

Understanding blended value

By Wayne Visser

Another thought-leader in redefining value is Jed Emerson. After working as the director of a venture philanthropy fund in the 1990s, he was acutely aware of what he later called the “bifurcated value proposition” – the split between the social and financial bases on which investment performance was assessed. In 2000, he introduced a counter-proposition, which he called “blended value” – value that is a blend of economic, environmental and social factors, where maximising value requires taking all three elements into account.^[i]

While blended value sounds remarkably similar to triple bottom line value, Emerson approached the subject more through the emergent field of impact investing, which he is widely credited with helping to define and popularise. In his book, *The Purpose of Capital*, he looks behind the “how” to explore the “why” of investing. He argues that our focus on investing as finance alone has taken us down the wrong path – and explains how those investors seeking to “do well and do good” have fallen prey to the notion that financial return is the main driver for creating impact in the world.

By not pursuing a deeper exploration of the purpose of capital, says Emerson, we leave extra-financial value on the table, missing out on the opportunity to more fully integrate purpose with profit. By focusing primarily upon returns for investors we fall short of our potential to invest capital for the benefit of a broader set of stakeholders – including not only the environment and our communities, but our own potential to use our capital to realise greater personal development for our selves.

Unlike many books about finance – although Emerson may even contest that finance is the subject of his book – *The Purpose of Capital* delves into the roots of our current inability to invest for total returns. This is an historic struggle, one that connects us with centuries of reflection by a variety of cultures and traditions – the lessons from which may benefit investors today. The true purpose of capital, therefore, is not simply to generate more capital, but rather to function as a fuel for individual freedom in the context of community and the Earth.

Despite this grand canvass that Emerson has painted, he is often still associated with a much narrower, but no less important topic, which is impact investment. He describes impact investing as “mindful money,” which is “about re-defined, expanded fiduciary duty, active asset ownership, and moving money in new ways ... so we may all live more fully and in so doing have a positive impact on our world.”^[ii] [p.35]

Impacted investing – and the blended value that it creates – is therefore part of rediscovering the true purpose of capital, which is “more than simply its efficient management and ongoing reproduction,” i.e. capital making more capital. Rather it is about “how capital may be used to serve the needs of humanity and planet.”

This in turn links to the concept of social return on investment, which Emerson also helped to popularise. SROI, as it is often abbreviated, refers to all the ways in which communities and society benefit from a financial investment. Put another way, it is the building of social capital as a result of investing financial capital.

Echoing the “new economists,” Emerson stresses that “impact investing is not simply about aligning one’s capital with one’s values, but rather is a recognition that an exclusively economic understanding of capital and value falls short of both what is and what is needed.” [p.41] Hence, we need multiple capitals with multiple returns. In fact, Emerson sees impact investing as a trojan horse, which builds upon but deconstructs and then transcends traditional investment thinking and practice.

Impact investing, therefore, is a lever to change the economic system itself to be less short-term, extractive, unfair, exploitative and unsustainable. In this sense, Emerson is clear that impact investing is “active and political,” not along party political lines, but in terms of promoting a reform agenda rather than conserving, defending or maintaining the status quo. It sides not with narrow corporate and financial interests, but with those in need of social and environmental justice.

In order to achieve all these goals – and to embrace the true purpose of capital – Emerson encourages us to adopt a Total Portfolio Management approach to impact investing, by which he means deploying capital across an array of asset classes and through a host of strategies, from philanthropic to near-market and market rate investments. In other words, we should be employing different approaches for different types and scales of impact, and expecting different social, environmental, economic and financial returns. The net result is blended value.

It is worth mentioning that, despite being associated with the concepts of blended value, impact investing and social return on investment, Emerson is vigorously opposed to getting stuck on labels. In the two Value Creation roundtables that I have hosted, on behalf of Antwerp Management School and the Academy of Business in Society, and in which Emerson has participated as a panellist, I have been repeatedly struck by his humility and determination to get beyond the buzzwords to actions that change how capitalism is practiced. He is a man of ideas, but that rare type who is not wedded to those ideas just because they originated with him.

[i] Emerson, J. (2003). The blended value proposition: Integrating social and financial returns. *California Management Review*, Summer, 45(4).

[ii] Emerson, J. (2018). *The purpose of capital: elements of impact, financial flows, and natural being*. Blended Value Group Press.

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