COUNCIL on BUSINESS & SOCIETY
AN ALLIANCE WITH A PURPOSE

MAGAZINE

Global VOICE

N°19

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Do political links influence Big Four accounting practice?
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ISBN: 978-2-36456-233-2

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"AS THE LEADING BUSINESS SCHOOL IN JAPAN, IT IS OUR DUTY TO INVESTIGATE HOW BUSINESS SHOULD MAINTAIN A BALANCE WITH GLOBAL SOCIETAL ISSUES. WE DESIRE TO EXPLAIN TO THE WORLD WHAT JAPAN HAS EXPERIENCED THROUGH RAPID GROWTH BY MEANS OF THE COUNCIL ON BUSINESS & SOCIETY."

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/EDITORIAL

BACK TO (BUSINESS) SCHOOL

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Many readers may remember the classic book Cuore (Heart), by Edmondo de Amicis. In this novel, Enrico, a boy living in Turin at the end of the XIX Century, narrates his experience at the elementary school. The first lines of that book could have been written today: "First day at school. These three months of holidays in the mountains passed as fast as a dream!"

Nowadays, very few of us of us can afford the luxury of three months' holidays. With further reason, we can feel like Enrico, already missing the nice summer days. However, this time is different. For many months, on all the campuses of the CoBS's member schools, classes were disrupted. Sooner or later, sometimes for long periods, business schools had to revert to online teaching, online meetings, and online research conferences. While the core basic academic activities (pedagogy and research) went on, our campuses were deserted. Campus life was put on hold for a long time.

While the situation now varies in each country, we can say that in many cases, things are returning closer to the normal. Despite some restrictions here and there, people are coming back to campus. As a result, this time our enthusiasm for starting the academic year is surely higher than our nostalgia for the past holidays. We are happy to see our colleagues again, discuss with students and see campus life resuming with all the excitement and effervescence that makes higher education and learning a unique, and life-changing, experience.

May each one of us have a fruitful and enriching academic year.

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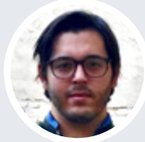

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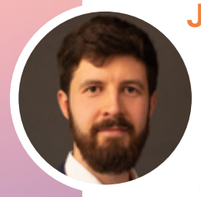
CORPORATE SOCIAL RESPONSABILITY

> **Prosperity is a result of healthy management.**

CONSCIOUS BUSINESS: A NEW FRONTIER IN VIEW



Jean-Sébastien Simon, High Performance Coach and lecturer in Conscious Business at **ESSEC Business School,** provides a pathfinder feature on the nature of Conscious Business.

In the preface of Fred Kofman's Conscious Business (2008), Ken Wilber wrote (p. xii) that the Conscious Business concept would be business that takes into account body, mind, and spirit in self, culture and nature. As such, integral business leadership would necessarily use tools that have been developed to best know and master oneself, culture and world. He went on to express that existing business management theories tended to break down into three wide categories covering the Big Three Landscapes of individual motivation, corporate culture and values, and external objectives, flow patterns and quality control. For Wilber, this meant that traditional business leadership uses these tools in a coordinated and integrated way to achieve maximum results – or else make do with less than optimal results.

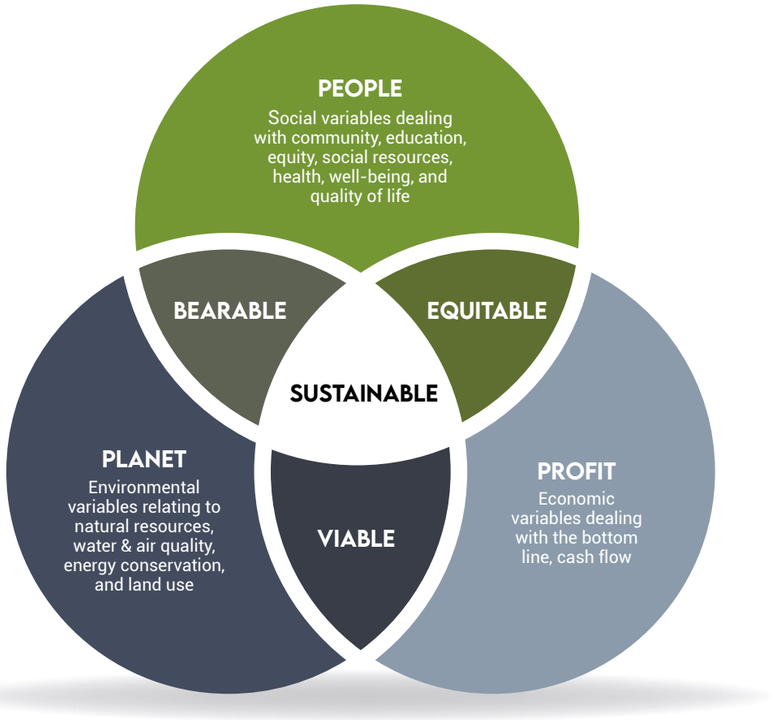
Conscious Business leaders, on the other hand, make bold and visionary choices that go far beyond the standards – whether legal, economic, social or political. They actually decide to set the standards, instead of merely follow them. They are visionary leaders in their field. These choices are guided by a strong commitment to Truth, Beauty, Integrity, Justice, Peace, Love and other key transcendent values, which become strong pillars in these challenging times.

CSR, TBL AND A NEW FRONTIER IN VIEW

A quarter of a century ago John Elkington coined the term Triple Bottom Line (TBL) to define three key areas necessary for businesses to act responsibly and add value while generating long-term sustainability for society and the ecosystems they operate in.

Companies working with effective CSR policies that serve the TBL add value in the following key areas:

1. Profit: The traditional measure of corporate profit—the profit and loss (P&L) account.
2. People: Measures how socially responsible an organization has been throughout its operations.
3. The Planet: Measures how environmentally responsible a firm has been.



Source

Today, in this accelerated age, it seems that some organizations are willing to go further in their growth and evolution. As we know that profits are necessary for any business to be sustainable, it is also a very limiting concept. In the approach to Conscious Business we propose, we enlarge this notion by using the much more encompassing term: "Prosperity." Furthermore, it needs to be noted that Prosperity comes as a result when all the other dimensions are taken care of. Prosperity is a result of healthy management.

In my research on Conscious Business, and businesses with cutting-edge business practices, I have come to discover that three other "Ps" needed to be taken into account to move the needle even further and increase the positive impact even more.

A key "P" that has been implicit in traditional CSR is the core aspect of **Purpose.** In other terms: "Why are we in business?" "Why do I get up in the morning?" A Conscious Business makes sure that everybody on board has a clear and explicit sense of purpose.

A second aspect that is not accounted for in CSR policies (or at best, indirectly) is the **Psyche.** Does the business contribute to the growth of its employees, stakeholders, clients and suppliers? Does it have a positive impact on their development? Does it contribute not only to their mental and physical health and well-being, but actual *thriving?* These are key questions for a Conscious Business.

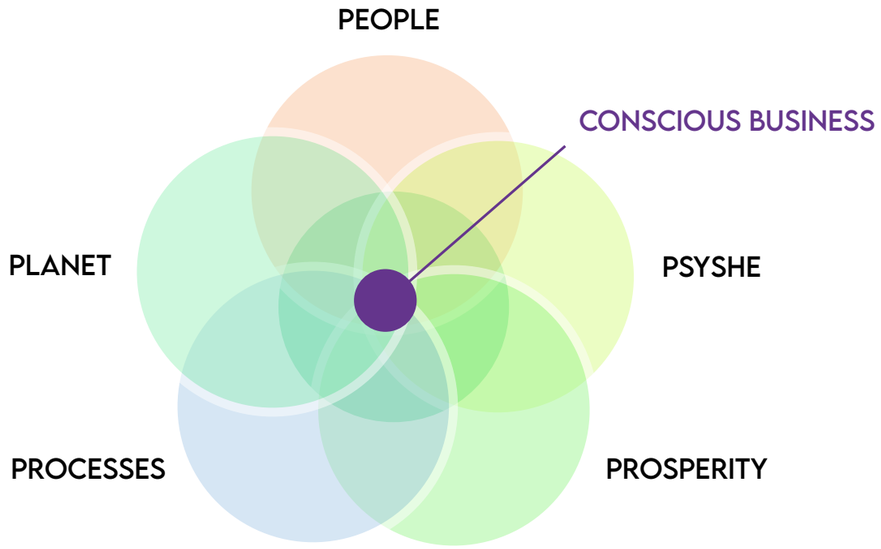
A third aspect that needs to be added for a business to move from a simple CSR policy to becoming a Conscious Business is the creation of effective and heartful **Processes.** Indeed, all the other "Ps" need to be supported, not only by intentions and good words, but by actual processes, practices and procedures that allow to create long-term sustainability in a repeated and cyclical way. Processes can cover the way that decisions are made by the People (integrating more inclusive practices and tapping into collective intelligence), the way Prosperity is created (not only through profits but also through volunteering programs for employees, local positive impact actions, and value-creating partnerships with business partners or civil society agents).

I propose that a Conscious Business, a business that is mindful of these aspects, will operate and monitor by working on and working with the following six dimensions:

▪ Purpose ▪ People ▪ Planet ▪ Psyche ▪ Prosperity ▪ Processes.

To offer a more comprehensive view of Tomorrow's businesses, here is an expanded view of these six domains, which I call the *Flower of Conscious Business:*

THE FLOWER OF CONSCIOUS BUSINESS



As we can see, there are five key elements, which all rally around Purpose (the core of why we do what we do). If you don't know really **Why** you are doing what you do, it can't be called Conscious Business. It is what most companies do: unconscious business. Conscious Business is the sweet spot at the intersection of the six petals of this flower.

LESSONS FROM THE NEAR PAST

For those who have been blessed with good health and economic stability during the COVID crisis, this period has been a beautiful opportunity to reconnect with essential parts of their lives such as family, leisure time and essential values that might have been neglected in the "business as usual" that characterized the pre-COVID industrialized world.

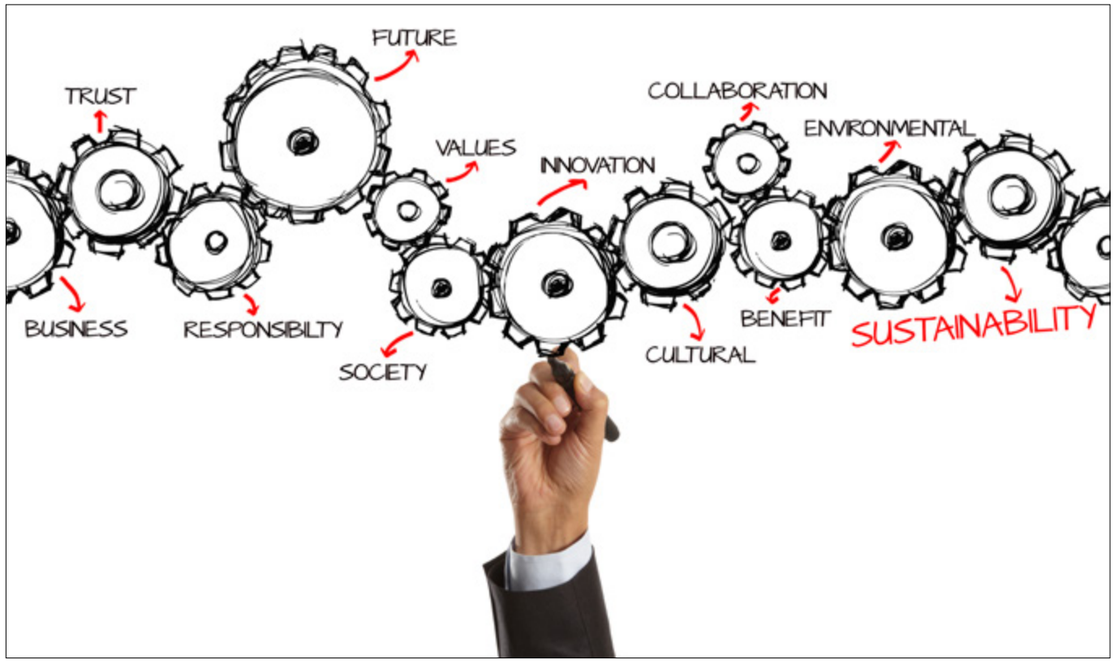
This unique moment has allowed leaders, managers and people all over the globe to re-consider what really matters in their lives as well as in their work.

Indeed, some businesses have collapsed, some have remained stable, and others have thrived tremendously during this crisis. Like a forest fire, which burns the old trees and creates highly fertile ground for the new forest to grow, this crisis is accelerating the emergence of new business paradigms. Conscious business is one of them. ///

A series of features on Conscious Business can be followed from September to December 2021 via CoBS Insights.

KEYS TAKEAWAYS

- The COVID crisis has allowed leaders, managers and people all over the globe to re-consider what really matters in their lives as well as in their work.
- It has also led to increasing interest in conscious business, the foundations of which were laid by Fred Kofman in his 2008 book *Conscious Business*.
- Conscious Business leaders' choices are guided by a strong commitment to Truth, Beauty, Integrity, Justice, Peace, Love and other key transcendent values.
- Building on the work of John Elkington's Triple Bottom Line (People, Planet, Profit), *Conscious Business* adds Purpose (motivation, clear sense and positive dovetailed vision), Psyche (business for the common good and wellbeing of stakeholders) and Processes (processes, practices and procedures that allow to create long-term sustainability in a repeated and cyclical way).
- The People dimension in conscious business integrates inclusive practices and tapping into collective intelligence.
- Elkington's *Profit* dimension becomes *Prosperity* – the creation of value not only through profit but also through volunteering programs for employees, local positive impact actions, and value-creating partnerships with business partners or civil society agents.



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WHY MEASURING SOCIAL IMPACT IS GOOD FOR BUSINESS

Professor **Haley Beer, Warwick Business School,** looks into the complexities of measuring social impact and provides a framework for successful implementation within organisations.

By Haley Beer. With kind acknowledgements to Warwick CORE Insights

In 2017 allegations of sexual abuse against Hollywood film producer Harvey Weinstein triggered a viral outpouring from women around the world, revealing the scale of sexual abuse across society.

The #MeToo movement attracted support from a range of high profile women and produced a number of high profile firings, as well as widespread media coverage and discussion of sexual harassment.

Research from the University of Colorado aimed to understand just what kind of impact the campaign had on sexual harassment in the workplace. The research showed that while the campaign did result in reductions in overt sexual harassment, it also coincided with an increase in hostility towards women. Even with almost universal support and enormous publicity, enacting meaningful and lasting change is by no means guaranteed.

Nonetheless, it would be churlish to dismiss what is a very real shift in attitude in recent years. For instance, last year research body British Academy published its *Principles for Purposeful Business*, in which it argued that Milton Friedman's doctrine of focusing solely on profits should be consigned to the history books and that companies should embrace their role as central stakeholders in society.

> **It is only when organisations are able to secure positive perceptions of social value measurement that they are able to truly benefit from the approach.**

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THE COMPLEXITY OF MEASURING

One of the principles outlined in the report is to encourage organisations to measure the impact they have on workers, society, and natural assets both inside and outside of the organisation. While this sounds straightforward, the reality is it is anything but, with a plethora of different approaches serving to muddy the waters rather than provide the clarity which is sorely needed in order to convince managers and organisations to take a more purposeful approach to their work.
For instance, while 95 per cent of the 250 largest companies in the world are measuring social impact, the ways in which they do this differ enormously. The variety in the field is reflected by the 300 tools cited by *Social Value International* to measure social value or the 1,000 social value indicators identified by *Global Value Exchange*. That these tools are largely used in the public and third sector illustrates the sheer range of options available to organisations when striving to measure the sustainability of their operations.

