Individual well-being and the well-being economy

What does multistakeholder collaboration look like?

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Authors and contributers

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Larry Fink, the Chairman and CEO of BlackRock, a multinational investment management firm with over six trillion dollars in assets under management, wrote an insightful letter to shareholders in the firm's 2017 annual report. In the report, Fink cautions against the euphoric sentiment surrounding what he terms the 'remarkable performance of markets' in the creation of well-being:

A lot of people made a lot of money. But much more importantly: a lot of people didn't. And that's not because they weren't savvy enough to invest in the 'right things' — it's because they were not invested at all […] savers are struggling with low interest rates as well as obstacles to better investing behaviors. A culture of short-term focus in markets and the media – an obsession with second-by-second movements and prices – drives fear and discourages smart investing. Talking heads may sweat with excitement at each record market close, but ***one day or even one year of growth doesn't build a future****. And so even as equity indices tick higher, too many individuals aren't enjoying the benefits. And that disconnect is driving significant anger, frustration and fear around the world.*[1]

Fink goes further to suggest that one of the roles his organisation can play in turning the above scenario on its head is to 'help more and more people experience well-being through the creation of wealth'. This, Fink proposes, involves promoting a system that helps more people participate in financial markets to build more secure futures.[2] This is one role that the financial services sector, in particular, can play to ensure that more and more people are able to secure their financial futures while aspirationally taking the risks necessary to build intergenerational wealth, and pass that wealth on.

From a financial services perspective, this is what can (and ought) to underpin an approach to social mobility and well-being. Financial services players, alongside regulators, policymakers and their clients, can deploy their existing expertise in investing, markets and technology with greater understanding and empathy with their client and end-users' needs, and develop responsive solutions.

At a basic level, this requires a recognition that clients have different backgrounds, levels of wealth, time horizons, life goals and aspirations. For the industry, it requires acknowledging and embracing technological change, albeit disruptive, to create client-centric solutions that facilitate financial inclusion and social mobility. The rise of on-demand insurance, insurtech solutions, mobile remittances and tech-enabled savings and investment intermediaries indicates that, in order to be responsive, service models will require greater collaboration between financial services companies, technology intermediaries, clients, policymakers and regulators

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We now respond by asking:

- Who are the stakeholders?
- What role do they play in a collaborative ecosystem that prioritises well-being and social mobility? This relates to: • providing financial services or employee benefits that prioritise well-being • prioritising initiatives and programmes that have the potential, at scale, to solve key socio-economic challenges
- What does such collaboration between the respective stakeholders look like?

Who are the stakeholders?

A policy and implementation failure in South Africa is a lack of effective integration of all the issues that government is trying to promote through incentives to employers. These include:

- skills development
- diversity and inclusion
- transformation
- gender equality
- social cohesion
- facilitating social mobility
- facilitating social protection and employee well-being through employee benefit structures

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A core part of this Benefits Barometer argues that these policy initiatives are failing in the workplace because:

- they are not seen holistically as part of an integrated strategic plan
- initiatives appear to be taken up in different areas of business, resulting in considerable inefficiencies and unnecessary over-expenditures
- corporates are not focusing (or measuring) the actual bottom-line improvements that can be achieved through collaboration

This requires multiple engagements premised on deliberative and multilevel collaborations between a varied group of stakeholders, including:

- individuals and families with expectations that demand constantly evolving solutions
- employers and labour who in reality play a role in providing both access to social insurance and enabling social mobility – primarily because government simply does not have the fiscal capacity to fully play that role
- fiduciaries who must ensure that there is a good governance process in ensuring that those benefits are effectively and efficiently deployed
- policymakers and regulators who provide the parameters and guidelines for how these support systems should be framed and delivered
- financial service providers who are the front line in both determining what is really needed to meet these demands and how products and services should be best structured to meet them

> **Industrial relations becomes an important area in which to pursue multistakeholder relationships. Many of these currently exist in sectors characterised by strong unions and large businesses, but where change is needed most is in medium-sized businesses or with casual and atypical workers without access to forums like the National Economic Development and Labour Council (NEDLAC) and bargaining councils.**

Approaches to collaboration

In previous editions of *Benefits Barometer* we've shown that people in South Africa use a combination of formal and informal solutions in pursuit of their financial well-being. There is an array of informal multistakeholder approaches to well-being: funeral societies, ratepayers' associations, civic associations, stokvels, mutual banks, and so on. All these institutions are testimony to the important fact that big is not always optimal. There are opportunities to harness existing social ties to local solutions to problems which, although widespread, may have local and context-specific applications.

