

# Sustainable Return on Investment (SROI)

## A Tool for Emerging Economies?

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In the 21<sup>st</sup> century, running a successful business is not always easy. The competitors are plenty and profit margins are growing slim. Moreover, with unstable regimes, the looming threat of climate change and drastically increasing inequality, the playing field on which multinational enterprises operate today has become significantly more complex – or at least, this is what it seems.

A group of leading businesses has begun to see the matter from a radically different point of view. Instead of focusing solely on the return on investment (ROI) generated through simple labor, machine or advertising investments, they are turning the international risk factors listed above into viable business opportunities. By investing into environmental and social sustainability, they are cutting costs, increasing productivity, consolidating brand identity and ultimately enhancing shareholder value.

Freya Williams, author of "Green Giants", conducted a study of nine world leading billion-dollar brands including Tesla, Whole Foods and IKEA which found that each of these companies generated an extra USD 1 billion annually by means of products which have underlying social or environmental sustainability considerations. Studies concluded by the Morgan Stanley Institute for Sustainable Investing, the Harvard Business School and Thompson Reuters have come to similar conclusions, overall showing that companies who invested sustainably generally performed better than their competitors.

Of course, from a societal and environmental point of view, this development holds great potential. The United Nation predicts that by 2050 almost ten billion people will be living on our planet, using ever more resources and thus putting societies and our planet under increasing strain. Especially in China, one of the worlds' fastest growing economies more and more people require access to decent jobs, good education, affordable energy and other high-quality goods and services. Having businesses help to cater to these needs is consequently not only an optimal solution to generate profit but also to serve the environment and society, especially in emerging markets such as China.

Thus, the question and challenge at hand is not if businesses should take sustainability into consideration when making their investment decisions, but how.

### Project Approach

Building on society's need as well as the different ways in which businesses are incorporating sustainability into their everyday decision making, the Emerging Market Multinationals (EMM) Network for Sustainability together with its partners has been designing and piloting a sustainable ROI (SROI) methodology – a decision making framework for the future of business.

The EMM Network for Sustainability is part of the Emerging Market Sustainability Dialogues (EMSD) implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). As a federally owned

enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development worldwide. The EMM Network comprises more than 350 sustainability leaders in multinational companies based or operating in emerging economies such as China, India and Brazil. The Network seeks to capture, advance and multiply the scaling-up and rolling out of sustainable business solutions, especially in emerging markets. This is done under the umbrella of EMSD, which also encompasses the Economic Policy Forum (EPF) and the Emerging Market Dialogues on Finance, to ensure that sustainability solutions are implemented, incorporating not only the business world but also stakeholders in policy making and the financial sector.

To create this new decision-making framework, the EMM Network and its partners have been reassembling the most valuable insights from both classical and innovative practices.

Traditionally, businesses evaluate financial returns when making investment decisions for their companies. Financial statements have the advantage of giving a clear quantified indication of whether a certain investment will pay off for a company or not. Considering the changing environment in which businesses are operating however, there is increasing pressure to include social and environmental factors and other externalities into investment decisions. Doing this transforms traditional return on investment methodology into the comprehensive sustainable return on investment approach. As SROI also includes non-quantifiable benefits such as positive environmental effects, transparency and certainty in project planning, the methodology establishes an alternative skill set for measuring the relative success of business maneuvers.

Having identified these insights, and reassembled them into a new framework, the EMM Network has been working to engage with companies to not only incorporate their opinions on the approach but also to pilot the SROI methodology in form of several case studies. This ultimately serves to highlight the connection between sustainable activities and successful business cases and will help to scale the project both vertically and horizontally in the long run. Furthermore, during and after piloting the methodology, it is ensured, that participating companies are not only supported by the EMM Network but also in form of peer learning during several exchange events throughout the process.

### Value Added

After eight large multinational companies including Adidas, Siemens and Odebrecht implemented the first trial of testing the SROI methodology in Brazil for nine months, first valuable insights into the benefits of taking a more holistic and sustainability oriented stance towards making business decisions were made. Following this pilot in Brazil, a group of companies, together with Syntao in China and with Instituto Ethos in Mexico started to engage in SROI quantification as well. Concrete actions taken by the businesses included establishing projects for community capacity building and volunteering of employees, stakeholder engagement activities and improving eco-efficiency.

Overall, the companies reported, that after integrating the SROI Methodology into their internal cost-benefit analyses they began to better understand, how sustainability concerns and the financial area relate. Furthermore, they generally reported a greater awareness for sustainability issues as being an integral part of business operations. Lastly, of course companies responded very positively to the fact that they were effectively cutting costs and that integrating sustainability concerns into their business decisions, allowed them to feel better prepared for ever-changing sustainability regulations and standards. A summary of the findings from the cases and further information is available at [www.emm-network.org](http://www.emm-network.org).

## Lessons Learned

First insights from the project include that integrating sustainability aspects into investment decision making can be beneficial to stake- and shareholders alike and aid the strategic decision-making process in large multinational companies. Quantitative frameworks focusing solely on monetary profits still define the status quo and often hinder decision makers from adopting a more holistic and long term oriented stance. However, the project has so far clearly confirmed, that bridging the world of finance and the sustainability ecosystem can bring both qualitative and quantitative benefits to all parties involved. A key insight gained from the process was, that to induce conducive synergies, the SROI methodology needs to be very clearly defined and offer rigorous guidance on how and when to quantify externalities. Furthermore, for companies to integrate sustainability concerns into their core business, various calculation cycles are needed, and peer learning should explicitly be supported.

## Ideas for the Future

The EMM Network will continue to help foster the development of a unique tool which will help businesses include sustainability considerations into their strategic investment decisions. This tool will be developed for all emerging markets with further piloting and development being led in Mexico, Brazil and China. Secondly, the EMM Network as well as its umbrella organization, the EMSD, will continue their efforts to feed the lessons learned from the SROI methodology implementation into global policy processes such as the G20, BRICS and Agenda 2030.

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