A new world order Jed Emerson's capitalist utopia. Can social value reward investors, companies?
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Money Magazine (New York) - This is a story about an idea, and because ideas are elusive, feather-light things that sometimes flutter beyond our grasp, try to consider this: The idea is situated on a mountain ridge at 10,000 feet in north-central Colorado, smack in the middle of the Rocky Mountains.

Actually, the idea is in the head of the man in front of me on the mountain ridge, a man flanked by two German shepherds who is hiking past stands of ponderosa pine that throw long shadows across the trail in the morning light.

As usual, the man is talking in a steady and uninterrupted stream -- an impressive feat in the thin, high-altitude air that renders me nearly breathless. Some of what he's saying is small talk. But most of it is big talk.

Above all, the man is wondering whether Americans need to pause for a moment, now that the millennium has turned and the market has crashed and corporate ethics seem like the quaint idea of a bygone era. And then, after this pause, the man wonders if we need to think long and hard about what we want and how money -- and, in particular, value -- figures into the arc of our lives.

He has come up with an idea that admittedly might not solve any of our financial and social ills, but that he hopes might solve quite a few of them.

The man's name is Jed Emerson. And his idea is called the "blended value" proposition.

The blended value proposition takes a little bit of explaining, so first let's talk about the way we live now, a little more than a year after the attacks of Sept. 11 and just a few months after the collapse of a slew of Fortune 500 companies. Isn't it fair to say that we still agree that we should invest to make money and that corporations should exist to create profits? And isn't it fair to say that legions of investors, though embittered and confused, still want to put their money into companies with the strongest earnings potential?

Yes, this is obvious, incontrovertible. But for the past 24 hours, Jed Emerson has been chipping away at these notions, leaving me with the distinct impression that those ideas may be flawed -- and not flawed in some moral way but factually incorrect.

In Emerson's alternative view, what investing is fundamentally about, or what investing should be about, is maximizing value. And the problem, as he sees it, is that financial performance is only one aspect of value. The blended value proposition puts forward the idea that companies and individuals create value on multiple levels -- economic value, social value, environmental value -- and that it's time we start figuring out how to evaluate and act on this. Or to think of it another way: The blended value proposition says that our portfolios should not only advance the financial aspect of our lives, but that they can and should advance every aspect of our lives. Our investments help create jobs, build communities, boost families, preserve the world for our kids and do a multitude of other valuable things. Or they can help do the opposite, as we've seen with Enron, Tyco, WorldCom and others. Before we choose to buy or sell, let's assess all the value, says Emerson.

I like this idea, and in some ways it makes me think of a capitalist utopia that rewards sound business practices and greatly empowers shareholders -- regardless of their politics or ideology -- so that they can let their money work in concert with their ideals. I wouldn't mind living in that place. Or at the least, as a first step, I would like to fill out a little postcard and write: Yes! I accept the blended value proposition! And then I'd like to see what happens next.

But I can't. At least not yet. And that's because the BVP is still an idea in the head of the man talking in that steady and uninterrupted stream on the mountain trail. Jed Emerson came to this remote area of the Rockies for a few months to hunker down in a cabin and figure out what value means and why, if we start to think about it differently, it can help straighten out a demonstrably crooked system. And for a couple of days, I've come to hear him out.

A preacher's son

The overarching idea in the blended value proposition -- that life is a blend of social and financial returns, along with investing -- has a certain appeal. Take just a few examples. Doesn't it seem reasonable that if a company in our hometown makes a priority of good benefits, employee retention and job creation, it is adding social and community value to its economic value? And doesn't it seem reasonable that a petroleum company that's intent on being around 50 years from now and makes decisions with a focus on sustainability creates more environmental value than its competitors? Moreover, doesn't it seem reasonable that if investors take these things into account, they will be getting a truer sense of the dividend on their investment?

Of course, the vexing problem -- one that we'll get to in a minute -- is putting numbers on these intangible kinds of value. Another challenge is to convince Americans that "social return" on investment is not the same as the confusing and vaguely moralistic idea of "socially conscious" investing. A third question is whether investors would actually act on ideas that might be able to enrich their lives more fully but might seem to them as high flung and wispy as cirrus clouds. After all, you can't buy groceries with social value.