THE VARIOUS DIMENSIONS OF SOCIAL IMPACT

Indeed, there are also multiple different philosophies and terminology that loosely fit under the umbrella of 'social impact', including impact investing, Corporate Social Responsibility, and Environmental, Social, and Corporate Governance (ESG) – all of which have their own social impact measurement instruments (see, for example, the Global Reporting Initiative, World Benchmarking Alliance, or the Impact Weighted Accounts Initiative).

With the likes of influential academic and consultant Gary Hamel arguing for a more people-centric approach to business, this distinction is important, as traditional performance management approaches tend to focus on technical controls, whereas social value measurement focuses more on the wellbeing of individuals and groups. If we are to create Hamel's vision of 'Humanocracies' then we need to adopt more human-centric approaches to measurement.

The most common tools used in the measurement of social and environmental factors include cost-benefit ratios, the Social Return on Investment (SROI), the Outcome Star, social accounting, and randomised control trials. Increasingly, there are a host of qualitative tools as well, such as case studies, ethnographies, and interviews. While each of these tools provides instructions and guidance on how and when they should be used, the range of options can be overwhelming for the uninitiated.

RESPONSE TO PEER PRESSURE

In social enterprises, the journey towards measuring one's social impact often begins with external pressure, whether from investors, politicians, or from one's peer group. Organisations typically respond to this pressure in one of five ways:

1. Compliance, with the external demands accepted and introduced as a new norm for the organisation.
2. Rejection, with business carrying on as usual.
3. Resistance of control, which involves a symbolic conceding of ground to the external pressure but with business largely carrying on as normal.
4. Acceptance, with managers conceding that social value measurement may indeed have some benefits to the organisation.
5. Strategic decoupling, which requires a more fundamental reorientation of the strategy of the organisation to have a more positive impact on society.

It is often only acceptance and strategic decoupling that lead to benefits for the organisation itself as it's only through these responses that it begins to be both accountable for its actions and willing to improve its performance accordingly. For organisations to produce benefits for both internal and external stakeholders, it's vital to secure commitment from everybody in it.

WANT TO RATHER THAN MUST DO

Recent research from HEC Paris highlights the importance of having executive buy-in for any social impact efforts initiated by organisations, but it's equally important that all stakeholders feel a high degree of commitment to the initiative. Indeed, it's generally only when organisations are able to secure positive perceptions of social value measurement that they are able to truly benefit from the approach. In cases where measurement is perceived as imposed, regimented and standardised, there tends to be mistrust in the relationship with the external stakeholders that introduced the measures.

By contrast, when all stakeholders have a voice in the direction and focus of social value measurement efforts there is a far greater likelihood of effective implementation. Such an approach is recommended by Rotman School of Management's Sarah Kaplan in her recent book The 360° Corporation.
She addresses head-on the inevitable trade-offs that have to be made when trying to do good as well as doing well. It's a view that doesn't see the organisation in isolation but rather as part of an ecosystem of customers, regulators, suppliers, and investors.

Sometimes, creating an environment in which socially-oriented decision making has a positive impact on the profitability of the business as well as their social impact can require the kind of creativity that is only possible when all stakeholders deploy their energies in unison.

This is by no means an easy or quick endeavour, but as research from UTH Zurich highlights, the public increasingly expects organisations to be good corporate citizens, with a majority quite happy to make good corporate citizenship a regulatory requirement. ///

If organisations wish to tackle these issues on their own terms, therefore, it's a journey they have to embark upon, and the more successful they are, the more likely it is that they will retain agency over the direction they take. The evidence to date shows us quite clearly that those organisations who are able to engage all stakeholders in their journey are destined for greater success.

The very act of impact measurement provides just such a listening opportunity, and if done well affords organisations the opportunity to do well at the same time as doing good. ///

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KEYS TAKEAWAYS

- Social impact is when organisations measure the impact they have on workers, society, and natural assets both inside and outside of the organisation.
- Social impact can include impact investing, CSR, and ESG – all of which have their own social impact measurement instruments.
- Common tools to measure social and environmental factors include cost-benefit ratios, the Social Return on Investment (SROI), the Outcome Star, social accounting, and randomised control trials.
- For organisations to produce benefits for both internal and external stakeholders, it's vital to secure commitment from everybody in it.
- It is only when organisations are able to secure positive perceptions of social value measurement that they are able to truly benefit from the approach.
- In cases where measurement is perceived as imposed, regimented and standardised, there tends to be mistrust in the relationship with the external stakeholders that introduced the measures.
- When all stakeholders – internal and external – have a voice in the direction and focus of social value measurement efforts there is a far greater likelihood of effective implementation.

FURTHER READING:

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CHINA: THE INFLUENCE OF ACCOUNTING FIRMS ON THEIR CLIENTS' CONDUCT

Professors **Qinqin Zheng, School of Management Fudan University** and **Zhiqiang Li, China Executive Leadership Academy Pudong,** research the impact of accounting firms on their clients' moral or immoral behaviour.

Related research: The Influence of Accounting Firms on Clients' Immoral Behaviors in China, Qinqin Zheng & Zhiqiang Li, Journal of Business Ethics (2010) 91:137–149 _ Springer 2010 DOI 10.1007/s10551-010-0572-4

> **Accounting firms especially can be considered as "important others" for their clients.**

In 2020, three years after its spectacular rise from Chinese unicorn to billion-dollar financed competitor to Starbucks, Luckin Coffee stepped up to join a queue that counts Enron, Lehman Brothers, Under Armour, Steinhoff, and Wirecard to name but a few of the big names convicted of large-scale accounting fraud in the past decade.

Investigators discovered that in order to impress external investors and hike up its share price, Luckin Coffee had been vastly inflating its sales figures in its accounts, faking some $300m in revenue. Needless to say, this has left customers and investors, as well as the US and Chinese regulators, with a bitter taste in their mouths, with sanctions yet to be determined.

A NEW PERSPECTIVE

Misconduct and immoral behaviour are part of the imperfections of this world. And businesses, like people, are known to indulge in it. Many studies on corporate misconduct have focused either on individual factors – an employee's weak or immoral character or greed – or situational factors – tough markets, pressure to survive, high tax rates – that push firms to cook the books or cheat on their products.

Professors Zheng and Li offer another, original look at the question. They combine psychology and the notion of "important others", moral virtues and an analysis of 8 years' worth of fraudulent accounting events, 1,042 companies' financial statements and 8,336 observations made by the CICPA – the Chinese Institute of Certified Public Accountants.

Their goal: To explore the extent to which accounting firms influence either their clients' ethical or immoral behaviour. And to test whether two traditional business beliefs linked to accounting firms' capacities and responsibility in China hold true.

ACCOUNTING FIRMS AND THEIR CLIENTS: HOW THEY TICK

For Zheng and Li, companies, like individuals, have what is called "important others" who may influence behaviour. Think of a colleague who strayed from the path, for example – did a family member plant the seed of misconduct? A co-worker? Or a friend who saw an opportunity to extract personal benefit from your colleague's professional context? Likewise, companies operate in ecosystems where some clients, suppliers, even politicians are special partners that affect corporate decisions.

It is here that accounting firms especially can be considered as "important others" for their clients, with access to sensitive internal business information and activities. Moreover, the opinions and advice provided by accounting firms are usually highly customised to particular clients' needs and requests.

As such, many companies prefer reliable professional accounting service providers and build long-term relationships with them. On the other side of the coin, it is in the interests of an accounting firm to want to maintain good relationships over the long term – for business, but also because the specific customised approach and service cannot be applied to other firms.

This win-win relationship, rich with mutual benefit, tends to transform the normal provider-client link into a form of business partnership.

WHAT KEEPS THIS RELATIONSHIP AWAY FROM TEMPTATION?

In many ways, this unique partnership constitutes a "joint-venture", with the spectre of immoral activities serving as a safeguard against putting both parties at risk. As shown in the recent Luckin Coffee scandal, though, things can and do go askew.

In any breach of conduct or misunderstanding, clients are generally considered as "the first mover", intentionally or unintentionally providing incorrect or biased information to pursue self-interest. In some situations, accounting firms may even get involved in the clients' immoral conduct – for example, when auditors are encouraged to issue unqualified opinion on financial results and sometimes against their will.

An accounting firm therefore has the tricky balancing act of sticking to the rules and ensuring ethical and professional services while at the same time meeting the requirements, expectations and desires of their clients.

ACCOUNTING FIRMS: ADOPTING A STANCE

Studies undertaken on the approach of accounting firms in an audit context shows that they can assume three attitudes or approaches to their client assignment: tough, business as usual, and accommodating.

It follows that from the perspective of business ethics, accounting firms should take the right disposition and be tough or at least employ a business-as-usual attitude to maintain professionalism.

But playing tough and refusing to provide client-preferred solutions carries a risk – it might mean the end of the beneficial relationship. We can logically think that accounting firms would shy away from toughness and consider it as the least desired approach. Surprisingly though, research has shown the contrary. Although a tough approach might be a cause for conflict, there is no great effect on the longevity of the provider-customer relationship.

The rational argument for this is that both parties consider the cost-benefit of it all, with self-interest and mutual welfare tipping the balance towards acceptance of necessarily rigid rules. Moreover, for the accounting firm, offering tip-top professional service is an important and influential factor in ensuring reputation and a solid client base, so it tends to opt for economic rationale and ethical standards of behaviour.

Generally speaking, accounting firms and their clients are in a constant moral dialogue over what causes the greatest welfare and benefit to the client and the limits of what is right and what is wrong in the search for this. Hero, upholder, or villain? There are some who would be wise to reconsider their opinion that accountants and accounting are boring!

But is that enough to ensure good conduct? No, it seems. Opportunisms or collusions still occur, most probably when accounting firms choose to keep silent or advocate clients' immoral behaviors. So the rational argument doesn't always sway – after all, people (and companies) are imperfect.

THE RISE OF THE CODE OF CONDUCT – AND THE QUESTION OF ETHICS

Because the rational economic assumption does not always ensure that ethical behaviour is followed, the industry has turned towards developing codes of conduct and ethics, usually grounded in guiding principles on independence, integrity, and objectivity such as the GAAP (Generally Accepted Accounting Principles.)

These codes place the onus on the accounting firm, regulating their behaviour to avoid unethical breach of conduct. And they can also positively influence others including their clients and suppliers.

The weak point in many codes is that *doing the proper thing* is not the same as *doing the good thing*. Codes are by nature rule and duty-based, but rarely cover virtues or moral character. Absent is the notion of leading "a good life" and that undertaking such or such an action is charitable or benevolent.

Profs Qinqin Zheng and Zhiqiang Li contend that in addition to self-discipline, accounting firms should have more codes of virtues in their actions so as t capabilities o ethically influence others. Because when one acts through obligation and rule, such is human imperfection that rules are to be broken and duties to be discarded.

A SPECIAL FLAVOUR FROM CHINA

Accounting firms can influence their clients in three ways: positive influence, no influence, and negative influence. Prior research, coupled with Profs Zheng and Li's, points to two aspects of accounting firms that affect which way the influence sways the client. These are *capabilities* and *relationships*.

Full of highly qualified professionals, supported by codes of conduct and rigorously professional through well-oiled processes, tools and work values, accounting firms' capabilities *should* indicate that they possess the "wisdom" to make right decisions and qualification to detect any corporate incidences of immoral behaviour.

Accounting firms in China, however, come up against a tradition of contradictory notions about these capabilities. One is that accounting firms are irrelevant or incapable in terms of being aware of clients' immoral conduct. It is generally

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thought that because clients hold much more information than the auditor, this hinders accounting firms from verifying the true conduct of their clients.

It follows that in China, accounting firms are often forgiven or punished gently in corporate scandals by using the excuse of incapability of awareness. Back in the early 2000s, both KPMG and Deloitte were examples of this – the former getting off with only an investigation and no sanction while its client Jinzhou Port Co., Ltd was fined; with Deloitte Touche Tohmatsu in a similar incident also receiving no substantial punishment.

Profs Zheng and Li disagree with these presumed perceptions and their research tends to prove their doubt in this "responsibility loophole". The nature of the intimate interaction and relationship, in addition to accounting firms' requirement of professionalism through their expertise, makes it hard to believe that their capabilities are not sufficient to enable awareness of cases of corporate immoral accounting information disclosure.

A second widespread belief is that that accounting firms with stronger capabilities and higher qualifications are better at reducing the accounting immoral behaviors of clients. As a result, some banks and governments have required clients to provide certifications issued by international accounting firms.

In 2001, for example, in order to reduce the occurrence of business scandals, the China Securities Regulatory Commission (CSRC) issued the infamous Rule Sixteen on the compulsory recruitment of international accounting firms in the special audit demand of listed companies. However, in 2007, the CSRC abolished the rule.

The reasons partially relate to the inefficacy of the rule and partly to the fact that no significant results of accounting firms positively influencing their clients' behaviours had been recorded. The U.S. Sarbanes-Oxley Act, as well as the CSRC, also introduced the notion of maximum audit tenure and the mandatory rotation of auditing firms in an attempt to reduce the risk of misconduct.

Here again, Zheng and Li's research has led them to question the effectiveness of limiting the time a client works with an accounting firm. For them, an accounting firm will do its job regardless, displaying the necessary expertise and approach as a question of professional values. Rather, given the customised and intimate working partnership that sets in between provider and client, it is long-term relationships that may indeed be helpful in the reduction of clients' immoral behaviors.

SUGAR TURNS THE BITTER INTO SWEET

For Zheng and Li, every company has the motivation to be a good one. It is not the relationship itself between a firm and its accounting provider that might deteriorate the corporate moral level. Long-term working relationships therefore have a positive effect on shaping good conduct.

Although expertise alone is not enough, accounting firms also have the muscle in terms of professionalism and behavioural guidelines – in the form of codes of conduct – to enable them to detect immoral behaviour. However, it is not the sole responsibility of the accounting firm to ensure their clients' moral and ethical conduct. Firms should also play the game.

And if ever, as in the Luckin Coffee case, the chase for fast, maximum profit brews a bitter recipe for cheating on its stakeholders, it would be wise for companies to step back and sweeten things with a little ethics for good and moral decisions to be taken. ///

KEYS TAKEAWAYS

- Accounting firms especially can be considered as "important others" for their clients, with access to sensitive internal business information and activities.
- An accounting firm must stick to the rules and ensure ethical and professional services while at the same time meeting the requirements, expectations and desires of their clients.
- Accounting firms can influence their clients in three ways: positive influence, no influence, and negative influence.
- A traditional view in China is that accounting firms are irrelevant or incapable in terms of being aware of clients' immoral conduct.
- A second widespread belief is that accounting firms with stronger capabilities and higher qualifications are better at reducing the accounting immoral behaviors of clients.
- Given the customised and intimate working partnership that sets in between provider and client, it is not so much the expertise but long-term relationships that may indeed be helpful in the reduction of clients' immoral behaviors.

DO POLITICAL LINKS INFLUENCE BIG FOUR ACCOUNTING PRACTICE?

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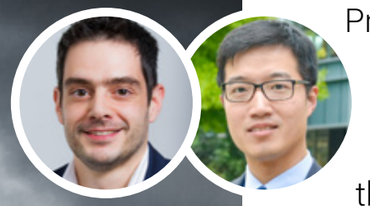
> In recent years, donations from the BIG 4 auditors' political action committees have risen significantly in number and amount.



