Connecting Value and Values

Opinion Piece

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NOVARTIS

Novartis is a multinational pharmaceutical company headquartered in Switzerland. It is one of the largest pharmaceutical companies in the world. The Novartis purpose is to reimagine medicine to improve and extend people's lives. Novartis was created in 1996 through a merger of Ciba-Geigy and Sandoz. Novartis and its predecessor companies trace roots back more than 250 years, with a rich history of developing innovative products.

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Values are fundamental beliefs that guide individual and societal behavior. They shape attitudes, decisions, and actions. Often considered immovable and ironclad, values evolve over time. Most recently, values have shifted in response to changing social, environmental, and economic situations.

In fact, the latest evolutions in values are significant. People are now demanding that companies and governments become more conscious of their impact on society and the environment, and, consequently, decide and act accordingly.

Consumer preferences, employee preferences, and investment behaviors are already reflecting this shift in values. More and more, consumers are choosing products and services that are environmentally friendly, socially responsible, and ethical. A study conducted by McKinsey and NielsenIQ from February 2023 reveals that "consumers increasingly care about sustainability – and are ready to back it up with their wallets."[1] The study focused on the US consumer goods market. It went beyond an earlier sentiment survey from McKinsey[2] that evaluated the stated preference of consumers in 2020. In that study, over 60% of respondents announced that they were prepared to pay higher prices for sustainably packaged products. The new study, however, checked actual sales growth. It found that products making environmental, social, and governance (ESG) related claims averaged 28% cumulative growth over the past five-year period, versus 20% for products that made no such claims.

Employees are concerned about sustainability, too, and some of them profoundly. They are gradually seeking out companies that prioritize strong values and a positive impact. Companies that fail to offer these qualities are exposed to the threat of "conscious quitting," a term made famous by Paul Polman in a seminal article from February 2023.[3] Conscious quitting means that employees will leave their jobs, should their expectations on the congruence of the values enacted by their employer and their own values be severely disappointed. This attitude is even more pronounced in the incoming workforce from the millennial generation and Gen Z. Conscious quitting, hence, has a much more noticeable, more harmful effect on employers than quiet quitting. Quiet quitting is the attitude by which employees limit their engagement on the job to the absolute minimum. A Gallup survey from September 2022 found that half of the US workforce applies quiet quitting.[4]

It is certainly not a surprise that generations also differ in their investment behavior.[5] "Values play a key role in how Gen Z and millennials behave financially," states an article by J.P.Morgan Wealth Management.[6] A significant majority of that age cohort want their investments not only to deliver a return, but also to be a force for good. Impact Investing, aimed at delivering a measurable social or environmental benefit in addition to a financial return, is gaining prominence rapidly. As a consequence, the Global Impact Investing

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Network (GIIN) reported in October 2022 that the worldwide impact investing market had reached USD 1.164 trillion, although the asset class had been recognized as such only five years earlier. Also, other investors are looking for companies that demonstrate strong ESG performance. As Exploding Trends puts it, "ESG is becoming essential to every investment strategy."[7]

TRENDS TOWARDS SUSTAINABILITY AND THE NEED TO MEASURE IMPACT

Evidence like this exemplifies the growing importance of sustainability in its broadest sense. The term sustainability itself has thereby outgrown the boundaries of meaning it received from the pivotal 1987 Brundtland report by the United Nations on "Our Common Future."[8] Back then, sustainability was connotated mostly with developmental imperatives for poor countries and the environmental implications of consumption in rich countries. Nowadays, sustainability stands for much more as it encompasses resilience, futureproofing, and transparency including social, environmental and economic dimensions.

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In response to these shifts in values, companies are adjusting their messaging. For digital advertising, sustainability is becoming a priority.[9] There are more substantial adaptations too: Companies are adopting new business models, strategies and new performance indicators. Following a six-month consultation process, in September 2020, the World Economic Forum issued the report "Towards Common Metrics and Consistent Reporting of Sustainable Value Creation."[10] Remarkably, the report positions the measurement and valuation of a company's impact on society and the environment, also known as impact valuation, as most desirable, yet currently ambitious. Impact valuation involves assessing the company's impact on various stakeholders, such as employees, customers, suppliers, communities, and the environment, and assigning a monetary value to it. Leading impact valuation approaches capture positive and negative impacts along the entire value chain of a company. One example is the Novartis social, environmental, and economic (SEE) impact valuation practice.[11] The approach aims at helping companies identify areas where they can improve their social and environmental performance and create more sustainable business practices. Feasibility has been demonstrated by the Value Balancing Alliance across broad range of sectors,[12] and real-world use cases are manifold.[13] Its full potential has yet to be tapped.