Still, Jed Emerson comes from a long line of Presbyterian ministers, and he is more than willing to wade out into a sea of nonbelievers. When I say he has his work cut out for him, he agrees, but only up to a point. "The events of Sept. 11 made people stop and think about the lives we are living," he says, "and I can't help but think that if we really understood what's in play here -- that we have more options with our money -- we could move toward our goals faster." Shrugging slightly, he adds, "I think we're all driving toward the same goals for our families and our communities, so it's not like I'm asking people to buy my argument. I'm only asking them to listen to what they know is true."

One thing that's so striking about Emerson is that he radiates intensity and self-confidence without the least bit of sanctimony. I noticed this when I first met him a year ago at a venture-capital fair run by a group called Investors' Circle in Cambridge, Mass. We had just sat down to lunch when he launched into a rapid assault on the meaning of money. "Have you ever thought of writing about how we figure out the larger returns of what our money does?" I can recall him asking, but the rest is a blur, except for the recollection that his plate of food went untouched as he talked and talked and talked. Emerson is 43. He looks like a surfer and has the easy manner and lingering eye contact of a good bartender. But when he gets going, which he often does, he talks a blue streak, hurling huge ideas and chunky ethical quandaries in your face. My notes from that day are the notes of a lunatic, with phrases like "think about metrics," "social returns" and "life meaning" linking up an unreadable scrawl.

What I found out later was that Emerson started his career as a social worker in New York and San Francisco, where he created a large nonprofit that reached out to street youths in one of the city's roughest districts. "At 29 I woke up -- literally woke up -- and realized that running a nonprofit social organization, which is what I always thought I wanted to do with my life, was not at all what I wanted to do with my life," he says. In 1989 he left to start working with a foundation set up by the investment banker George Roberts, a partner in the leveraged buyout firm KKR, who was interested in using a market approach to helping the homeless. In 1990 he put Emerson in charge of something that eventually became known as the Roberts Enterprise Development Fund, which gave loans and grants to nonprofit companies that employed formerly homeless men and women. Emerson, who had begun to harbor existential worries about the effectiveness of social work, started to think about tracking the fund's "performance" -- in essence, the social and financial returns on its efforts: how much a grant was saving taxpayers in governmental assistance costs, for instance, or the funding's effects on the economic and housing stability of employed individuals.

By the late 1990s, Emerson and his staff had worked out statistical measures and had begun to collect data and crunch the numbers. It turned out that a few of the companies using Roberts Enterprise funds were struggling, but most were working astoundingly well -- and some showed that a dollar of grant or loan money could, in the hands of the right business, create 30 or 40 times its value by way of social and financial returns. To Emerson, the potential implications here seemed so clear and wide-ranging that he began to wonder: Just how far can something like this go?

A rock star

At the end of 1999, Emerson headed to Cambridge for a two-year teaching fellowship at Harvard Business School. When his stint there ended, he returned to the Bay Area to take two new jobs, one as senior fellow at the Hewlett Foundation and one as a lecturer at Stanford Business School. All this moving about played havoc with his personal life, but it did wonders for his reputation. Over the past few years, Emerson has become the avatar of social returns, an expert sought out by a host of nonprofit organizations and executives for lectures and consulting. As one Stanford colleague puts it, "If there's the equivalent of a rock star in the nonprofit world, Jed is it." His signature message has been to urge philanthropic foundations, which generally give away 5 percent of their assets each year, to think about two other things. One is how to invest the other 95 percent of their endowment in assets that can boost, and not hinder, their larger charitable mission; another is how to use their reputation, expertise and talent to advance projects and issues. This idea of using "total assets," which he put forward about a year ago, became the first application of the blended value proposition -- cementing the notion that money and resources not dedicated to social purposes can nevertheless create social value, regardless of whether you're a multibillion-dollar philanthropy or a teacher making $50,000 a year.

The echo of socially responsible investing is clearly apparent here, so it makes sense that Emerson has found a number of supporters in that community, including fund manager Amy Domini. She says she thinks blended value can have "profound ramifications" and adds, "If it's able to be developed and widely used, it will give us the full financial impact on our lives of corporate behavior."