Professors **Anastasios Elemes, ESSEC Business School,** and **Jeff Zeyun Chen, Neeley School of Business,** put the spotlight on auditing firms' donations and their clients' political connections to research the influence these might have on accounting practice.

Related research: Anastasios Elemes & Jeff Zeyun Chen (2020): Big 4 Office Political Connections and Client Restatements, European Accounting Review, DOI: 10.1080/09638180.2020.1856163

WHAT THE NUMBERS CAN'T – AND DON'T – SAY

Does the political connection of an audit firm or the client firm influence the professional relationship between them? To the layperson the answer might sound obvious. But does it really matter? The answer to this one is a categorical yes if we take into account the critical role of accounting firms in the world of business and finance and the possible implications that might arise as a result.

Profs. Anastasios Elemes & Jeff Zeyun Chen of ESSEC Business School and Neeley school of Business decided to do just that. They explore the political connections of the BIG 4 audit firms – EY, Deloitte, KPMG, and PwC – and by studying their data from 2003 and 2012 identify the impact of these connections on both the auditors' practice and their clients' behaviours.

THE NATURE...

An audit firm provides independent assurance of the credibility of financial reports and reviews the profit and loss statements to discover any potential theft or misdemeanor. The keyword here is the word independent – because that is ultimately the determining factor if the audit firm is creditworthy or not.

However, existing research on auditing firms suggests that they establish political connections at the national level to lobby regulators and legislators. Indeed, auditors use political connections to lobby for their own interests – for example, lobbying to influence accounting and auditing standard – as well as for the interests of their clients. Does that suggest that their independence is compromised?

Elemes and Chen's findings indicate that in recent years, donations from the BIG 4 auditors' political action committees (PACs) have risen significantly in number and amount. Not only. In addition to contributions made by these top-level committees, auditors' employees are also targeting campaign money directly to members of the congressional committees who oversee the audit industry that include the Senate Committee on Banking, Housing, and Urban Affairs and the House of Representatives Committee on Financial Services

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...OF THE GAME

Indeed, more than half of Big 4 companies' offices were, at some point or another, politically connected in the considered five-year period. And it was found that political connections at the office level overlapped with the national level – 57% of politicians targeted (supported with donations) in a given year at the office level were also targeted at the national level via corporate headquarters.

While accounting firms' political strategies vary across audit offices, these contributions and the overlap both peak in the years where there were intense regulatory activities that significantly affected the audit industry. For example, in the years 2005 and 2006 when the PCAOB (Public Company Accounting Oversight Board) imposed restrictions on auditors' tax services and was deciding whether these restrictions should be expanded to include other non-audit services. Contributions from connected offices also spiked when Chris Todd – then Chairman of the Senate Committee on Banking, Housing, and Urban Affairs Committee – ran for president in 2007.

THE EFFECTS OF POLITICAL CONNECTIONS ON AUDITING QUALITY

The fact that Big 4 audit firms have repeatedly and significantly contributed to the congressional members who oversee the audit industry is clear. But do these audit-client political connections have an influence on the quality of service and provided by the auditors and the independence required by an auditing firm to do its job correctly?
In order to explore these questions, Professors Elemes and Chen used earnings restatements – changing financial reports after a mistake has been discovered – to measure the audit quality offered by the audit firm. Traditional logic tends to point to a non-drop in quality, the argument being that because the creditworthiness of an audit firm is a key factor in forging long-term relationships and lobbying objectives, the quality of the auditing must be upheld.

A certain logic holds for the following too: Since politically connected auditors are more sensitive to litigation risk and reputation concerns, they will exert more effort to avoid errors for their politically connected clients. However, connected clients enjoy strong governmental support and are less likely to fail. Therefore, when connected clients decide to have less audit quality or contract for any reason, the politically connected auditors are willing to cater to the preference for flexibility. But when audit firms do allow managerial discretion in financial reporting, the incidence of errors may increase. So do these hold their own in the light of Elemes and Chen's research?

ELBOW GREASE OR SILVER COINS

The researchers find that auditors' involvement in the political process indeed has implications for their audit quality, with clients of politically connected auditors being less likely to restate earnings. It turns out, however, that the findings reveal this negative relation to be weaker for politically connected clients. Trawling through the data covering the restated years, Profs Elemes and Chen found that the audit firm is paid a much lower audit fee during the years that are subsequently restated when both auditors and clients are politically connected. The notion of flexibility too, became apparent – politically connected audit firms allowing a certain managerial discretion for connected clients, especially when the client desired a certain degree of leeway in reporting earnings.

The overall conclusion is that while auditors with political ties need to maintain high-quality audits to be reputed lobbying agents, this creditworthiness criterion is not applied for connected clients. It could also be said that connected auditors compromise their independence for their connected clients.

It seems that – to quote from the hit American drama series Billions – *Elbow grease alone won't solve what elbow grease and a few silver coins will*. Will it continue to be the case for the audit industry? Profs Elemes and Chen's research data ends in 2012 – due in part to the fact that due to the fact that there is a considerable time lag between the original financial statement release and a subsequent restatement. Though they doubt that auditors' lobbying incentives and political activities are systematically different thereafter. Future research will tell. ///

KEYS TAKEAWAYS

- An audit firm provides independent assurance of the credibility of financial reports and reviews the profit and loss statements to discover any potential theft or misdemeanor.
- In recent years, donations from the BIG 4 auditors' political action committees (PACs) have risen significantly in number and amount.
- Auditors' employees are also targeting campaign money directly to members of the congressional committees who oversee the audit industry.
- Auditors use political connections to lobby for their own interests – for example, lobbying to influence accounting and auditing standard – as well as for the interests of their clients.
- While accounting firms' political strategies vary across audit offices, these contributions and the overlap both peak in the years where there were intense regulatory activities that significantly affected the audit industry.
- Clients of politically connected auditors being less likely to restate earnings. But this negative relation is weaker for politically connected clients.
- The audit firm is paid a much lower audit fee during the years that are subsequently restated when both auditors and clients are politically connected.
- Politically connected audit firms allow a certain managerial discretion for connected clients, especially when the client desires a certain degree of leeway in reporting earnings.

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HR MANAGEMENT IN SMALL FIRMS: HOW EXTERNAL FINANCING SHAPES IT

> **Different types of external investors can have a profoundly different effect on firms' HRM practices.**

How do the human resource management practices of small, entrepreneurial firms develop following external financing? Professors **Sinéad Monaghan, Martha O'Hagan-Luff** and **Francesca Di Pietro, Trinity Business School,** share their research findings.

With kind acknowledgements to Trinity Business School and AMBA. Originally published under the title *Entrepreneurial finance and HR management practices in small firms.*

Given their limited resources, we know that small firms draw on funding from external sources to scale-up their growth, improve market positioning and access expertise and support. However, this external financing can also alter the internal dynamics of their organisation in areas such as functional operations, governance or management. One such area which is most susceptible to change is human resource management (HRM) practices. This can be positive, in terms of facilitating talent acquisition, competitiveness and performance, but there can also be significant pressures on small firms to change their growth trajectory and resource configuration.

DIFFERENT INVESTORS, DIFFERENT IMPACT

In our study 'Entrepreneurial Finance and HRM Practices in Small Firms' published in the British Journal of Management, we explore HRM practices in the context of Ireland's most important indigenous sector, Agrifood, in which small,

entrepreneurial firms face unique funding challenges. Agrifood firms are encouraged to scale their operations and have access to a number of specialised supports and resources. Nonetheless, many of these firms are also small, family-owned firms operating in niche markets and competing with large international firms. Over a four-month period, we spoke to 34 executives and investors across seven entrepreneurial firms in the Irish agrifood sector and collected additional information from media articles and company websites on the growth and financing of these firms.

Our study recognises that different types of external investors can have a profoundly different effect on firms' HRM practices, providing important insights for the sector as a whole. Small, entrepreneurial firms approach HRM in light of different time horizons and institutional logics of external investors. Within our study, we explored the influence of six different types of investors on small, entrepreneurial firms: Angel Investors, Private Equity (PE), Venture Capital (VC), Government Venture Capital (GVC) and Corporate Venture Capital (CVC). Investor's logic – that is material practices, assumptions and values of the firm, in terms of what is perceived as meaningful and appropriate for an organisation – and their investment time horizon prompt changes in the approach to HRM practices within the firm by generating one of three approaches to HRM practices; *operational, strategic*, and *transformational*.

OPERATIONAL APPROACH TO HRM

Firms in the early stages of growth who receive funding from angel investors or bank equity tended to adopt an operational approach to their HRM. The short-term investment horizon of angel investors and the early stage of investment is consistent with the relatively underdeveloped nature of the HR function and thus, the need for an operational approach, such as the formalisation of HRM practices to allow for effective staffing and basic training and compensation measures to support their rudimentary or informal HRM systems. However, investors at this stage of the firm tend to have a strong, supportive involvement with the management where they often leverage their own networks to enhance opportunities for expansion, attracting employment or marketing their firm.

STRATEGIC APPROACH TO HRM

Firms who receive funding from PE, GVC and CVC investors can access both financial support and expertise around growing the firm. This strategic orientation is also applied to the internal human resources, whereby PE firms facilitate greater growth and development of HRM practices. While existing research shows the potential risks of PE investment to HRM, we find that PE investors advance firm performance and growth through incentivisation schemes and share ownership options, in addition to more direct access to networks of industry experts and talented individuals. GVC investors tend to have a medium to long term horizon and believe that financial pressure over a shorter period of time can harm the firm's trajectory, especially in the agrifood business where growth can be slow. Their key role is to provide longer-term funding to small firms, which might not otherwise be available, to plug 'funding gaps', and also to support policy of increasing employment and encourage export growth in a key indigenous sector. This logic manifests as a strategic approach to HRM, where they encourage specialised leadership training, expertise in functional growth and networks to emerging firms.

Finally, CVC investors, either had a largely passive involvement with investee companies or enacted major directional change depending on the stake of their investment. Where CVC investor's investment held a minority stake in a firm, with a medium time horizon, we found that their influence on HRM – and indeed the firm – was strategic and sought to enhance firm value. For example, the small firm could benefit from financial capital, reputation and legitimacy from the corporate partner, while also leveraging their experience and more advanced HRM practices and procedures.

TRANSFORMATIONAL APPROACH TO HRM

For CVC investors who take a majority share in the firm with the intention of a full acquisition, there is evidence of transformational HRM. The CVC enacts major changes post-investment, where the local management is of less importance to a CVC investor than the firm itself. For example, the CEO/founder will often not be expected to remain with the company for a longer period of time after the investment has been made, the mindset and philosophy of employees is altered and the key focus is on initiating the integration of the firm into the overall corporate portfolio. As an established company, they will have operational processes in place and will seek synergies across areas such as finance, HR, marketing and distribution.

INSIGHTS FOR SMALL BUSINESSES

The findings from our research provides an insightful reference for small, entrepreneurial firms seeking external financing and shares important information on the different routes of development for HRM practices. While external finance represents an important threshold of growth for a small firm,

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the institutional logics and time horizon of investors can result in different approaches to the firms' HRM practices. Our research shows the potential for small, entrepreneurial firms to consider how investment will influence the internal dynamics of their firm and identify ways to maximise the value of their relationship with investors for growth opportunities. Understanding the impact on the internal organisational logic of the firm, via HRM practices, provides a more granular exploration of how external financing affects the growth trajectory of the firm. Our research also has important insights for policy, including greater understanding of the barriers to growth and challenges for small, entrepreneurial firms, including opportunities for a greater breadth of entrepreneurial finance, funding gaps that need to be resolved by government and the relevance of human capital to the financing decision. ///

KEYS TAKEAWAYS

- Small firms draw on funding from external sources to scale-up their growth, improve market positioning and access expertise and support.
- This external financing can also alter, in a positive or negative way, the internal dynamics of their organisation in areas such as functional operations, governance or management.
- **Operational approach to HRM:** investors tend to have a strong, supportive involvement with the management, often leveraging their own networks to enhance opportunities for expansion, attracting employment or marketing their firm.
- **Strategic approach to HRM:** investors encourage the long-term and are ready to encourage specialised leadership training, expertise in functional growth and networks to emerging firms.
- **Transformational approach to HRM:** investors see local management as less important, the mindset and philosophy of employees is altered and the key focus is on initiating the integration of the firm into the overall corporate portfolio.

OFFBOARDING: KNOWING HOW TO SAY GOODBYE – OR HOW TO LEAVE YOUR COMPANY WITHOUT GETTING ANGRY

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> **Let's take care of our way of saying goodbye – the future will thank us for it!**

We rarely stay faithful to the same employer all our lives. But how can we leave a company without souring the relationship? **Dorothée Decrop,** Growth Manager at the HR consultancy **Thank you & Welcome,** explains the virtues of off-boarding, a procedure that any company would benefit from to ease handovers and accompany departures.

With kind acknowledgements to Dorothée Decrop and Anne Clotteau of *Thank You and Welcome*; *François de Guillebon and Louis Armengaud Wurmser of Reflets magazine.*

In many companies the employee relationship stops the moment the departure of a co-worker is announced. Only to give rise to a halfway house atmosphere that swings between separation, fear of disorganising the teams and the satisfaction of accompanying a co-worker towards new challenges. In practice, if these fears are indeed legitimate, it is especially the lack of an off-boarding process or its demeaning nature that can leave deep scars in the organisation.

WHAT IS OFF-BOARDING?

The other side of the coin to the onboarding process, off-boarding designates the process that consists in organising and arranging the tasks of accompanying the departure of a co-worker.

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In the same way as we only have one shot at making a good impression, the last impression we give in terms of working relationship should not be underestimated – it counts! Indeed, knowing how to say thank you and goodbye is just as important in your personal as well as professional life.

WHY ARE THESE RITUALS SO ESSENTIAL TO THE SMOOTH RUNNING OF A COMPANY?

As in a family, rituals are important in companies. They rally us and help in building collective memory. Knowing how to say goodbye to a co-worker means:

- Helping those who leave to turn the page, without a feeling of unfinished business, by enabling them to share their experience and knowledge, and with the feeling of a job well done,
- Reassuring those who remain by enabling them to both benefit from the experience of those who leave and be convinced that they, in turn, will leave their mark,
- Strengthening company culture by ensuring that rituals will last in time,
- Developing the co-worker experience right up until the last day of the relationship,
- Ensuring a sense of the collective that is effective and efficient that will contribute to the overall value of the company.

Knowing how to say goodbye and thank you thus strengthens the commitment and sense of belonging of those who remain – and makes those who do leave ambassadors for company legacy and image.

TAKING CARE OF DEPARTURES PREPARES THE FUTURE

Organising off-boarding upon every departure of an employee from the company is a sign of good planning and an employer-employee relationship that is well thought out until the very last day of the contractual relationship.

The energy and costs involved in the various stages that are recruitment, onboarding and off-boarding are *de facto* unbalanced to such a point that some HR professionals acknowledge an allocation time and energy in the area of 70/30/0, and others 90/9/1.

It is clear that the last moments of the employer-employee relationship are still too overlooked. In the same way as onboarding has become key, proposing a structured and gratifying departure in effect enables both the employer brand to be strengthened and co-workers to gain in team spirit.

