All Angles Podcast
June 2023

Grow the Pie: Finding a Win-Win for Investors and Society

Authors

Vishal Hindocha
Global Head of Sustainability Strategy

Alex Edmans
Professor of Finance, London Business School

To listen to the full conversation.

It is possible for companies to create profits for investors and value for society

Alex's book 'Grow the Pie' describes how the value a company creates can be divided between profits to investors or value to society. He says people often think of responsible businesses as splitting the pie differently, so reducing profits to help society. However, he believes a shift away from a 'fixed pie' mentality can help to grow both investor profit and societal value. In his view, the politicization of ESG is based on a fixed pie mentality where ESG is at the expense of investors. Instead, incorporating ESG into investment analysis can help to grow the pie and deliver long-term value.

He sees potential to find a win-win solution that helps both business and society, achieving both financial and social goals. For example, sustainability does not necessarily require huge financial expenditure. Rather, companies can innovate and redeploy existing resources to a different purpose. This way it becomes about delivering the highest output rather than spending the biggest input.

The role of integrated reporting is to spark integrated thinking

Integrated reporting recognizes that understanding the value of a company requires both financial and nonfinancial measures. Sustainability has brought a focus on ESG metrics and attempts to measure relevant factors in as common and comparable a framework as possible. Comparability brings two issues: first, many aspects of sustainability cannot be put into numbers, and second, relevant metrics for different companies will often be unique. Alex thinks the first issue can lead to companies hitting their sustainability targets but missing the point. For the second, he suggests companies should consider their specific expertise and resources to tackle the social challenges they are best placed to solve.

ESG is both extremely important and nothing special

In a recent paper 'The End of ESG', Alex describes how ESG is extremely important as it is critical to long-term value but also nothing special as it is no better or worse than other intangible assets (such as management quality and corporate culture) that drive long-term value and create positive externalities for society. In his view, regulating for ESG may result in companies focusing on what is being regulated rather than what matters. Instead, he views ESG as a way of creating long-term value, as is being a well-run and profitable business.

We welcome the opportunity to discuss key sustainability themes with you. Please contact allangles@mfs.com and we will be happy to help.

All Angles Podcast

June 2023