Ironically, though, Emerson's suggestions also seem palatable to corporate leaders who are trying to create broader shareholder value and not just blockbuster quarterly returns. After all, Emerson doesn't urge that anyone should create a specific kind of value, only that money creates different kinds of value that we need to be aware of and that we should use it to our advantage. In addition, his idea leans toward a market-driven solution to, say, the corporate ethics crisis rather than a regulatory one -- a company with high corporate citizenship marks, for instance, would offer investors more value.

Last year, Pamela Hartigan, the managing director of the Schwab Foundation for Social Entrepreneurship, invited Emerson to participate in the World Economic Forum in Davos, Switzerland. Hartigan, who says Jed has been the first to actually articulate "what people have been thinking for a long time," was thrilled with the result. Emerson was excited too, and a little awed that a social worker who used to spend his afternoons walking into shooting galleries to dispense clean needles and condoms in San Francisco's Tenderloin district could lecture to the most powerful business leaders on the planet.

But what most surprised him was what he heard in response. "When you hear CEOs talk about the vision that they have for their company as being 'beyond' whatever the current business model is, and that the 'beyond' in part entails environmental and social considerations, these are folks who are not in some theoretical space," he says. "They're envisioning what needs to happen in order for them to maximize value for their companies."

This helps explain why Jed Emerson does not believe that he lives in a fantasyland of conjecture and idealism. "I think it will eventually be the stupid investor who is only going to look at financial performance," he says, "because in this day and age, companies that aren't effectively managing these other elements of value are companies that are going to underperform the market ultimately. They're going to have more lawsuits, more problems, and they're not going to be allowed to operate in other countries."

The how-to problem

And yet, convincing as this may sound, this warning prompts the ultimate question: Assuming investors and corporate leaders somehow agree that they want -- and need -- to focus on creating other kinds of value, aren't they still left with the dilemma of how to start measuring?

The tools don't yet exist -- there is no getting around that -- yet some groups are starting to make advances. One is a profitable New York-based company called Innovest, led by former executives of TIAA-CREF and KPMG, which advises pension funds and mutual funds on the environmental performance of corporations. "One of the things our founders became interested in was intangible value," says Peter Wilkes, the firm's managing director. Several years of research led the founders to conclude that if a company was handling its environmental policies correctly, it would be a proxy for good management. After wrestling with the question of how to measure environmental management, Innovest came up with a ratings system that, unlike socially conscious funds -- which generally rely on negative screens to eliminate companies that might be ethically objectionable -- uses a "best in show" approach. As Wilkes puts it, "We just say that in every sector there are some companies that are better than others, and that those are the ones that you should invest in."

To a large extent, this is in line with Emerson's vision that some companies create more environmental value than others, and that investors who choose them are getting more value for their money. Emerson, however, also has ambitions about calculating another number -- you might call it a "total valuation" number -- that encompasses a company's social, financial and environmental value. He does not think this is imminent; developing such a metric could take a small army of statisticians and some years to do, and Emerson is quick to point out that because he is not, by trade, an accountant or economist, his role might be advisory rather than central. Still, he's sure that the utility of a "blended value" ratio would be enormous. The point he returns to again and again is that "we are leaving value on the table that could be brought back to the benefit of shareholders and big stakeholders alike." In the absence of a measurement, he adds, "all you're left with is a perception of value, and the feeling that a company is a 'good' company."

I told Emerson that skeptical investors will tell him, not politely, that social value will never be effectively measurable. He did not get annoyed; he's got an elegant backhand. "The basic metrics of economic value have been around for about 150 years," he replied, "and I think we forget that GAAP [generally accepted accounting principles] and the FASB [Financial Accounting Standards Board] weren't created until about 50 years ago, and that the business community is still debating about the best way to evaluate economic value." His point is that while social and environmental value are newer ideas, that doesn't mean they won't be accepted as economic value has been. If they exist, and Emerson has no doubt that they do, they will ultimately be recognized and calculated.