Working on one's off-boarding is therefore a sign of a company's maturity in its HR processes which may pay off as much for the co-worker who leaves the organisation as for those who remain. In effect, anyone who leaves their company can continue to provide contribution – either through recommending the brand or the company, or via the transitional context of a boomerang hire while managing risk and social charges.

Often experienced as a moment of high stress, off-boarding comes as a challenge to routines already under strain and, as such, is the HR process that highlights badly structured internal systems.

If the steps of returning equipment belonging to the company, closing IT access and handing over admin and legal documents are mostly well-identified and carried out, the steps of internal knowledge sharing, planning and the transfer of tasks to ensure the successful continuation of the assignment are more difficult to implement.

TEAM SPIRIT – THE BIG LOSER!

The solitude of departure collides with a world of work that has gone into "co" mode – cooperation, coopetition, co-development, collaboration. According to the Hay Group, only 8% of co-workers state that their companies plan to set up a dedicated exit scheme to accompany leavers.

The development of new technologies has led to mistaking communication for transmission, and leaves us with the illusion that we have unlimited access to information required to carry out our objectives. However, how many times have you realised that Michael, Clara or Steven had left without you knowing or being able to carry out the handing down of their professional knowledge and good practices?

Work can never totally be summarised in a job description. Who better than the person who had formerly carried out the job to inform, guide and help in the planning of new assignments and objectives? To that is added the company's legacy, its culture, employee relations, tacit knowledge and skills, to name but a few. All this fount of professional science, in the event of letting employees express themselves, is also a source of innovation.

WELCOME TO OFF-BOARDING 2.0

The crisis that France has experienced following the outbreak of the pandemic in March 2020 has led to the digitalisation of many HR processes. If, initially, the continuation of activity remained a primary motivation, today consensus seems to outline a new organisation based on a sustainable hybrid model.

Under pressure from the current environment, HRDs must adapt processes to maintain and lastingly renew corporate competitiveness. Digitizing the off-boarding process is already an option to avoid time and geographical constraints – to save time and energy for teams searching for information and propose a circular approach to internal skills and knowledge to benefit the greatest number. Let's take care of our way of saying goodbye – the future will thank us for it! ///

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& SUSTAINABILITY

IS BITCOIN COMPATIBLE WITH AN ESG ANALYSIS?

As investors' interest in the Bitcoin market grows, Professor **Annalise Vendramini, FGVces Center for Sustainability,** reflects on an ESG (environmental, social and governance) analysis of this new market.

By Annalise Vendramini.

THE BITCOIN: WHAT IS IT

In 2008, a programmer known by the pseudonym Satoshi Nakamoto, who was dissatisfied with the conventional financial system, published a White Paper entitled "Bitcoin: A Peer-to-Peer Electronic Cash System". At that time, with the subprime crisis unfolding, there was an increasing public criticism of the conventional financial system.

In that White Paper, Nakamoto proposed a digital currency and a peer-to-peer payment system with no a financial institution as an intermediary. That electronic payment system, based on cryptographic proof instead of trust, would allow willing parties to transact directly without the need for a trusted third party.[1] In order to ensure validity and no record duplication, Bitcoin uses an encryption system called Blockchain. This system, with a public key and a public registry of operations, all transactions in its network[2].

In 2009, Bitcoin was launched based on the ideas in Nakamoto's paper. A new currency and a new decentralized payment system was born. Despite the concept of Bitcoin being relatively easy to understand, the underlying technology is sophisticated and the result of decades of research,

> **Investors concerned about ESG should keep in mind that using Bitcoin represents support for the maintenance or expansion of a system that may facilitate controversial activities.**

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generally unknown to Bitcoin enthusiasts[3]. Note that the technology associated with the Bitcoin "ecosystem", such as mining and its public ledger, has advanced over the last decades and several resources and characteristics are still in development.

Since Bitcoin was launched in 2009, several other cryptocurrencies have appeared, such as Ethereum, Tether and Bitcoin Cash. Nevertheless, Bitcoin continues to be the cryptocurrency with the largest market share (about 50%[4]). Furthermore, this growing interest from investors in Bitcoin and other cryptocurrencies, leads us to consider this new market from an ESG viewpoint. This article consequently presents few reflections on the relationship between these two worlds, Bitcoin and ESG.

WHICH IS THE PURPOSE OF AN ESG ANALYSIS?

ESG considerations recognize that social, environmental and governance questions can impact the risk, volatility and long-term return of securities and markets. Thus, investments can have a positive or negative impact on society and on the environment.[5] To this day, the scope of ESG analysis has been companies, their projects and also sovereign bonds. However, ESG analysis for currencies (the dollar, the euro) or payment systems has been rare.

There can be several focuses for ESG analysis. For instance – reducing portfolio risk, avoiding controversial or morally questionable businesses and so on. There is no standard ESG analysis, as several ESG strategies are possible, depending on a variety of investment objectives and investor profiles.
One of the reasons for ESG analysis is the potential to influence managers of a business to reduce environmental and social impacts. This approach is known as the ESG engagement strategy. To what extent can an ESG investor contribute to improving these aspects of Bitcoin, for example? From this perspective, performing an ESG analysis of Bitcoin might have several practical effects.

Another ESG strategy is the negative filter, or in other words the exclusion of certain sectors from all possible investments due to their ESG impacts. From this point of view, some reflections on the ESG aspects of Bitcoin are also worthwhile.

As such, this article intends to highlight possible issues regarding environmental, social and governance aspects that might be of interest to investors, depending on their investment objectives and the ESG analysis.

ENVIRONMENTAL ASPECT: POWER CONSUMPTION AND RECYCLING OF MATERIALS

Environmental aspects reflect the relationship of the business with the natural world, such as the use of renewable and non-renewable resources.[6] From an environmental point of view, the large amount of energy required for Bitcoin mining is well documented. According to a report by the Cambridge Centre for Alternative Finance, the main operational cost of the mining process is electricity. Despite more than 70% of mining companies seeking to include renewable energy in their power mix, the total consumption of renewable energy still represents only 39% of total consumption. Undoubtedly, issues associated with greenhouse gas emissions might be relevant in an ESG analysis of Bitcoin. China, for example, has placed severe restrictions on mining operations and it is speculated that the reason for this, at least in part, is its plan to achieve carbon neutrality by 2060.

Another factor that must be taken into consideration is the use of materials and manufacturing of hardware for mining. This activity requires highly efficient equipment. Despite using ASIC (Application-Specific Integrated Circuit), to achieve more efficient hardware efficiency with a lower obsolescence rate, hardware still becomes obsolete every three to five years. However, given the need to be ever more efficient, mining firms tend to switch to new equipment before the end of the useful life of the older equipment. This, without a doubt, raises questions regarding the use of new materials and recycling of obsolete equipment.

THREE SOCIAL AND GOVERNANCE ASPECTS

In an ESG analysis, social aspects are those that affect human life, such as human resources management and relationships with communities and clients. Governance aspects involve issues inherent to the business model, in addition to the interests of interested parties.[7] In the case of Bitcoin, as it is a currency and payment system, social and governance aspects are intertwined.

ILLEGALITY:

The fundamental characteristic of Bitcoin is the decentralization of operations and their anonymity. Bitcoin allows fund transfers without identification, without intermediaries, worldwide. However, this same characteristic — which is very appealing to many investors because the currency is not controlled by a government and, therefore, provides a defense against inflationary effects — makes Bitcoin also susceptible to misuse (e.g. money laundering, corruption and terrorism).
The same happens with cash transactions, but international regulations on capital controls, currency movement and Know Your Customer (KYC) rules, make it difficult to use the conventional financial system for illegal activities, both for individuals and legal entities.
With regard to this aspect, Bitcoin users tend to prioritize privacy over safety while users of the conventional financial system prefer safety to privacy. Privacy and the founding principles of Bitcoin ensure protection against government control, but the same principles can open the door to fund transfers for illegal or harmful activities, and/or those with serious negative externalities, such as ecological crimes or activities that violate human rights, all very dear to the ESG agenda.

In the conventional Brazilian financial system, banking activities are governed by a set of laws and the regulations of the Brazilian Central Bank (BCB), which are designed to manage social and environmental risks. Deposits in a financial institution monitored by the BCB are used to provide loans and financing to legal entities based on applicable social and environmental risk laws and regulations. Operations carried out in the Bitcoin environment do not undergo the same scrutiny. As the saying says, "put your money where your mouth is". Investors concerned about ESG should keep in mind that using Bitcoin — even for transactions that do not have serious externalities — represents support ("putting your money") for the maintenance or expansion of a system that can facilitate controversial activities. On the other hand, there are positive social and environmental externalities related to blockchain technology, such as an increase in trust and transparency in activities, health records, food security, and votes, etc., but this is independent of its use for cryptocurrencies.

SECURITY:

Another important point is the security of the Bitcoin investor. In recent years, several cryptocurrency trading platforms and portfolio providers have been hacked, leading to billions of dollars in losses for investors.[8] A recent case in Turkey, in which a platform went off line and disappearing with over $2 billion in digital assets, has increased concerns about the cryptocurrency environment. In South Africa, a Bitcoin investment platform scam led to losses of about $4 billion. On the other hand, advances in the regulation and monitoring of platforms and custodians have significantly improved investor security. The creation of the Nasdaq Crypto (NCI) index and HASH11, the first cryptocurrency ETF in the Brazilian financial market, with the NCI as a benchmark, are important examples of advances in this direction.

SUITABILITY:

Suitability refers to the appropriateness of investment products, services and operations for the investor's profile. Cryptocurrencies are highly volatile and appropriate for a more risk-tolerant investor. It is important that investors be aware of the risk profile associated with Bitcoin and ensure that it is aligned with their investment strategy.
Nevertheless, the hype surrounding Bitcoin and the lack of regulation has led investors with a wide variety of profiles to engage in purely speculative activities. There is no shortage of criticism regarding Bitcoin's economic basis; quite a few people believe that Bitcoin is a Ponzi Scheme. Charlie Munger called Bitcoin a "noxious poison." In a blunt critique, Nassim Taleb stated that Bitcoin has failed to live up to its claim of being a "currency without a government," it is neither a short-term nor a long-term value reserve and it cannot function as reliable insurance against inflation". Regardless of whether it is a good or poor investment, it is important to keep in mind that suitability is a key feature in the investment world and that there are imprudent investors in all asset classes. This point is not exclusive to Bitcoin.

An ESG analytical framework can indeed be applied to Bitcoin, both as a currency and as a payment system. The conclusions of this analysis cast light on the environmental, social and governance impacts of this promising – while intriguing and ambiguous – new tool. ///

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KEYS TAKEAWAYS

- The growing interest from investors in Bitcoin and other cryptocurrencies leads us to consider this new market from an ESG viewpoint.
- ESG considerations recognize that social, environmental and governance questions can impact the risk, volatility and long-term return of securities and markets.
- One of the reasons for ESG analysis is the potential to influence managers of a business to reduce environmental and social impacts. This approach is known as the ESG engagement strategy.
- Another ESG strategy is the negative filter, or in other words the exclusion of certain sectors from all possible investments due to their ESG impacts.
- Privacy and the founding principles of Bitcoin ensure protection against government control, but the same principles can open the door to fund transfers for illegal or harmful activities such as ecological crimes or activities that violate human rights, all very dear to the ESG agenda.
- It is important that investors be aware of the risk profile associated with Bitcoin and ensure that it is aligned with their investment strategy.

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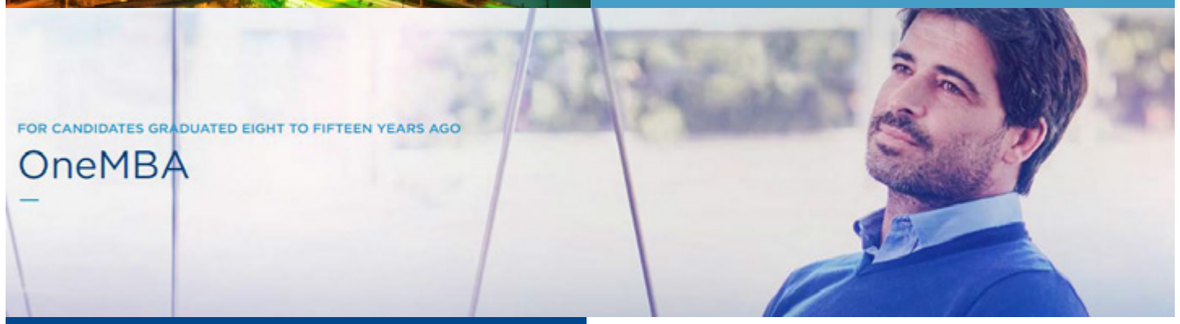

Candidates:

- Are encouraged to participate in a profile interview which aims to align expectations regarding the program. Profile analysis is scheduled after application is confirmed.

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FIVE READS YOU NEED TO IMPLEMENT THE UN SDGS

Frederik Dahlmann, Professor of Strategy and Sustainability at **Warwick Business School,** provides a useful starting point for anyone seeking to familiarise themselves with the challenges, opportunities and approaches for implementing the SDGs in their organisation.

By Frederik Dahlmann, with kind acknowledgements to Warwick CORE Insights

> **Companies have begun using SDGs as an internationally-recognised framework.**

Never before has there been so much understanding and appreciation of the complex interconnections between business, society and the natural environment.

The continuing pandemic is certainly highlighting how difficult it is for many businesses to operate when society is under pressure from wider sustainability challenges.

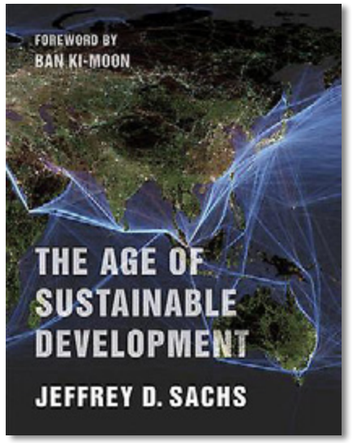
Yet despite this growing awareness, concern and demand for action, many businesses and managers still struggle with fully grasping the urgency and importance of developing adequate strategic responses. And while the Paris Agreement finally provided some policy clarity on climate change, one year earlier, member states of the United Nations (UN) agreed to work collectively towards addressing 17 Sustainable Development Goals (SDGs) by 2030.

Since 2015, references to the UN's SDGs have been rising significantly and many companies have begun using them as an internationally-recognised framework that covers a well-defined set of sustainability issues.

The SDGs are not without their critics, not least due their voluntary nature, but many in business and policy are finding they provide a valuable starting point for discussion and action.

Perhaps surprisingly, guidance on how exactly businesses should go about approaching and integrating the SDGs remains rare or is primarily provided by consultancies and non-profits.

The following reads, therefore, hopefully offer a useful starting point for anyone seeking to familiarise themselves with the challenges, opportunities and approaches for implementing the SDGs in their organisation.



1. AGES OF SUSTAINABLE DEVELOPMENT

By Jeffrey Sachs (2015). Published by Columbia University Press.

Understanding why and how sustainable development matters is critical. Professor Sachs is an eminent scholar and policy advisor to the UN, and his work offers a comprehensive overview of the different issues and their importance for policy and business in the 21st century.

Knowledge of the interconnections between policy, science, economics, society, and technology are important for anyone seeking to make sense of an otherwise complex and ambiguous debate about the world we (want to) live in.

2. SDG AMBITION – SCALING BUSINESS IMPACT FOR THE DECADE OF ACTION

By UN Global Compact (2020). Published by UN Global Compact.

