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Author Talks: Saadia Madsbjerg on making money moral

In their new book, Saadia Madsbjerg and Judith Rodin offer a road map to making the financial market a force for good.

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In this edition of *Author Talks*, McKinsey Global Publishing's Raju Narisetti chats with Saadia Madsbjerg, a McKinsey alumna and a former managing director of the Rockefeller Foundation. In *Making Money Moral: How a New Wave of Visionaries Is Linking Purpose and Profit* (Wharton School Press, February 2021), Madsbjerg and coauthor Judith Rodin, former president of the Rockefeller Foundation, explore a burgeoning movement of innovators who are unlocking private-sector investments in new ways to solve global problems, from environmental challenges to social issues such as poverty and inequality. An edited version of their conversation follows.

What problem are you trying to solve with this book?

Judy and I wrote the book because over the last decade, there have been growing calls for the need to reimagine capitalism. And these calls have come from the corporate side, from political leaders, from intellectual forces as well. There's been a reckoning that the way we have organized the system, while it has lifted millions out of poverty and contributed to strong economic growth, has also created great inequities in society.

The difference [wealth gap] between the haves and the have-nots, for the poorest and the richest, is the widest we have seen in a very long time. Now, at the heart of this is the problem of how we have organized our financial markets and where we have invested our money. Since the 1970s, we have followed a shareholder primacy mantra, where our focus has been on short-term profits.

And we haven't looked at the environmental impact of the way we have run our businesses and the way we have made our investments. We now know that what we do in business has a strong impact on society, and the other way around as well. So the argument for rethinking how to invest isn't an ethical one. It really has to do with creating long-term value for not only our portfolios, but also for society.

Reimagining capitalism

There are many that have called for the need to reimagine capitalism. And there are many commitments that have been made and that are being made. We wrote the book because we really wanted to bring attention to how that can be done. In the book, we make the case for how it's something that cannot be done by the financial industry alone. There is a need to partner with those that are at the forefront of addressing some of these challenges: the NGOs [nongovernmental organizations], philanthropy, businesses, and public agencies as well. So our aim with the book is to really accelerate an interesting and fascinating movement that we believe has the capacity and the potential to reimagine capitalism.

So money in itself isn't good or bad. It does what we tell it to do. Look at sustainable and impact investing, which just a little over a decade ago was a very niche market that was based on trust, but now has developed into something that deals in the trillions. Here in the US, one out of every $3 of professionally managed assets is now in sustainable strategies. That is a huge shift that has happened, and we see it really taking hold, across all asset classes, and in all sectors.

What also makes us hopeful, which is going to grow way beyond where we are today, are two things. One is that for the vast majority of investors that have adopted this strategy, it is a values-driven imperative, as opposed to a values-driven agenda. So let's take climate action. The people who are realigning their investment portfolios and their strategies to really address climate change are not doing it because they are on a mission to save the planet—they're doing it because it's the right thing to do for the bottom line as well.

The second thing I would point to is that the owners of capital, the big pockets of capital, are those that have really taken the leadership in bringing this case about. So it's not a call that's coming from

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philanthropy or governments, but it’s really from those that own that money in that capital. So there are a number of things that are happening that makes us feel as if “making money moral,” as we call it in the book, really is a natural evolution of capitalism and the way we invest our money.

Why is avoiding ‘sin stocks’ not a good enough strategy?
One of the main tools of investing responsibly is the influence that you have as an owner. Your voice matters, your vote matters. Now divestment, which is a strategy where you sell or choose not to invest in certain businesses or projects because of their profiles, is an old and well-established strategy. We believe that there is more that can be done if investors actively engage in the conversation and use that voice and their vote to bring about change. And we’ve seen it happen in many cases.

Take the example of State Street. It’s one of the largest asset managers that manage more than $3 trillion. In recent years, it’s had a strong focus on promoting gender diversity on the boards of the companies that it invests in. It launched what is called the Fearless Girl campaign back in 2017, where it put out a call and told the companies that it expected them to have at least one female director on their board. Fast-forward a few years, and you have 700 companies that previously did not have any female representation on the board now have at least one.

I mean, that’s change that happens when you use your voice and you use your vote. So your voice matters as an investor. Your vote matters as an investor. And strategies that can allow you to use both of those to drive toward a sustainable world is really what drives a lot of impact.

R for resilience

Why do you advocate for the adaptation of ESG to ESGR?
Impact investing is a term that was coined back in 2007 at a conference hosted by the Rockefeller Foundation. Since then, it has really taken root and grown. There are two things that the pandemic really brought to the forefront. One is the interconnectedness between the economy, climate, natural environment, and human health, and if you really look at the implications of that, it gives us reason to look at how we have been managing and assessing ESG [environmental, social, and governance] and bring greater rigor to those areas, and depth as well.

For example, *E*, which stands for environmental—we expect that it is going to be broadened to look at much more than greenhouse-gas emissions and really have a focus on biodiversity. *S*, which is the social side of it—we expect that it is going to have a greater focus on social inclusion and human rights. And when it comes to governance, there’s going to be greater focus on how the leadership of businesses and programs that the money is invested in managed these sustainability challenges and opportunities, and how they govern their organizations. Those are all things that we see as the natural evolution of ESG.

The other thing that the pandemic really reminded us of is how frequent the shocks and stresses that we’ve been facing globally are becoming and how prolonged they’re becoming. And that has brought attention to the concept of resilience. The idea is that companies need to be organized in a way and governed in a way in which they have the ability to adapt and rebound quickly. And those things are not currently set up and measured in the *E* and the *S* and the *G* components. So that's why we make an argument for adding an *R*—an *R* for resilience.

What surprised you most about writing this book—in the research, writing, or response?

History doesn't go in a straight line. Sustainable and impact investing has gone from being a niche market that had a handful of investors to now counting some of the biggest asset owners and asset managers as its champions, and it happened in a relatively small period of time. The big question that came up as we were in the middle of writing this book, and as the real impact of COVID-19 on the economy and on the lives of people was unfolding, was this realization of, we've finally reached the moment where we'll be able to say what happens with this form of investing when we have turmoil in the markets.

How relevant were lessons from your years at McKinsey?

I started off my career at McKinsey straight out of business school, and it was an amazing experience. It taught me how to think broadly about the world, about problems. It taught me to go in with an open mind and learn along the way, and really push the boundaries of what the possibilities can be. And while I wasn't working on anything that touched the social sector back in those days, that way of thinking, and that way of approaching the world, is really something that I have held dear since, and have continued to use, during the years that I was at the Rockefeller Foundation and for doing the research and the writing of the book, too.

Saadia Madsbjerg is an author and former managing director of the Rockefeller Foundation. **Raju Narisetti,** based in McKinsey's New York office, is the publisher of McKinsey Global Publishing.

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