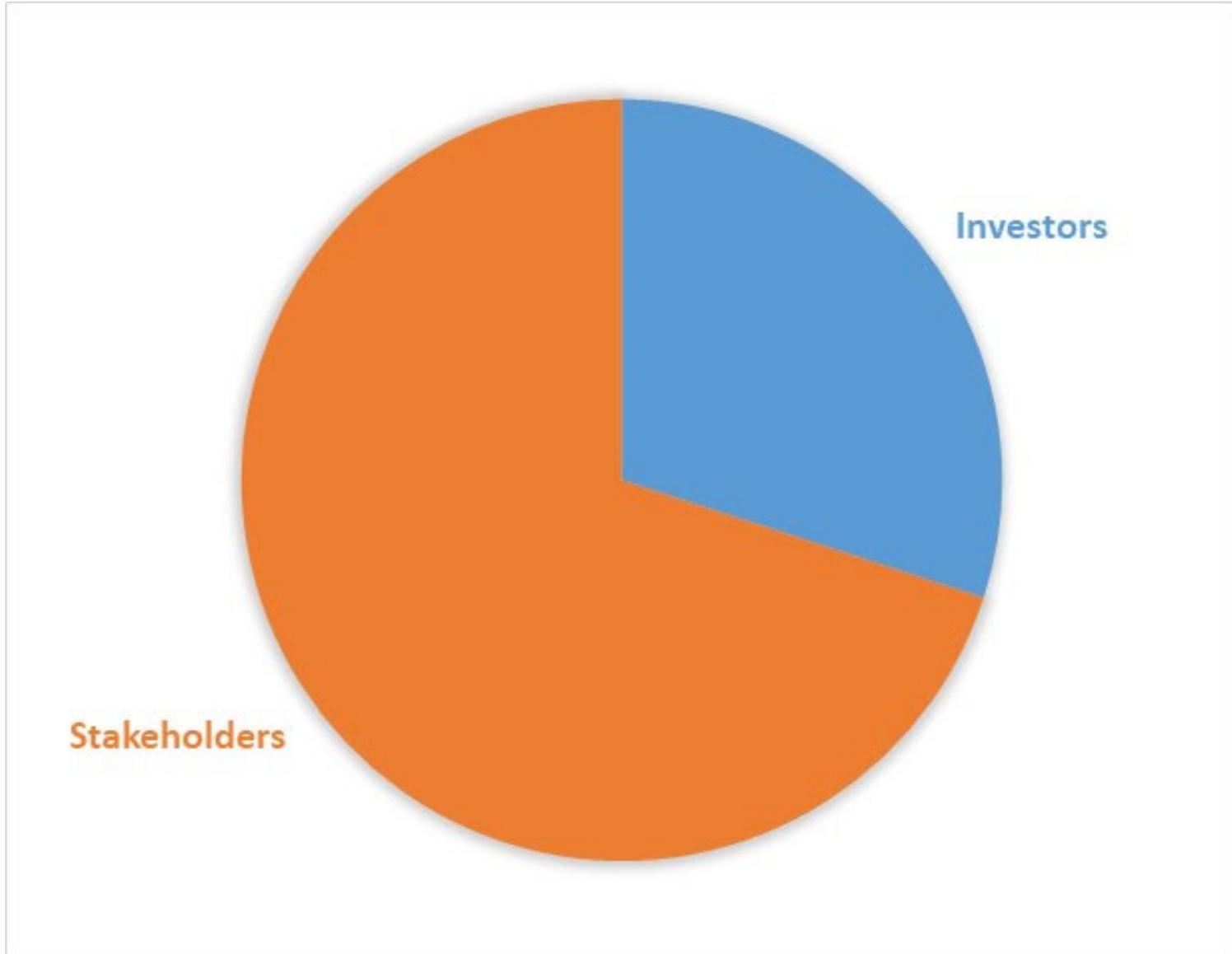




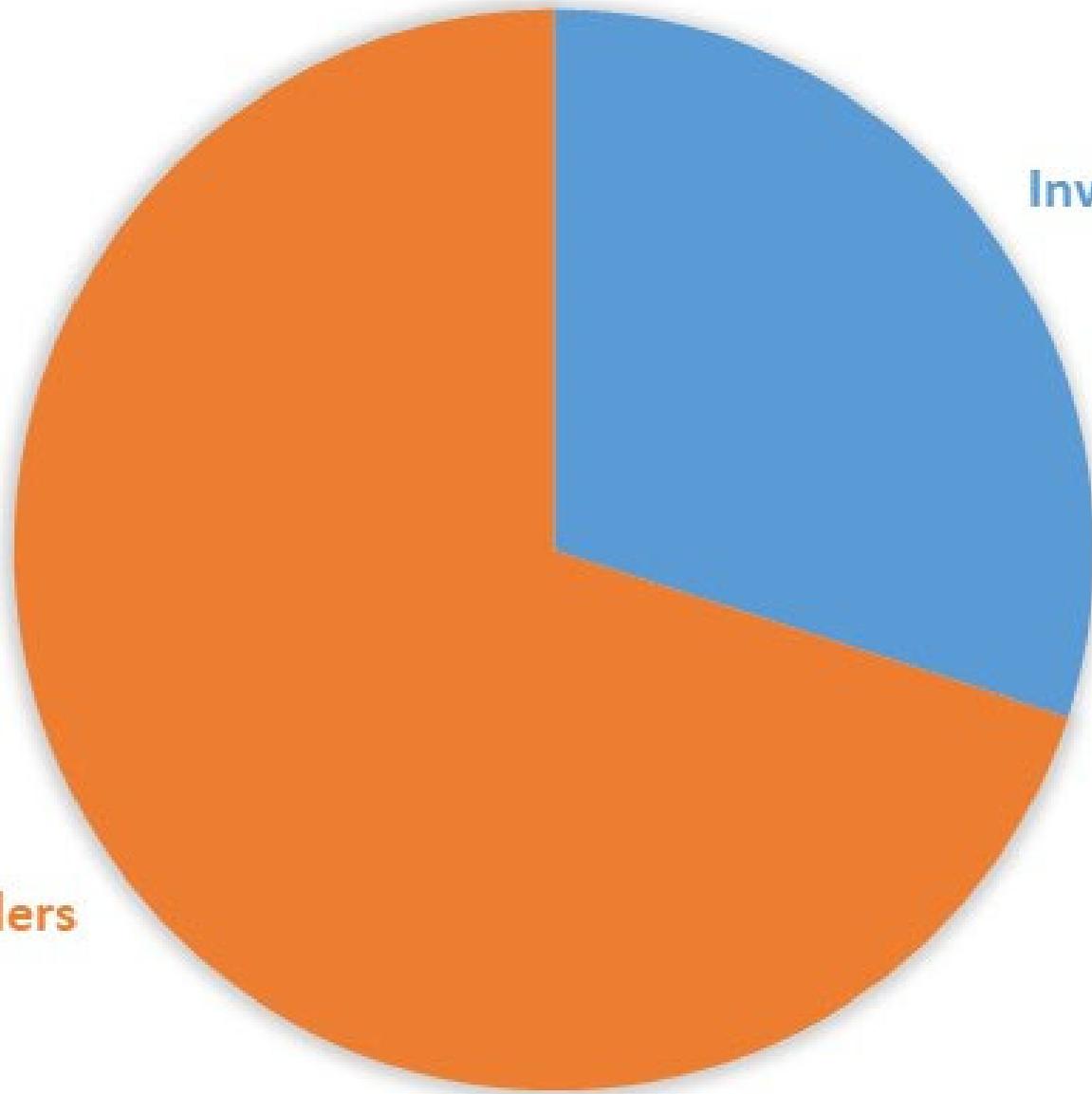


Investors

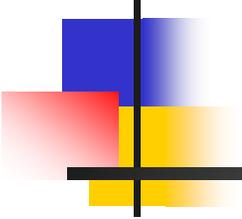
Stakeholders



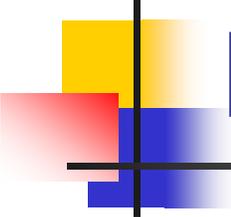
Stakeholders



Investors



II. The Evidence



Beware Confirmation Bias

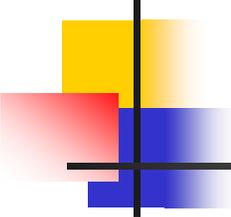
- People accept “evidence” if it confirms what people would like to be true
 - A particular issue with responsible business





Forbes

- “Companies that excel in their sustainability and responsibility programmes outperform their peers financially.”
- “That is the premise of a new report, and it is an accurate one, *judging by many conversations with those interested in better business, better corporate governance and a sustainable future.*”



Does Purpose Lead to Profit?

- How to measure purpose?
- Study output, not input

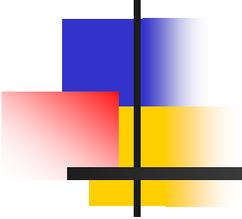
THE 100 BEST COMPANIES TO WORK FOR FORTUNE

GOOGLITES
Yes, the
employees
really are this
happy.

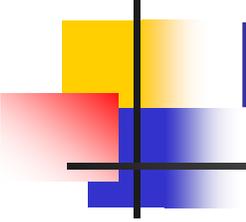


The “100 Best Companies to Work For in America” beat their peers by 2.3-3.8%/year over 1984-2011

(89%-184% cumulative)



III. Putting It Into Practice

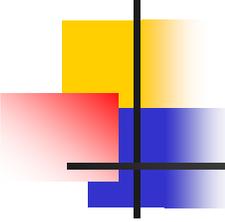


How a Purposeful Business Makes Decisions

- “Our purpose is to serve customers, workers, suppliers, the environment, and communities while generating returns to investors”
- Purpose is why a company exists – who it serves, its reason for being and the role it plays in the world
 - Why: Principle of comparative advantage
 - Who: Principle of materiality