One of the fundamental trends currently occurring is that the need for addressing sustainability challenges is moving away from being a peripheral, functional Corporate Social Responsibility (CSR) issue and instead is now demanding high level attention from boards of directors and executives.

The UN Global Compact, working with many of the world's largest businesses, is providing a clear set of arguments and overview to illustrate that both effective and efficient responses to sustainability can only be achieved through strategic integration.

Given the world's pressing challenges, half-hearted efforts are likely to underperform, for the planet, society, and business.

3. THE SDG COMPASS

By UN Global Compact (2015). Published by UN Global Compact.

Understanding how to approach the integration of the SDGs is fraught with complexity.

Who should lead and be responsible? What data and information are needed?

What is the company actually trying to achieve? Should it seek to address all 17 SDGs?

The SDG Compass guide offers a simple and generic, but flexible, set of steps designed to help organisations think about their current approach towards sustainability.

It identifies the issues of key importance or materiality, and plans the necessary elements for effective and impactful implementation.

4. WINNING SUSTAINABLE STRATEGIES

By Jan van der Kaaij and Benoit Leleux (2019). Published by Palgrave Macmillan.

Mirroring the theme of approaching the SDGs strategically, Winning Sustainable Strategies develops a comprehensive overview of the variety of business imperatives demanding high-level attention.

At a time when the financial sector is rapidly beginning to demand significant new levels of Environmental, Social and Corporate Governance (ESG) data and information from companies, this book provides practical guidance that is based on relevant and informative case studies and examples.

5. GREEN SWANS

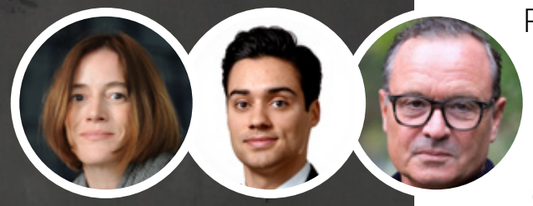
By John Elkington (2020). Published by Fast Company Press.

Beyond the clear risks and concerns facing society and our planet, John Elkington, inventor of the triple bottom line - the framework that called for business to add environmental and social alongside financial targets - asks to what extent managers pay enough attention to the multitude of trends that are likely to disrupt their industries and business models.

With his take on Nassim Taleb's economically disastrous 'black swans', Elkington sets out the importance of approaching sustainability as a fundamental innovation challenge that will create both winners and losers.

While being able to predict the future remains an elusive goal, Elkington warns that managers must understand how the SDGs offer commercial and often exponential opportunities that will change the nature of business in the years to come. ///

THE TASK OF OUR GENERATION: HOW BUSINESS LEADERS CAN LEAD A GLOBAL APPROACH TO COMBAT CLIMATE CHANGE



Prof. **Anja Kern, Baden-Württemberg Cooperative State University Mosbach,** together with consultant with expertise in ESG **Philipp Jung,** and **Peter Jung,** entrepreneur and business consultant, look into how firms and business leaders can lead a pragmatic and global approach to combat climate change.

> **Leveraging our economic power requires renouncement to consumption.**

A CHANGE IN CONSUMER BEHAVIOUR CAN SAVE THE CLIMATE

The latest UN climate report was called a "code red for humanity" (UN, 2021). Indeed, the recent flooding of regions in Belgium and Germany dramatically underline that we are in a race against time. The Paris agreement has been a milestone. But our efforts towards a carbon-free world are not sufficient. State-led investment programmes and incentives to channel funds into green investment can accelerate the transformation towards a carbon-free world but on their own are not effective, at least not fast enough. In the same vein, Green Finance on its own cannot stop climate change. There is even a risk that such regulation results in a green-washing machine entailing heavy bureaucracy without reducing GHG-emissions at a global scale.

To reduce GHG emissions substantially, we must come up with a bolder solution. Global consumer behaviour needs to change. It is time that not only governments, but firms contribute to a global solution by developing a firm-led pragmatic approach focusing on changing consumer behaviour.

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In the following article we elaborate six non-exclusive criteria to judge the effectiveness of any approach to reduce GHG-emissions and the role of firms and business-leaders in this.

1. Only a global approach can solve the climate change problem

Looking at the global share of GHG-emissions, China causes about 27%, followed by the USA with 11%, India accounting for 6.6% and the EU for 6.4% (RHG, 2019). Reducing GHG-emissions at regional, national, or supranational levels is not going to save the planet. Indeed, as some jurisdictions regulate in favour of green industries, brown industries may relocate to other parts of the world. As the EU-government plans to pull out of coal, the G-20 countries increase their overall coal-fired generating capacities by a quarter of the current global capacity (BloombergNEF, 2021). In Africa there are more than 950 coal power plants under construction or planned for construction (Handelsblatt, 2019).
If the recent Shell judgement was celebrated as victory for climate change advocates, it is not certain that it is a victory in the battle against climate change. In a global context, firms based in jurisdictions without climate regulation can continue to invest and exploit brown industries. As such, only a global solution can solve the climate change problem.

2. A firm-driven approach increases the prospects of global adoption

Governments face global challenges but can only act effectively within their jurisdiction. In contrast, international corporations are actors on the global scene. Globalization has led firms to develop regulations such as IFRS facilitating global transactions and enhancing transparency. It logically follows that corporate managers should have a longstanding experience in initiating global regulation and developing and implementing it across countries and organizations, far more than governments have.

In recent years, business leadership has evolved towards an understanding of firms as corporate citizens having responsibility towards future generations. Both the planet and society need those leaders to bundle their power, experience, and competence to develop a global solution to climate change.

A firm-driven approach has the advantage of considering the realities of global value chains, not being linked to national interests and being less subject to ideological debates. As such, an approach that unites a critical mass of firms, such as leading consumer brands, industrial firms, retailers, and software suppliers has a greater chance of getting adopted on a global level than solely government led initiatives.

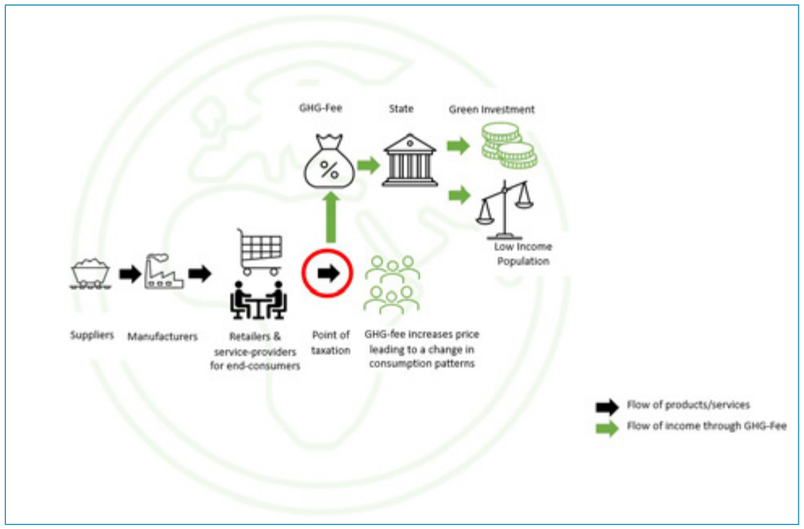
3. Climate focus can enhance swift global acceptance and implementation

The tipping point of no return in the climate system is close. However, global emissions are still rising. Being far from a consensus on how to decrease global GHG-emissions, it is crucial at this stage to focus all efforts on this pressing problem.
Whilst other environmental and social issues such as, for example, the protection of biodiversity and human rights are also important, mixing those issues with the central problem of climate change will make it even more difficult to establish an alliance between different cultures around the globe. Separate solutions should be found for these other environmental and social issues. Consequently, firms, together with societies and governments, should work for a pragmatic solution focusing on reducing GHG-emissions.

4. The approach should be effective in changing the behaviour of end-consumers

For leading experts such as the economist Partha Dasgupta (2021), the pricing of environmental costs such as climate change is the only way to transform our economies. According to Dasgupta, the key problem is that we failed to set a price on the capital of nature. The true value of various goods and services is not reflected in market prices, because we can access these resources at little or no monetary charge. These price distortions have led human beings to invest relatively more in produced capital and underinvest in natural assets. Dasgupta calls for the global financial system to take into account the price of natural capital, which is the condition for humanity and nature being able to live in a balance.

One solution to pricing natural capital is a carbon tax or GHG-fee. The design of a carbon tax involves decisions about the tax rate, the point of taxation in the supply chain and the border adjustment to address international trade. We propose that products and services are charged with a GHG-fee for the end-consumer only (Kern, Jung, Jung, 2021). Such a fee can be implemented by global firms having an immediate impact on end-consumers. A standard fee could be fixed per product-group. Retailers could collect the fee and pass it on to the state. And consequently, states can use the funds for the transformation of the economy, e.g., to invest in research and development of carbon-free technologies. Further states can use the funds for compensation of low-income populations.



However, firms would need time to adjust to the GHG-fee. They should also be given the option of adding less than the standard fee, if they can prove that their products emit fewer climate-damaging emissions along the value chain than the standard. No carbon border adjustment is needed in case of a global approach. To alleviate a sudden sharp price increase we propose a step-by step approach based, for example, on a product/GHG-materiality map. The products and services, with the highest GHG-emission rates, could be targeted first by a price-increase. Such a consumer-focused approach could lead to transforming global consumption patterns towards a green economy.
Whilst this model has considerably more points of taxation than when taxing, for example, only the energy providers, it has the advantage that there is a direct impact on consumers, thus changing consumption patterns. If the point of taxation is early in the value chain, e.g., at the energy provider, national or regional governments could compensate the price increase via subsidies or tax relief for certain sectors, which could prevent a change of consumption patterns. Also, this solution engages firms around the globe to work out a pragmatic approach and commit to it before proposing it to governments.

Whether this or another approach, the point is that corporate leaders having knowledge of global markets and consumer behaviour could contribute to develop a solution that targets a shift of consumption patterns. A market and price driven approach could be more effective than current approaches based on regulatory partitioning with bans for various services and products, risking entailing heavy bureaucracy.

5. The approach should be leveraging current purchasing power to transform the global economy

We believe that the most industrialized economies with highest purchasing power can finance the transformation of the global economy by changing consumption patterns and lowering consumption levels. A reduction of consumption for a transition period is a way to considerably reduce GHG-emissions. Such a renouncement of consumption is the task of our generation. Later generations will be able to again enjoy similar levels of consumption within a circular economy and relying on carbon-free technologies.

As the global economic order shifts, time is running out. If economies with higher purchasing power want to transform the global economy, they need to do so while they are still in

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the position of relative power – because after the shift it will be difficult to ask the now emerging countries to renounce consumption when it is their turn to enjoy prosperity. It is even more difficult as the wealth of today's industrialized economies is partly built on the exploitation of resources in other parts of the world without paying the true price including external costs.

In this context, it is important to conceive the allocation of funds to low-income populations. The latter are particularly vulnerable to suffering from economic hardship, when prices rise to such high levels that well-being related to housing, nutrition, and health is affected.

Yet, governments have so far not addressed the urgency to reduce consumption and change consumption patterns. The risk is that current efforts focus more on looking green rather than becoming green. Indeed, people are made to believe that it is possible to become carbon-neutral without having to renounce something. For example, carbon offset markets may create the idea that becoming net-neutral is like a papal indulgence: GHG-emissions can be compensated by buying shares of green projects bearing the risk of focusing on becoming green on paper without significantly reducing GHG-emissions.

Governments facing election cycles may also be afraid to tell the inevitable facts. As such, business-leaders accountable to shareholders and other stakeholders are more inclined to address the facts and take decisions accordingly for the survival of their firm and the planet, especially when having a long-term perspective.

6. A shared vision and a coherent strategy to save the planet

There are multiple projects underway to combat climate change resembling a patchwork of initiatives and actions without coordination. In the field of Green Finance, we find competing sustainability accounting standards, i.e., the EU develops a taxonomy and a non-financial reporting regulation, while the IFRS Foundation is planning a climate amendment, and we find other initiatives such as projects to create carbon offset markets, central banks developing approaches to handle climate risk and the EU carbon border tax. However, coordination between institutions and jurisdictions seems limited.

As a result, this situation could lead to regulatory chaos with GHG-emissions further rising. Before designing, passing, and implementing regulations across various jurisdictions therefore, we first need to think about where we want to go and how to get there. We need to develop a shared vision and coherent strategy. Regulation can then be derived from such a strategy. For us, corporate business-leaders could have core competences for developing such a shared vision and a strategy and implementing it globally.

A strategic approach could draw on the idea of the 2018 Nobel prize winner William Nordhaus (2019) to create an institution responsible for developing a vision and strategy to deal with environmental costs of climate change. Indeed, a global institution could bring together a critical mass of multinational firms, civil society organizations, governments, and scientists. Moreover, it could develop a vision and strategy for the transition towards a green carbon-free economy, including establishing a framework for a global carbon tax and guidelines for the allocation of funds to low-income populations risking being exposed to economic hardship.

THE TASK OF OUR GENERATION

We are calling for a strategic approach to save the planet. We contend that firms, civil society organisations, governments and scientists could create a global institute to develop a climate strategy. The strategy should focus on changing consumer-behaviour. Regulation should be derived from such a strategy.

Time is running out – as we approach the tipping point of no return and as the global economic balance of power shifts. Leveraging our economic power requires renouncement to consumption. This renouncement is the task of our generation. ///

KEYS TAKEAWAYS

- State-led investment programmes and incentives to channel funds into green investment can accelerate the transformation towards a carbon-free world but on their own are not effective or fast enough.
- To reduce GHG emissions substantially, global consumer behaviour needs to change. Governments and firms must contribute to a global solution by developing a firm-led pragmatic approach focusing on changing consumer behaviour.
- Globalization has led firms to develop regulations such as IFRS which facilitates global transactions and transparency and managers therefore have wide experience in initiating global regulation.
- Business leadership has also evolved towards an understanding of firms as corporate citizens having responsibility towards future generations.
- A firm-driven approach has the advantage of considering the realities of global value chains, not being linked to national interests and being less subject to ideological debates.
- For leading experts such as the economist Partha Dasgupta (2021), the pricing of environmental costs such as climate change is the only way to transform our economies. One solution to pricing natural capital is a carbon tax or GHG-fee.
- The most industrialized economies with highest purchasing power can finance the transformation of the global economy by changing consumption patterns and lowering consumption levels. A reduction of consumption for a transition period is a way to considerably reduce GHG-emissions.
- Corporate business-leaders could have core competences for developing a shared vision and a strategy to implement it globally.

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THE EU GREEN TAXONOMY: A GAME-CHANGER FOR BUSINESS AND INVESTORS

The EU Green Taxonomy helps investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy. This new tool helps them identify assets and carry out ESG tagging through a standardized, consistent approach. **Ksapa** CEO **Farid Baddache** explores, with a guide to approaching the EU Green Taxonomy and tips to set it in motion.

> **Companies working with European investors will have to assess which of their economic activities are considered environmentally sustainable.**

PRINCIPLES OF THE EU GREEN TAXONOMY

The EU Green Taxonomy is one of the most significant developments in sustainable finance. It will doubtlessly have wide-ranging implications for investors and issuers working in the EU and beyond.

Performance thresholds

This new Taxonomy sets performance thresholds referred to as 'technical screening criteria', for economic activities to:

1. First, Make a substantive contribution to at least 1 of 6 environmental goals. These range from climate change mitigation to climate change adaptation, sustainable protection of water and marine resources, the circular transition, pollution prevention and control and the protection and restoration of biodiversity and ecosystems;
2. Second, do no significant harm (DNSH) to any of the other 5 goals wherever relevant;
3. Finally, meet minimum safeguards (e.g. OECD Guidelines on Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, etc.).