Governments, on the other hand, are on a similar journey. They have been recognizing the need to move beyond the Gross Domestic Product (GDP) as the one established metric of wealth. Following the foundational conference with the same title, "Beyond GDP,"[14] the EU commission established a dedicated initiative.[15] Its objective? "Developing indicators that are as clear and appealing as GDP, but more inclusive of environmental and social aspects of progress." This seems to underline the case for monetized impacts. The Beyond GDP initiative brings together resources, reports, data hubs, and frameworks that take into account social and environmental factors. One such framework is SAGE,[16] also referred to as the recoupling dashboard. It articulates matters of Solidarity, Agency, material Gain, and Environmental sustainability on an equal footing. It aims at providing a more holistic view of the well-being of society and moving beyond traditional economic measures, namely GDP.

CONVERGENCE IS DESIRABLE

Clearly, both the company approach on impact valuation and the SAGE approach respond to the same drivers and share a common goal – to create a more sustainable economy and contribute to the well-being of society. While the company approach focuses on measuring the impact of individual companies, the SAGE approach aims to measure the well-being of society as a whole. Beyond that, a deeper conceptional and operational alignment of the approaches could be meaningful. The following benefits for governments in understanding and deepening touchpoints come to mind: increased economic policy efficiency, greater immediacy and policy effectiveness, improved country risk management, improved transparency and accountability.

In view of such attractive upsides, the question then becomes: How can the micro-perspective of companies converge with the macro-perspective of governments?

YET, CONVERGENCE CANNOT BE TAKEN FOR GRANTED

Delving into the two approaches, one discovers quickly the most obvious parallel. It lies in the latter two elements of both approaches that deal with economic and environmental metrics, namely "GE" – material Gain and Environmental sustainability – of the SAGE dashboard and "EE" – Economic impacts and Environmental impacts – of SEE impact valuation. Material gains and economic impacts are both closely linked to GDP. While the material gain of the SAGE dashboard is measured in GDP per capita, the economic impact expresses the contribution to GDP of a company.

The environmental topic appears to lend itself to similar, immediate coupling, too. However, this superficial impression is deceptive. The environmental sustainability component of SAGE uses the Environmental Performance Index[17] (EPI), established for countries. Does the EPI react to the collective environmental impacts of all businesses present in the same countries? If so, a direct relationship for the two indicators is established. However, there is no way of knowing this from the outset. In case there is no such linkage, questions would arise for both approaches regarding the limitations of their use. More research is certainly required in this field.

This finding about the need for more research definitively also applies to the question of how solidarity and agency of the SAGE approach translate to performance indicators for the social impact of businesses. On the latter, the Value

Balancing Alliance currently includes the elements of training, occupational health and safety, living wage, child labor, forced labor.[18] All of these components affect human well-being. Do they affect human

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well-being in the same way as the solidarity and agency elements of the SAGE approach do? Not necessarily. In the SAGE dashboard, country-level solidarity is measured by giving behavior, trust in other people and social support; and country-level agency comprises of labor market insecurity, vulnerable employment, life expectancy and years in education.

THE PATH TOWARDS INDICATORS INCLUSIVE OF ENVIRONMENTAL AND SOCIAL ASPECTS OF PROGRESS

In summary, a convergence of the micro-perspectives of companies and the macro-perspectives of governments has not fully emerged on its own. A start has been made, but much remains to be done. Even in the area of environmental sustainability, certain linkages require further research. In the social field, even more work is required to make the concepts link up coherently. In addition to these efforts, one should not neglect the condensation of approaches within these perspectives. In both the private and the public sectors numerous metrics, measurement and data efforts are underway, seeking to address the challenge of connecting value with today's values. While many approaches certainly have merit in their own rights, it is useful to ensure coherence, consistency, and scalability.

Overall, the shift in values towards sustainability, transparency, and also ESG, is more than likely to continue in the coming years. With it comes the need to fundamentally shift the way value is measured for companies and countries. For both the private sector and the public sector, valid approaches are proposed by SEE impact valuation and the SAGE dashboard. In the future, both should become part of a regulatory framework to effectively support sustainable business practices and policy development. At that time, the relationship between the approaches should be clearly laid out as a basis for the creation of a more sustainable future for society and the environment.

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