So suppose, for the moment, that Emerson's ideas somehow impress you with an appealing inner logic. And suppose you have come to see that other kinds of value may not only be real but also useful. There remains the question of what to do now. Does a willing investor begin by choosing to buy stock in a company whose social impact, while not yet quantifiable, is both 1) understandable and 2) agreeable? Do you dump the stock of a company whose environmental impact, while not yet quantifiable, is 1) understandable and 2) disagreeable? That could work for some people, Emerson says, but he's presently reluctant to put the blended value proposition into five or 10 how-to steps. "Look, this is very hard stuff to begin to do," Emerson said one afternoon in his cabin. "And the point isn't, 'Gosh, here's this new thinking of how we manage our assets, so let's just do this.'"

In fact, at this moment in time the point is more philosophical in nature than anything else. To Emerson, too many of us have been thinking about our portfolios only as a way to make money when we need to think instead about how they can help us get what we want out of life. In the pursuit of pure economic value, we have been betrayed by people we trusted, whether accountants, money managers or corporate executives. Some of us have discovered that such investing decisions have wrecked our lifestyles and retirements. Not coincidentally, we have put money in companies whose behavior has often contradicted the way we live, or the way we teach our children to live. You can try to deny the problem, says Emerson. But something clearly isn't working.

An "all or nothing" trap

At one moment or another in their lives, most people wrestle with the question of how to fix the world before realizing that they can't, or won't. Emerson is different, and not because he's more grandiose. His ideas may seem hugely ambitious, perhaps implausible, but he looks at change in a day-to-day manner. "This is where being a social worker can inform you in a different way," he explains. "I mean, I know that I have changed the world in my work. I have run programs that I know have saved kids from dying on the streets. And once you understand that, this notion of 'all or nothing' really fades out."

This strikes me as an interesting way to put it. "All or nothing" explains a lot about what Emerson abhors. He is, by his own admission, a mix of this and that; in his speech you can hear strains from all over -- high school, social work, the corner office, academe. Words like "dude" punctuate sentences like "How can we operationalize this asset space?" His living room is strewn with piles of books from every ideological and substantive corner: Ron Insana, Francis Fukuyama, Jane Jacobs and, perhaps most tellingly, Stephen Hawking's "The Theory of Everything." I noticed recently that a footnote in a 34-page, densely academic tract that he wrote for Harvard Business School about blended value thanks a variety of thrash and heavy-metal bands "that greatly facilitated the author's writing multiple drafts of this document late into many a night."

Of course, Emerson's blended value idea itself captures his willingness to horrify the purists and meld unconventional ideas and aspirations. And his explanations to me take into account the realization that he has embarked on a difficult mission. One of blended value's cousins, socially conscious investing, has been lambasted -- in this magazine as well as other places -- for what critics see as a pretense of keeping clean in a dirty world. It fails that all-or-nothing test, and whether that test is fair or appropriate, it is nevertheless one reason why I never put any of my money into such funds. But one morning Emerson made a simple point that helped me see why blended value doesn't fall into this trap. It doesn't try to be pure or virtuous; it merely suggests that our business and investing decisions should reflect who we are, how we live and what we want. That day, Emerson talked about the way many of us curtain the economic part of our lives from the social part -- investing is purely for financial gain, whereas family life and philanthropy is for doing good. This is not how things look to Emerson, and he is urging all of us to see the world more like he does. The market creates real social value; our social pursuits create real financial value. To him, everything is mixed together into the hash -- the blend -- of modern life.

At one point before I left Emerson's Colorado retreat, I asked him, "So, do you really think you can change the world with this?" It was almost a teasing question, coming from a slightly cynical, slightly weary New Yorker at the end of what has been a trying year for the city and the country. "I think I already have," he said evenly, but this time he was not talking about his social work experience. "I think people who begin looking for a kind of sweeping global change overlook the fact that every day we make choices that affect the people, communities and corporations with which we interact. All I'm saying is, we need to take the world-changing processes that we're already engaged in and try to align them so they're more consistent with our value structures. So in that sense, I think we're all changing the world. It's genuinely exciting to think about the power we have to manifest change. On the other hand, sometimes we lose sight of that fact."

I was going to tell him that he'd made a good point -- indeed, that he'd aced the question -- but he was already onto another idea, and I was doing my best to keep up.