These performance thresholds guide companies, project promoters and issuers to tap green financing and improve their environmental performance. It additionally supports them in identifying environmentally-friendly activities. In doing so, it will help to grow low-carbon sectors and decarbonize their carbon-intensive counterparts.

The Green Taxonomy is therefore supportive of the EU's 2030 climate and energy targets. It likewise shores up the EU Green Deal, which offers a roadmap to guide the European Union towards climate neutrality by 2050. Finally, it offers a new classification system designed to shift investments toward a low-carbon and climate-resilient economy – as opposed to greenwashing.

The underpinning taxonomy regulation

The Taxonomy Regulation (TR) was agreed upon at the political level in December 2019. It creates a legal basis for the Green Taxonomy by setting out its overarching framework and environmental goals. It also issued new legal obligations for financial market participants, large companies, the EU and Member States.

Delegated acts will supplement the TR to explicit detailed technical screening criteria. That way, private players can pinpoint which of their economic activities may be deemed sustainable. As such, it determines whether activities are aligned with the EU Green Taxonomy.

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ADAPTING TO THE EU GREEN TAXONOMY

By defining screening criteria, the Green Taxonomy developed a list of environmentally sustainable activities. That said, it is neither a rating of "good" or "bad" companies. Nor is it a mandatory list of economic activities to invest in or to divest from. It does, however, aim to provide clear definitions of what constitutes "green" for companies, investors and policy-makers.

The Taxonomy Regulation sets out 3 groups of Green Taxonomy users:

1. Financial market participants offering financial products in the EU – including occupational pension providers;
2. Large companies already required to publish non-financial disclosures under the Non-Financial Reporting Directive (NFRD);
3. The EU and Member States upon setting public measures, standards or labels for green financial products or green (corporate) bonds.

New disclosure requirements in the EU taxonomy

The final Taxonomy Regulation introduces a new disclosure requirement for companies already required to provide a non-financial statement under the NFRD.

While national implementation varies, the NFRD covers, at minimum, large public-interest companies with more than 500 employees. This includes listed companies, banks and insurance companies. Any company subject to this requirement will have to describe how and to what extent their activities are Taxonomy-aligned.

For instance, non-financial corporate disclosures must now include:

1. The proportion of their turnover aligned with the Taxonomy;
2. Their Capex and, if relevant, Opex aligned with the Taxonomy

Such disclosures are to be embedded in non-financial statements, included in annual reports or standalone sustainability reports. As a result, these disclosures must be consistent with the climate corporate reporting guidelines released by the EU Commission in 2019 (as an update of the 2017 environmental and social disclosure guidelines).

Complying with minimum safeguards

Companies and other issuers disclosing against the EU Green Taxonomy will be required to assess their compliance with minimum quantitative and process-based, qualitative criteria. The latter include standards embedded in the OECD Guidelines on Multinational Enterprises (MNEs) and the UN Guiding Principles on Business and Human Rights, with specific reference to the ILO Core Labor Conventions.
Private players will also be expected to assess or check their compliance with the technical screening criteria for avoiding significant harm to environmental objectives. Core regulatory and standards of reference include EU regulations as well as the ISO 31000:2018 Risk Management and ISO 14015:2010 Environmental management guidelines.

Doing business with the EU market

Companies based in, doing business with or working with investors in the EU are bound to heed the Green Taxonomy and anticipate major impacts on investments.

The TR is likely to increase investment in activities deemed environmentally sustainable across a range of sectors. This includes (but is not limited to) food and agriculture, construction and real-estate, technologies, capital intensive industries, transport, energy and utilities, consumer good products or financial services. This covers virtually every business line with major impacts on the climate. In other words, the Green Taxonomy is a big deal for any company based in Europe, doing business or investing on the European market.
The EU Taxonomy is the world's first ever green list certification system.

Late in 2020, the EU and China launched a working group hosted by the International Platform on Sustainable Finance to develop a "common ground taxonomy". Other markets, including ASEAN, Canada, China, Japan are undergoing different stages of consultation and evaluation to establish their own. Hard to believe Wall Street will keep for long a wait and see position. While the City of London is still grappling with Brexit, such a key financial powerhouse will doubtlessly explore options to align – or at least leverage some of the many nuances offered by the EU Taxonomy.

NEXT STEPS FOR IMPLEMENTING THE EU GREEN TAXONOMY

To some extent, the Green Taxonomy will be no real departure from what leading companies and investors have been doing for years. Still, ongoing standardizing efforts force companies and investors to clarify their strategy and position.

Companies and investors pressured to clarify climate targets and just transition strategies

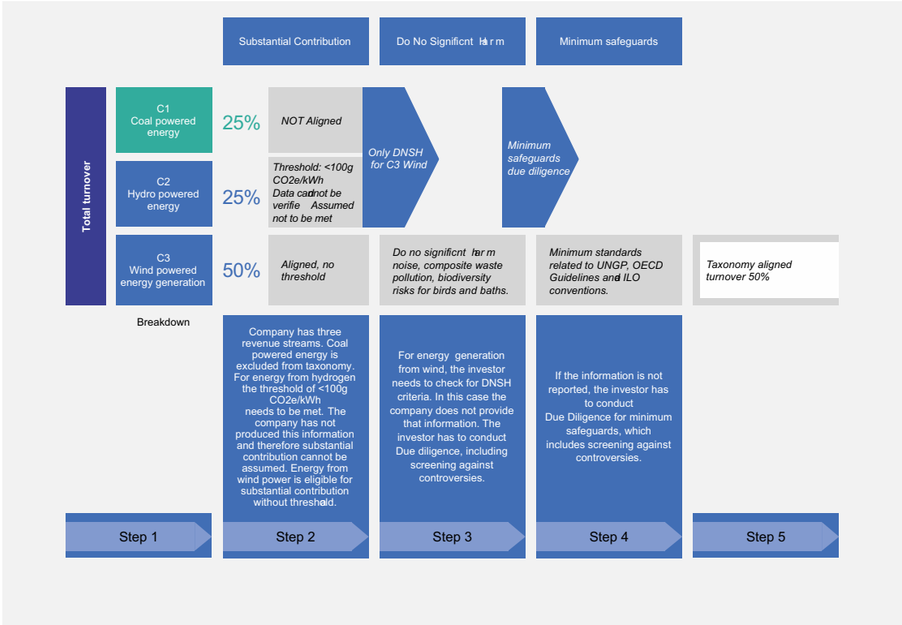
With the new Green Taxonomy, companies working with European investors will have to assess which of their economic activities are considered environmentally sustainable, based on the established criteria. This can help them clarify a number of board discussions on climate – and structure they fiduciary responsibility accordingly.

Companies can then consider the appropriate interventions to reduce the potential regulatory and financial risks linked to activities outside the scope of the Green Taxonomy. From there, they may also explore opportunities associated with adjusting activities to gain Taxonomy alignment.

A 5-step process to align with the Green Taxonomy

The Technical Expert Group on Sustainable Finance recommended a 5-step process.
By combining its in-house expertise, methodologies and tools, Ksapa can help organizations comply with all 5 phases. Here is an example of how this applies to investments in companies:

1. First, identify activities – conducted by the company or issuer, as well as those covered by financial products (e.g., projects, use of proceeds) – potentially aligned with the Green Taxonomy. Consider; too, which of its 6 environmental objective(s) they address.
2. For each activity, verify whether the company or issuer meets the relevant screening criteria – e.g. electricity generation below 100 gCO2e/kWh.
3. Ensure all DNSH criteria are met by the issuer. Investors using the Green Taxonomy will most likely use a due diligence-type process to review the performance of underlying investees. They may rely on the legal eligibility disclosures of these investees to that end.
4. Conduct due diligence to avoid any violation of the social minimum safeguards stipulated in the Taxonomy Regulation.
5. Calculate your investments' alignment with the Green Taxonomy and prepare disclosures at investment product level.



Understanding the 5-step process for applying the EU Green Taxonomy

TIME TO CHANGE THE GAME

Globally, there has been increasing demand for corporate ESG disclosure. On top of climate-specific disclosures, the Task Force on Climate-related Financial Disclosures gained momentum in recent years. Indeed, investors are increasingly seeking better data – both more consistent and comparable.

The EU Green Taxonomy offers granular definitions of what "green" activities are. The corresponding screening criteria are useful tools to lend financial institutions and investors greater clarity and certainty on the environmental sustainability of different types of investments.

Ksapa works closely with a global community of investors and large companies to build more resilient and inclusive business models. We therefore welcome the EU Taxonomy, as it drives clarity and compliance. This eventually enables leaders to push further – and slow starters to face their responsibilities.

In short, the EU Green Taxonomy is a game-changer for both companies and investors alike. And one that should be embraced for the benefits it brings to business, planet and society. ///

BUSINESS & SOCIETY

THE OPPORTUNITY WITH COMMUNITIES

Climate change, social inequality, privacy, responsible production and consumption are popular themes in the goals and objectives of governments and corporations. In this article, **Precious Anyanwu, Schulich School of Business** exchange student to **ESSEC Business School,** explores an idea on how choosing the appropriate community is an integral factor in building the foundation for upholding sustainability.

> **Climate change and social inequality are no longer a nice-to-have but a must-have.**

Within the past year, in the wake of the COVID-19 pandemic that forced one-third of the global population into lockdown, each of us has grown accustomed to the rigour and ease of interconnectivity. Some common experiences beg the questions—are you calculating time differences? Making breakfast during your 9 am meeting? Is your mic on? Do you have an extra mask?

Before the pandemic, physical interaction and togetherness were the order of the day. But with practices like social distancing, self-isolation and social bubble, there was an explosion in the adoption of digitization initiatives in companies. Prior to this, we could say the effects and range of interconnectivity were relatively understated. COVID 19 revealed how often everyday exchanges occur—be it human movement, trade of goods and services or good ol' conversations. In this regard, globalization in its entirety was set on the stage. The beauty of globalization lies in this interconnectivity that is characte-

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rised by communities, and the importance of recognizing and understanding one's community, was one of the realizations of the pandemic. As we learn that our choices and actions could affect people other than us, directly and indirectly, community becomes a central focus to the way things work.

As the world resettles into a new normal, there is a burgeoning era of economic reactivation and companies have a choice on the extent to which their communities permeate their organizational strategy and culture. In a period where climate change and social inequality are no longer a nice-to-have but a must-have, it is necessary that each company plays a role in reducing the impacts of these externalities. As companies act on offsetting their negative impacts, recognizing the appropriate communities affected by one's business objectives becomes paramount—an argument I believe is the key to avoiding green or social washing. However, the question is then "how do you identify the appropriate community?"

DEFINING "COMMUNITY"

Whilst community is society, the boundaries are imprecise, so it is vital to identify this as a starting point. Due to the broad nature of the community, stakeholder theories have emerged that attempt to breakdown the different parts of society and assist managers to pursue business goals more directly. Friedman (1970) argues that shareholders are the main stakeholders whose interests are the only factors important in achieving business goals. Freeman (1984), on the other hand, describes stakeholders as groups and individuals who can affect or be affected by the achievement of an organization's mission. While Freeman's definition does not exclude shareholder value, it attempts to broaden the view of business managers and provide a less limiting outlook on ways a business could succeed. Studies have shown that endorsing stakeholder theories is not mutually exclusive to achieving business goals. For example, Margolis & Walsh (2001) examined the relationship between corporate financial performance (CFP) and corporate social performance (CSP) and found more positive relationships in their studies (as cited in Smith, 2003). However, it is important to understand what is considered as CSP to ensure that companies' intentions are viewed as relevant from the perspective of CSR critics and researchers, ESG Fund managers and the sustainable finance industry.

SAVING HUMANS, THE PLANET, AND THE BUSINESS—THE UNILEVER CASE

In the present-day context and assuming the common business goal is economic recovery through change, the power of community lies in its position of having social and environmental needs that a company could solve. Some researchers label this concept as "social innovation," where a company identifies a social need as a business opportunity. One of such examples is the growing investments in electric cars where the specific need is reducing carbon emissions. Generally, the technology industry has various social innovation applications that popularly address convenient social needs. They identify solutions to problems and by understanding the nature of social needs, it might be easier than incorporating a social need into your business. In other words, identifying a social need as a business opportunity does not require the same intricacies as integrating solving a social need, into the core purpose of a business.

HINDUSTAN UNILEVER'S PROJECT SHAKTI IS A REFERENCE TO THE FORMER:

"Instead of using its customary wholesaler-to-retailer distribution model to reach remote villages, the company recruits village women, provides them with access to microfinance loans, and trains them in selling soaps, detergents, and other products door-to-door.
More than 65,000 women entrepreneurs now participate, nearly doubling their household incomes, on average, while increasing rural access to hygiene products and thus contributing to public health. These social gains have been met by business gains for the company: As of 2012, Project Shakti had achieved more than $100 million in sales. Its success has led Unilever to roll out similar programs in other parts of the world." (Rangan et al., 2015)

LEVERAGING THE POWER OF COMMUNITY

The first step in leveraging the power of community to achieve business goals is to understand which stakeholders are relevant to the specific business goals. Stakeholder salience theory supports this as the fundamental starting point, arguing that to achieve certain goals, or because of perceptual factors, managers pay certain kinds of attention to certain kinds of stakeholders (Mitchell et al.,1997). This is important in today's world of competing priorities where customer-centric companies could value carbon emissions over customer privacy, or retail corporations valuing philanthropy over its sourcing methods. The rationale for making these decisions may not relate to materiality where one impacts more people than the other; but that the other directly targets its user or customer base. Some industries such as technology and consumer goods measure and focus only on their carbon emissions mainly from their operations which are referred to as Scope 1 and 2 emissions. In contrast, they may completely ignore the environmental impacts associated with their use of products which is referred to as Scope 3 emissions and in some cases, these may represent the largest proportion of a company's carbon footprint (Environmental Protection Agency, n.d.). For companies operating in the consumer goods space, this may include packaging of their products and how the end-user disposes of it. Understanding that there are various boundaries to a company's environmental and social

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impact, it therefore becomes important to evaluate the company's entire value chain, assess the impact of each activity and position the company to actively mitigate negative externalities. The importance of this analysis is to recognize the key points that serve as business opportunities, well enough to establish a measurable connection to its impacts from CFP and CSP perspectives. These assessments could serve as guidelines to companies who truly integrate sustainability as part of their strategy and are seeking to have impactful sustainable strategies within their communities. Hence, adopting value chain environmental, social and governance (ESG) analysis will also serve as a foundation for avoiding any real or perceived green and social washing tactics.

A subsequent process is to maximize interactions amongst members of the consumer community by continued stakeholder engagement. The process can be likened to achieving brand engagement and awareness amongst target markets, but in this case, the business strategy would involve building trust with consumers by promoting transparency about an organization's operations. Transparency embraces conversations about the companies' ESG obstacles as well as the efforts towards reaching the essential levels of sustainable operations. And in these honest conversations that provide unbiased access to information, innovation to problem-solve will occur to meet the challenges. Through these interactions, which have been made easier with faster and broader connection channels, corporations gain insights from their communities into areas of improvement and focus that could support the role of saving humans, the planet, and their business goals.