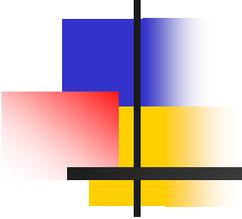
		Extractives & Minerals Processing	Financials	Food & Beverage	Health Care	Infrastructure
Dimension	General Issue Category ^①	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Environment	GHG Emissions	Material	Not Material	Material	Material	Material
	Air Quality	Material	Not Material	Not Material	Not Material	Material
	Energy Management	Material	Not Material	Material	Material	Material
	Water & Wastewater Management	Material	Not Material	Material	Not Material	Material
	Waste & Hazardous Materials Management	Material	Not Material	Material	Material	Material
	Ecological Impacts	Material	Not Material	Material	Not Material	Material
Social Capital	Human Rights & Community Relations	Material	Not Material	Not Material	Material	Not Material
	Customer Privacy	Not Material	Material	Not Material	Not Material	Not Material
	Data Security	Not Material	Material	Material	Material	Not Material
	Access & Affordability	Not Material	Material	Not Material	Material	Material
	Product Quality & Safety	Not Material	Not Material	Material	Material	Material
	Customer Welfare	Not Material	Not Material	Material	Material	Not Material
	Selling Practices & Product Labeling	Not Material	Material	Material	Material	Not Material
Human Capital	Labor Practices	Material	Not Material	Material	Not Material	Material
	Employee Health & Safety	Material	Not Material	Material	Material	Material
	Employee Engagement, Diversity & Inclusion	Not Material	Material	Not Material	Material	Not Material

Sustainability Accounting Standards Board Materiality Map

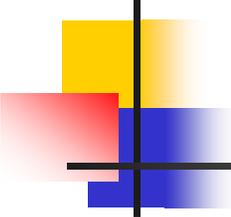


The Importance of Materiality

- Khan, Serafeim, and Yoon (2016):
 - ESG data from KLD (now MSCI ESG)
 - Firms that score high on all issues outperform by 1.5%/year, insignificant
 - Firms that score high on material issues and low on immaterial issues outperform by 4.83%/year

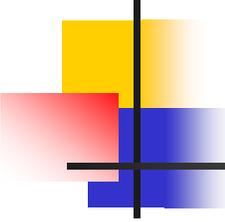


IV. Application to the Crisis



The Coronavirus Crisis

- Pie-splitting actions
 - Executive pay
 - Workers
 - Customers
- Pie-growing actions: what is in your hand?
 - Companies in unrelated industries
 - Large companies hit by the crisis
 - Small companies
- Philanthropy is about creating, not giving



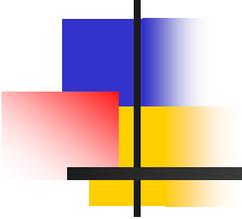
The Power of Citizens

The Pandemic

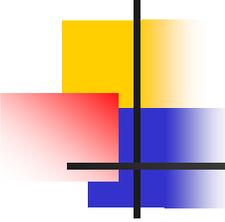
- Citizens' actions have shaped culture

Post-Pandemic

- Activate the silent majority; create a tipping point; be the thermostat, not the thermometer
 - Treatment of support staff



V. Further Reading



Further Reading

- “Grow the Pie: How Great Companies Deliver Both Purpose and Profit” (www.growthepie.net)
 - Financial Times Business Books of the Year, 2020



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Prof. Jean-Pierre Danthine
E4S Managing Director, EPFL

Prof. Philipp Krueger
University of Geneva (GSEM, GFRI)

Dr. Gesa Pellier
Head Global Health Affairs, Novartis

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CONCLUSION
Prof. **Henry Peter**

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UPDATE ON THE GCP'S ACTIVITIES

Laetitia Gill

Executive Director, Geneva Centre for Philanthropy

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EVALUATION

Thank you for taking a few minutes to complete the evaluation questionnaire:

<https://unige.ch/-/purposeprofit>

TEACHING

Autumn 2021

- **Many Faces of Philanthropy (A&B)**, GSEM, Prof. Giuseppe Ugazio
- *L'éthique de la philanthropie*, Faculty of Humanities (Philosophy), Dr. Emma Tieffenbach
- Launch of the new [DAS in strategic and operational philanthropy](#), GSEM, Sept. 2021-August 2022
Registration deadline: 31 May 2021
- [Masterclass 2021](#), 01-02-03 Sept. 2021 in partnership with SwissFoundations and CEPS
Registration deadline : 18 June 2021

NEXT PUBLIC EVENTS

- **25.05.2021** online seminar: **Taxation, philanthropy and implications for practice** by **Dr Giedre Lideikyte Huber**. Organized by the European Research Network On Philanthropy
- **21.09.2021** Philanthropy Lunch *L'Espace Tourbillon : exemple d'un partenariat public-privé innovant*
- **16.11.2021** Philanthropy Lunch **Philanthropy and data protection**



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