THE ROLE OF THE GROWING FINANCIAL COMMUNITY

While identifying stakeholders and the influence of transparency have been recognized, the importance of the research within the equity and debt markets is a central stronghold to achieving economic reactivation. The conscious investor community from the demand-side has propelled ESG, Impact and Responsible Investing as defensive positions in the stock markets where their investments reflect choosing to do good. ESG Metrics are evolving and relied upon to accurately quantify the social and environmental impacts of a company relative to its peers and industries. Hence, validating the successes of CSP. To establish a reasonable baseline, I propose a rule of thumb that if you can't quantify the impact, you didn't choose the right stakeholders as it should reflect directly on the company's financial performance. Even the debt markets have been making commendable strides. Sustainable Finance has set out to manage green, sustainability-linked, and social bonds that provide funding to projects deemed to be of the right standard. It is estimated that the green, social, sustainability and sustainability-linked bond market issuances reached US$600 billion in 2020, up 53% from 2019 (Sustainable Bonds Insight, 2021). As this is indicative of strong investor interest in sustainability, the rise in these types of issuances serves to not only convince communities within the financial sector of the validity of rewards associated with investing in corporations with an impact but encourages more corporations to ethically operate within the sustainability space.

THE IMPACT OF INTERCONNECTIVITY

Although we appreciate interconnectivity as the beauty of globalization, we also highlight its risks. However, the risks are mostly seen as limitations when corporations prioritize cost over safety and sustainability. The supply chain, as one of the systems hit the hardest by COVID 19, exposed both the weaknesses and strengths of interconnectivity. It showed how interdependent countries are, but it is important to note that a company or country's interpretation and stance of interdependence depends on what matters most to them. Cost, while an important factor in choosing sustainability and safety, follows the theories of demand and supply. If there are more companies specializing in certain areas, such as in sustainable manufacturing, there will be lower costs—a lesson from the over-concentrated global manufacturing system. In the same way interconnectivity led the efforts in COVID vaccine research that is conceivably propelling economies on its path to recovery, likewise a collective action to align business objectives with human and planet protection has boundless possibilities.

"Why do that?" is no longer the question corporations are asking themselves. A deeper understanding of the world economy, trends and key events adequately answer the question. The environmental, social and governance risks are looming with disregard for climate change and social inequality. If companies choose to commit to the "how do you identify the appropriate community" question posed at the beginning of this article, they could achieve the balance between sustainable integration and economic interdependence.

WHAT NEXT?

Through the article, I reference the possibility of business goals being achieved when companies' motives are aligned with the needs and opportunities communities provide. An integral part of achieving the targeted CFP rests on the ability to recognize which communities are best served with the company's existing resources and mission. And in such a time where companies might have the right intention but no solid direction on how to be sustainable, the recognition process is even more important. Recent developments have shown that the commendable increase in the number of sustainability programs amongst the world's largest companies is being matched with an increase in environmental degradation (Barnett et al., 2021). As more companies invest in sustainability initiatives with the sole purpose of profit maximization and good reputation momentum, there is a greater likelihood to miss the social needs that will matter relative to the industry and company.

In most current cases where major environmental and social issues such as the species extinction of life below water and life above land are not being sought after by major companies, it is imperative to re-evaluating the company's value chain. The importance of leveraging the power of community lies in the chances companies create for themselves to pursue and act on their objectives to combat climate change. The choices could be described as a form of self-regulation which is being increasingly adopted by companies in reaching their sustainability goals. As the fast fashion industry is bound to teach us, increasing green consumer consumption does not directly translate to lower temperatures; the same way recycling cannot be the solution to increased production and consumption.

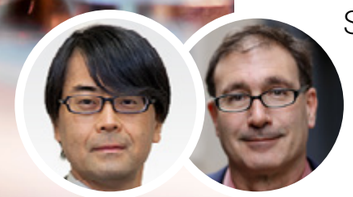
The opportunity with communities is about choosing a social need that a company is equipped to solve, and by defining a community relative to a corporation's use of resources, saving humans, the planet and the business becomes possible. Also, the importance of the financial community cannot be understated as they serve to quantify the rewards and impact of CSP to CFP. As we are experiencing the pros and cons of interconnectivity, we are given the right circumstance to align focus and goals to our communities. Community is made up of the suppliers, employees, customers, investors, governments, and its power has gone beyond the belief of moral obligations to contributing to the bottom line. Each stakeholder has a role to play. Will you play yours? ///

KEYS TAKEAWAYS

- As companies act on offsetting their negative social and environmental impacts, recognizing the appropriate communities affected by one's business objectives becomes paramount.
- Assuming the common business goal is economic recovery through change, the power of community lies in its position of having social and environmental needs that a company could solve.
- Adopting value chain environmental, social and governance (ESG) analysis will also serve as a foundation for avoiding any real or perceived green and social washing tactics.
- Building trust through transparency is an important ingredient when establishing greater involvement of a company's stakeholder communities.
- Cost, while an important factor in choosing sustainability and safety, follows the theories of demand and supply.
- The opportunity with communities is about choosing a social need that a company is equipped to solve, and by defining a community relative to a corporation's use of resources, saving humans, the planet and the business becomes possible.

SCIENTIST BY DAY, ENTREPRENEUR BY NIGHT:

HOW GLOBAL COMPETITION IS TRANSFORMING SOCIETY'S BRAINS INTO BUSINESSMEN



Since the 1940s, the United States has had a clear lead in commercializing its scientific research. Professors **Kazuhiro Asakawa** of **Keio Business School** and **Mark Lehrer** of **Suffolk University** explore this phenomenon through the examples of Japan and Germany as they play catch up.

Related research: *Pushing Scientists into the Marketplace: Promoting Science Entrepreneurship,* Mark Lehrer and Kazuhiro Asakawa Published by California Management Review Publication (2004)

> **Lack of excellence in science entrepreneurship is not just due to a lack of venture capital. It has to do with the way these scientists are perceived in the market economies.**

World War II left much of the industrialized world in ruins and conferred an unprecedented technological lead on the United States. Several countries have played catch-up ever since and even surpassed the U.S. in technologically mature industries. Japan and Germany are prime examples of such countries that now consistently lead the U.S. technologically in established sectors such as automobiles, consumer electronics, and machine tools.
Arguably, however, the 'final frontier' of technological catch-up is the nation's capacity to pioneer new science-based technologies and industries – essentially to develop scientific research and commercialize it. And biotechnology was seen as the hub for this trend.

BASIC RESEARCH VS APPLIED RESEARCH

Several Successful firms in this sector today have been founded by scientists. Such "science entrepreneurship or *Scien-trepreneurship*"—the simultaneous dedication of scientists to academic science and to commercial profit—has a well-established history in the U.S. and, from the 1980s in the UK, but is relatively new in Germany and Japan where there is strong distinction between research and industry.

In Germany, there is a lack of encouragement for academic scientists to commercialize their discoveries, while in parallel Japan has always given more emphasis to applied technology fields with direct commercial uses as compared to basic scientific research. As is evident, lack of excellence in science entrepreneurship is not just due to a lack of venture capital. It has to do with the way these scientists are perceived in the market economies.
The occupational identities of those who work to expand the principles of fundamental science are defined around norms of sharing and diffusing, not appropriating knowledge. This contrasts with applied research, which constitutes private knowledge-production which can be regulated through patents and delegated to private parties.

WHY BIOTECHNOLOGY?

Biotechnology is said to be one of the scientific fields that blur the boundaries between and applied research.

Simly put, biotechnology is the application of advances made in the biological sciences, especially involving the science of genetics and its application. Biotechnology has helped improve food quality, quantity and processing. (ref: http://www.clas.wayne.edu)

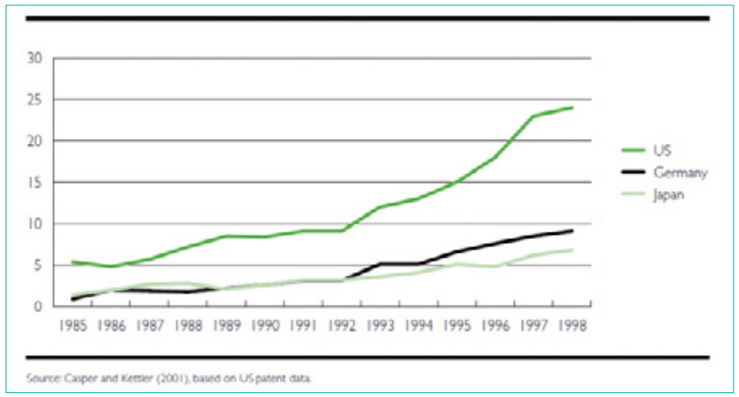
While decoding the bimolecular structure of living organisms is a basic research activity, specific strands of the code often have direct medical and industrial uses.

Besides being critical to these countries' large pharmaceutical industries, biotechnology also impacts other economic sectors like medicine, environment, agriculture, food products, information technology, and emerging industries such as nanotechnology and genetically personalized health and beauty products.

A COMPLICATED DIVERGENCE

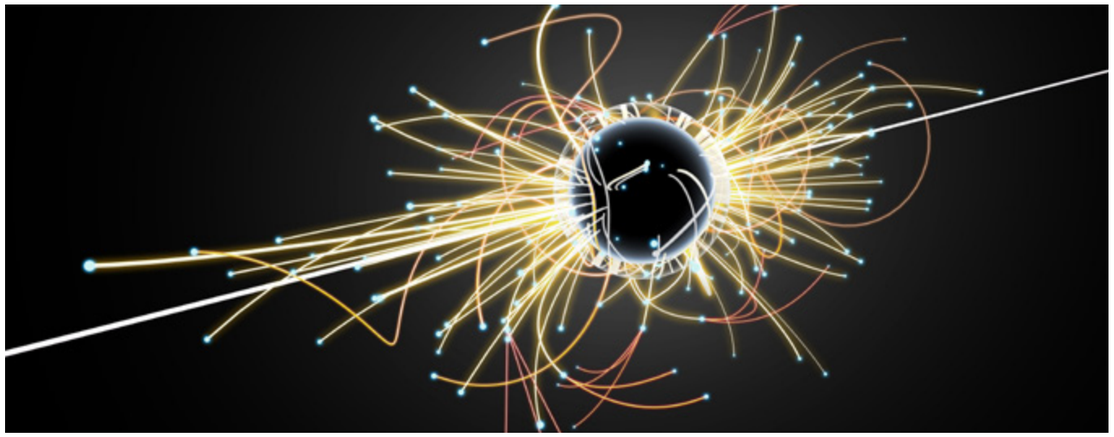
The divergence between basic research and applied research can be explained by a post-war era mobilization that took place when most of the countries outside the borders of the US decided to set up Federal research institutes outside of the universities. The objective was to allow universities to concentrate on general education while research centres focused on increasingly specialised areas of science.

The disparity can also be seen in hospitals where in the US medical centres combined facilities for treating patients with laboratories for medical research while most of the rest of the world bifurcated such activities.



Patenting trends

As such, it was relatively harder for university scientists outside of the US to set up their own firms. Meanwhile, the commercially focused academic labs had become hotbeds of biotech innovation. At the end of 1999, U.S. companies had over 200 biotech therapeutics in Phase II/Phase III testing whereas German and Japanese companies together had less than five. The figure shows how US garnered a strong lead over Japan and Germany due to its post war era policies. So what caused this disparity?



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THE STUMBLING BLOCKS TO SCIENTREPRENEURSHIP: WE ARE ALL JUST STATE EMPLOYEES

Both Germany and Japan have more or less shared the same issues. Ever since the beginning, virtually all universities and scientific research centres in Germany were and still are state institutions, so the bulk of academic scientists conducting basic research were doing so at the pleasure of the taxpayer. In a way, it could be said that any additional state incentives to encourage scientists to start their own firms would mean taxpayers were "bribing" state employees to pursue private profit. As such, it was difficult for science entrepreneurship to emerge under the public-sector norms governing these universities. However, unlike Japan, there was no law that forbade scientists to pursue outside paid activities.
In Japan, despite there being far more private universities than in Germany, most of them were tuition-funded teaching schools without sufficient resources to support extensive research. What's more, professors at National Universities were classified as civil servants – and legally, civil servants were not allowed to serve on or found private companies. A legal exception for professors would require action at the highest levels of the central government and legislature.

In addition, as opposed to the case of Germany where policy governance was carried out by the Federal Research and Education Ministry (BMBF), the Japanese policy institution had to be cut across five ministries and agencies including the Ministries of Education, Health and Welfare, Agriculture, Forestry and Fisheries, and International Trade and Industry (MITI). It comes as no surprise then that the formulation of policies more often than not found itself faced with a mountain of bureaucracy to climb. So how did each of these two countries tackle the situation?

GERMANY: FROM RESEARCH CENTRES TO TECHNOLOGY PARKS

Germany was different in the sense that while the infrastructure for R&D was well developed, there was a lack of push for science entrepreneurship. The BMBF recognised the need for enhanced focus on the 'commercial productivity' of public R&D and from 1995 began advocating for it to an unprecedented extent.
The ministry began referring to tech start-ups as SMEs as a sign of their support and to include them into mainstream policies since SMEs formed the very backbone of the German economy.

In 1995, the BMBF organised an interregional competition in biotechnology for federal support funds. The policy objective was to encourage the self-organising formation of clusters of variegated organizations that would network to create new ventures. This so-called BioRegio Competition led to the formation of 17 regional biotechnology offices. These were essentially tech parks, that not only housed biotech firms but also provided a wide range of entrepreneurship support services such as providing advice, financing and marketing to scientists who wished to step into the field. The offices also subsidized patenting activities for them.
Technology parks benefitted from an already well-developed scientific infrastructure. These clustered around pre-existing laboratory installations at universities and research centres and German scientists jumped at this opportunity of potentially substantial returns with minimal risk owing to the high support from the federal programmes. The end-result was a boom in the number of biotech firms in Germany, tripling from 75 to 222 in a span of just 3 years (1995-1998). However, German *Scien-trepreneurship* can be seen to be largely riding on the existing system of public sector science without any real reform of the latter. This is where the contrast with Japan is illuminating.

JAPAN: THE POLICY OF COMPLETE OVERHAUL

In Japan, policies did not simply add a new layer to existing science and technology, but instead sought to overhaul the system of scientific research.

A first wave of reforms began with the government's first Science and Technology (S&T) Basic Plan in 1996-2000. It promised to increase research infrastructure for biotechnology and to revamp the patent evaluation system. This policy

incentivised the commercialisation of research, bringing in more competitive and government funding. Like Germany, assistance was made available in patenting research results.

Addressing the issue of scientists' status as civil servants, the policy allowed professors at national universities to serve as officers of private firms. It also advocated to allow universities to set up their own TLOs (technology licensing organisations). As a result, there were over 300 biotechnology venture companies founded within a span of 5 years by 2003.

Reform did not stop there. Japan went one step further and set up a second basic policy which envisioned Japan as a leading science nation. The efforts included revamping the complete system of funding and career tracks for scientists and its policy of merit-based funding and hiring as opposed to patronage and seniority was ground-breaking, albeit slow progressing. And finally, to ensure that these policies were implemented, a Council for Science and Technology Policy (CSTP) was set up in 2001 – a step that their German counterparts passed up on.

THE FINAL FRONTIER – REVISITED

At one level, Germany and Japan have been fairly successful in accelerating their growth in Biotechnology start-ups. These countries will continue to make headway for years to come. At another, catching up the US in science entrepreneurship is a long and arduous process and will continue to be challenging for both these countries – while it may be easy to reform political structure and encourage individual *scien-trepreneurship*, it is a lot more difficult to foster it at institutional level.

While Germany and Japan, through the implementation of policies, have piggybacked on the existing R&D infrastructure to promote science entrepreneurship, research institutions in the US are entrepreneurial at the institutional level itself. Here, the research institutions do not merely *allow* links between their scientists and private sector, but positively encourage them. The top administration of US universities and medical centres act more like private sector managers than bureaucratic leaders.

The competitive advantage of academic scientists in the US does not lie in knowledge or professionalism but simply in the extra efforts that they are required to put in to thrive in their highly competitive environments. University Scientists are regularly engaged in seeking outside research funding along with their regular classroom, laboratory and publishing duties. Scientists abroad are unlikely to advocate for equal working conditions such as these – even if it led to diminishing this clear advantage over them.

As such, science and science entrepreneurship in this sense represent the final frontier of catch up with the US and remain – at least for the present – one of the last unquestioned bastions of institutional integrity and excellence in the United States. ///

KEYS TAKEAWAYS

- The 'final frontier' of technological catch-up is a nation's capacity to pioneer new science-based technologies and industries – essentially to develop scientific research and commercialize it.
- "Science entrepreneurship or *Scien-trepreneurship* has a well-established history in the U.S. and, from the 1980s in the UK, but is relatively new in Germany and Japan where there is strong distinction between research and industry.
- In Germany, there is a lack of encouragement for academic scientists to commercialize their discoveries, while in parallel Japan has always given more emphasis to applied technology fields with direct commercial uses as compared to basic scientific research.
- Lack of excellence in science entrepreneurship is not just due to a lack of venture capital. It has to do with the way these scientists are perceived in the market economies.
- In the US medical centres combined facilities for treating patients with laboratories for medical research while most of the rest of the world bifurcated such activities.
- Virtually all universities and scientific research centres in Germany were and still are state institutions: the bulk of academic scientists conducting basic research do so through the taxpayer.
- Japan has undertaken reforms including revamping the system of funding and career tracks for scientists and its policy of merit-based funding and hiring.
- scientists in the US does not lie in knowledge or professionalism but simply in the extra efforts that they are required to put in to thrive in their highly competitive environments.

SCALING UP SOCIAL INNOVATION: THE ROLE OF GOVERNMENT IN INNOVATIVE SOLUTIONS

> **"Whether you are talking about cardiac care or education, the fundamental question is: how do you provide it for everyone?"**
>
> **Thulsi Ravilla, Exec Director of Aravind.**

Professor **Concepción Galdón,** Social Innovation Director at **IE Business School,** and **Joshua Entsminger, UCL IIP,** propose an approach to scaling up innovation to enable everyone to benefit equally.

IS INNOVATION FOR THE PRIVILEGED FEW?

Social Innovation and social entrepreneurship have become well-established processes to come up with solutions for prevalent social and environmental problems. Accelerators, incubators, social impact funds, labs, contests and awards have emerged globally in the last few years focused on inspiring the birth of such initiatives. As a result, myriads of talented people are putting their mind and effort today into creating new and better ways to tackle a broad variety of issues ranging from access to education, health care or civic participation. This is certainly good news. However, in the face of such diversity of tested existing solutions Ravilla's question resonates louder than ever: *How do we provide them for everyone?*

GOVERNMENT'S ROLE IN SCALABILITY

Far too often, we hear much criticism of the limitations of government when it comes to innovating in public service. All that social entrepreneurs and innovators usually request from government is for it to remove red tape and provide

funding directly or via tax breaks. However, it should come as no surprise that innovation is not governments' main skill. They need to maximize impact of taxpayers' money and innovation is intrinsically a risky activity with uncertain results. Put otherwise, we are not sure we want to have government experimenting on our tax money. Now, guess what government is incredibly good at? Universal provision of public services. That's the animal government is. That's what it was built to do, and that's its very nature. In our opinion, government has a protagonist role to play in scaling up social innovations.

Governments around the world share the intuition that they have a role to play and are looking for their fit in the social innovation process. The UK has launched the UK Big Society Initiative, which attempts to create 1BN impact bond market by 2020. In Canada the MaRS center for impact investing, together with the Government of Ontario has launched SVX with the goal to conduct due diligence on social impact investing opportunities. The White House Office of Social Innovation and Civic Participation has launched the US Community Development Finance Institution, aiming to gather 20 dollars of private funds for every 1 dollar of Government funding. Malaysia's MOSTI has pledged a 7.3 million social innovation fund to pair innovators with Government. All these initiatives will inject cash in the social ventures. But, what if government focused on doing what it does best: provide universal access to solutions through its own structure. How about government actually buying over selected projects and incorporating them to their "business as usual"?
Piggybacking on the big fish

How do many startups with commercial products/services quickly scale up access to their solutions? Through M&A with big corporations. Here is how it's done in the private sector. Big corporations are in a permanent pursuit of innovation. In the words of David Fogel, head of acceleration & deputy director at Wayra UK by Telefonica: "if you don't innovate, you die". Together with the traditional strategy to bet on internal R&D processes, more and more corporations have understood that internal innovation is too risky financially and they engage in Open Innovation schemes. Corporate accelerators are only one common way of engaging in open innovation. Corporations set up units whose duty is to systematically search for startups with solutions that meet the corporation's challenges. Once these startups have been identified, and after thorough due diligence, tested solutions are bought over and incorporated to the company's value chain. This way, solutions initially offered to several thousand people are available to millions worldwide. Startups do what they do best: innovate and test. Corporations do what they do best: deploy big time. Entrepreneurs cash in for the effort of innovating and are ready for their next adventure. Win-win all around.

INNOVATION ALIGNED WITH NATIONAL NEEDS

Unfortunately, today this path is not available for social entrepreneurs/innovators. Who would be interested in buying their tested solutions and making them available universally? Who would be able to incorporate those social solutions to its own value chain and processes? Social entrepreneurs/innovators, and the investment funds that support them in the initial phases, have few to none exit strategies today, leading to stagnation in the sector. Government is in a privileged position to fill in this gap. We propose a new approach to public innovation that is cheaper and lower risk than insulated government research and development: Public Open Innovation Initiatives.
By having an open innovation program, government can match existing innovative public sector start-ups with already tested solutions to national current needs. These solutions can be identified both internationally and locally. Keeping an active international radar allows for a broader pool of potential M&A opportunities but calls for a dedicated team to prototype locally prior to scale up. Buying and scaling up local social innovation solutions will expand on existing social innovation ecosystems. Also, it has the advantage of taping into solutions built from the understanding of the local culture and rules of the country, region or city.

IN A NUTSHELL...

The specific design of the Open Innovation Program requires a case-by-case approach, given the specificities of national regulations when it comes to procurement and sourcing. However, any design should guarantee that government focuses on what it does best, moving from being the elephant in the room, to putting its know-how at the service of scaling up of social innovations. Public service at its best. ///

KEYS TAKEAWAYS

- The number of initiatives pertaining to social issues such as healthcare and education is certainly on the rise today, but they are often not scalable.
- While the government provides mass access to public services, it can often be sceptical about assisting with social entrepreneurship and innovation owing to the inherent risk in them.
- Corporate accelerators and M&As are one proven way to scale up commercial products and services in the private sector. The same, however, does not apply to social innovations
- Public open innovation can be a solution that enables governments to match existing innovative public sector start-ups with already-tested solutions to national current needs.
- Such initiatives can be explored with entrepreneurs at both local and international level. They are likely to be cheaper and lower-risk than insulated government research and development.

ENTREPRENEURSHIP AND DIVERSITY: A SINGAPOREAN SIGNATURE DISH

Singapore-based entrepreneur and CEO **Henri Bong** shares his entrepreneurial journey, tips for the budding entrepreneur, and how diversity of culture and experience has led to the success of his company **Unabiz.**

By Tom Gamble, following an interview with Henri Bong. With warm thanks to Shuhui Fu.

> **Even if I'm a bit of a foreigner for everyone, I'm also a bit closer to everyone. And that's key.**

Take a little bit of Chinese, a slice of Indonesia, a sprinkling of France, and a dash of Singapore. What have you got? CEO Henri Bong and Unabiz – a start-up-turned-tech-company that has diversity in its DNA and now an Asia-Pacific must-be in the Internet of Things.
Henri Bong's entrepreneurial story provides a motivational recipe on using diversity for budding entrepreneurs, and also a blueprint of the unique Singaporean menu that has made the ingredients come together and work.

DIVERSITY AND THE ART OF SURVIVAL

At times, it could seem that the special magic that makes the best-ever dishes has followed Henri Bong throughout several key moments in his life. Born in a remote village in Indonesia of Chinese parents, Henri's family had to leave during troubled times, his mother taking him at the age of 18 months to France, his father following two years later. In France, it was necessary to show proof of daring and determination and at eighteen, Henri was finally offered French nationality. By the age of 24, fate smiled again. First graduating from a French digital engineering school, he went on to take a double MBA at ESSEC Business School and Guanghua School of Management, Beijing University and landed a job – together with diplomatic passport – working for the French Embassy in Singapore.

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KEYS TAKEAWAYS

- It's a great advantage to understand several cultures and speak their languages. It gets you closer to people and customers.
- Follow your instinct. As an entrepreneur, at times there's a little voice that tells you that you're the only one that can bring this in the right way to the market.
- Singapore is a great testing ground to prove user cases and skills and prepare yourself to win bigger markets in the region or even further afield.
- Know where you're good and how the customers and stakeholders perceive you and keep on building on that.
- Focus on your strengths. Be the best in something instead of average in everything (the biggest mistake of a lot of entrepreneurs).

'This is important,' asserts Henri. 'I never really felt at home anywhere. I never felt at home in France because I wasn't Cambodian, I wasn't Indonesian, I wasn't French. People call me Chinese but I'm not really Chinese. It was a sort of identity crisis that followed me all my life until I got to Singapore and founded Unabiz. It was possible to transform that diversity into a strength which today makes me feel like a citizen of the world. Though my experience, I'm persuaded that it's a great advantage to understand several cultures and speak their languages.' It also works the other way round. Customers identify with Unabiz's willingness to get to know them. As Henri Bong says, 'Even I'm a bit of a foreigner for everyone, I'm also a bit closer to everyone. And that's key.'

BRINGING IT ALL TOGETHER

The experience gleaned while serving as a French diplomat in Singapore sparked off the successful entrepreneur in him, his job bringing him into contact with European companies wanting to set up business in Singapore and the APAC region. Henri noticed that many of them arriving in Singapore didn't understand how Asian people, Singaporeans and Chinese people, actually reacted to their business offer. 'I felt that if I were taking their role – being French-educated and Asian,' says Bong, 'I could do it better. And thinking about doing it differently gave me the motivation to start on my own.' His first venture was to bring French SIGFOX technology to Asia-Pacific. 'As an entrepreneur, at times there's a little voice that tells you that you're the only one that can bring this in the right way to the market,' states Henri Bong. 'So, taking heed of instinct, I took a bet and launched myself.' His second venture is Unabiz, a company specialising in IoT and sensors that began with investor funding of SGD15m. Four years down the road, the company now employs 68 people and is valued at SGD100m. 'Which is unbelievable – like, how did we do that?' smiles Henri Bong.

Insight, cultural awareness and a plunge into the risk of leaving a safe, interesting corporate job for a start-up are Henri Bong's natural ingredients that answer the question. But there's also that unique Singaporean flavour too that serves as a foundation to the success of the company. 'Right from the beginning,' states Bong, 'the vision was to say that Singapore is the best place to start a company, to have a headquarters because of the stability, of the laws, and the government. And Singapore is very multinational because English is used.'

'As a national or permanent resident, starting up a business is very fast and the country is a great reference place to set up business. People dare to think about new uses in technologies and in the smart city initiative, Singapore has always been for us the place to start. It may be a small market in itself – naturally because of its geographical size – but it's a great testing ground to prove user cases and skills and prepare yourself to win bigger markets in the region or even further afield.'

CULTURE PAYS

Henri Bong's rich background of cultures has rubbed off on Unabiz. 'I speak several languages,' he says, 'and I realised that this was my strength and the strength that I wanted Unabiz to have.' Today, that is reflected both at team level and among the Board. The 68 Unabiz employees count eight different nationalities, with slightly more women. The board counts in its members one Japanese, one French, one American, one Singaporean, 1 Taiwanese and the two co-founders, both French-Chinese.

Culture pays: with business on the upturn, the most significant contract of the year was won in Tokyo. A multi-million contract, it stands as probably the biggest gas metering project in the Asia region, equipping and connecting 850,000 gas meters with sensors and interpreting collected data. 'Japan is a market that a lot of foreign companies try to get into – and they're struggling,' says Bong. 'But guess what – we have a board member who is Japanese. And if you look at our shareholder table, we're 30% of everything. And that's beautiful. And everybody's proud of us now: French people consider us as a French tech company and Singaporean people consider that it's a Singapore-headquartered company – so it's a Singapore company which won this Japanese deal.'

'And this is all about what I think is the most important part of the story about Unabiz,' continues Henri Bong. 'I think that the Asian DNA of doing business is important to us. And that the strengths and weaknesses on the cultural side of the co-founders – I'm not even speaking about tech – was passed down to the company's DNA too. We're hybrid. We're in some ways a Singaporean signature dish of cultures and perspectives. And that has been one of the keys to our success.'

A final touch is focus. And if Henri Bong were to offer a tip to entrepreneurs and startups it would be just that. 'You should really know where you're good and how the customers and stakeholders perceive you and keep on building on that instead of growing on too many things where you will be average,' says Bong. 'Focus on your strengths. Be the best in something instead of average in everything. That's the biggest mistake of a lot of entrepreneurs.' ///

READER'S NOTES

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COBS READER COMMENTS

This is one of the best sites [for articles] I have ever visited. We all need to support women entrepreneurs in every aspect. The content is very informative. Thank you for sharing it.
Ashwin

These articles or blog posts are genuinely wonderful and I routinely move them on to my college students who're facing/struggling with exams and research competencies – they listen to you in a very way they really don't to me!
Moinc

Thanks for sharing this stuff, teaching innovation is one of the best points I found here, keep up the good work. Best Regards.
Fek

This is inspiring and thought-provoking. As businessmen, we indeed need to learn to live with sustainability and mind and we should also learn how to respond to environmental emergencies.
Chelsea L

Hi, I like your articles everyweek. Your writing style is witty, keep up the good work!
Anon

It's a pity you don't have a donate button! I'd most certainly donate to this fantastic blog! I suppose for now I'll settle for bookmarking and adding your RSS feed to my Google account. I look forward to new updates and will talk about this blog with my Facebook group. Chat soon!
Alena Vayon

Thanks for a marvelous posting! I really enjoyed reading it, you happen to be a great author. I will remember to bookmark your blog and definitely will come back later on. I want to encourage you to continue your great work, have a nice morning!
Lanny Battaglino

I blog often and I genuinely thank you for your information. This article has really peaked my interest. I'm going to take a note of your website and keep checking for new information about once per week. I opted in for your Feed as well.
Baten

I absolutely love your blog and find a lot of your posts to be what precisely I'm looking for. I wouldn't mind publishing a post or elaborating on a lot of the subjects you write regarding here. Again, awesome blog!
Rudolphe H.

I love the advice for students about fostering intellectual curiosity. It seems like this can lead to a love and passion for almost anything, especially the energy sector. My brother in law is very interested in futures trading. He's looking into energy market reports.
Jake G

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