In other areas, a similar change in mindset is needed. One such example is industrial relations. Because of its divided past, South Africa has often been the site of fraught relations between employers and employees. In some cases, these tensions bubble over into violent fatalities, as we saw in the 2012 Marikana massacre. Viewed in this light, industrial relations becomes an important area in which to pursue multistakeholder relationships. Many of these currently exist in sectors characterised by strong unions and large businesses, but where change is needed most is in medium-sized businesses or with casual and atypical workers without access to forums like the National Economic Development and Labour Council (NEDLAC) and bargaining councils. Two important facts underscore this: more than two-thirds of workers are not unionised, and much of our future job creation (almost 90%) is expected to come from small and medium-sized businesses.[3] Moreover, greater collaboration is required between and within businesses of all sizes to open up key value chains to smaller players and ensure that large corporations encourage enterprise and supplier development.

Shared value

One of the approaches to multistakeholder collaboration receiving acknowledgement and recognition of late is the concept of shared value, developed by Michael Porter and Mark Kramer. The shared value approach is loosely defined as an approach to generating economic value in a way that also produces value for society by addressing society-wide challenges. As Kramer and Porter state, 'a shared value approach reconnects company success with social progress'.[4]

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Spotlight on multistakeholder collaboration: Social impact bonds

Case study/lesson

One of the ways stakeholders can collaborate is through the development of social impact bonds, sometimes referred to as development impact bonds (DIBs). They are one of the most widely recognised approaches to impact investment. The bonds are contracts between the public sector and civil society (most notably philanthropic investors). In the contract, the initiating party states how it aims to deliver improved social outcomes alongside financial returns for investors beyond a predetermined hurdle rate. Below we describe an example of the Mozambique Malaria Performance Bond (MMPB), a partnership between Anglo American, Nando's and Dalberg Capital. This is how it works.

Purpose

By raising between $500 million and $700 million in capital from corporations, donors, government and investors, the MMPB plans to fund 12 years of malaria interventions, reaching eight million people in Mozambique. These interventions include prevention and treatment, bed nets, awareness campaigns and environmental health initiatives.

Implementation

The DIB approach is an outcomes-based financing approach that is very different from other aid or corporate social investment (CSI) approaches. Through the MMPB, investors provide the capital up front throughout the 12-year time horizon, receiving bond repayments from corporates, donors and governments if the programme performs according to the goals set. The bond repayments are based on social outcomes – in this case, the reduced incidence of malaria or malaria-related deaths.

Corporates have a vested interest in providing some of the outcome-based repayments, as they can realise cost savings and productivity gains from the social outcome. If the programme doesn't meet its goals, it can be ended, and investors would receive a portion of their original sum invested, or whatever was agreed at the start of the project.

This is just one example of how different stakeholders can come together to resolve a commonly shared challenge. It stands to reason that multistakeholder collaboration would work best when there is a common interest, and stakeholders clearly understand there will be initial risks, shouldered by one or more parties, and temporary winners and losers. More importantly, the time horizon for solving some of the issues (in this case, 12 years) is rather long, and such examples of impact investment often require 'patient capital' with a long-term investment horizon.

Kramer and Porter suggest three ways in which companies, alongside other stakeholders can achieve shared value:

- **Re-conceiving products and markets:**
  Organisations could be effective alongside governments and the NGO sector by creating and marketing products and services that solve community problems. An intimate understanding of social problems and challenges presents opportunities to differentiate, innovate and grow. This can be done by redesigning products, or implementing innovative and unique distribution methods.
  - Data and financial information company, Thompson Reuters, developed a cheap weather and crop-pricing information and agricultural advice service for small-scale Indian farmers.
  - EcoCash, the largest mobile remittance platform in Southern Africa, was developed in response to the Zimbabwean economic crisis and associated migration in the early 2000s that saw the bulk of Zimbabwe's working-age population living outside the country.

- **Redefining productivity in the value chain:**
  This refers to the importance of linking productivity to societal progress, and internalising externalities such as environmental degradation of the production process.
  - Kauai, Ocean Basket and other local restaurants now provide straws only on request in an effort to limit plastic pollution entering our seas and the impact this has on marine ecosystems.
  - Alcoholic-beverage producers are introducing products such as non-alcoholic beer (Castle Free, in the case of Anheuser-Busch InBev) and running positive marketing campaigns to curb the negative externalities of product use (accidents, domestic abuse, liver damage, and so on).
  - Banks facilitate much-needed social services such as licence renewals and identity document applications.

- **Building supportive industry clusters in company locations:**
  The success of any company is strongly influenced by clusters: the geographical concentration of the organisation, related businesses,

suppliers, service providers and logistical infrastructure. Clusters also include entities like academic programmes, industry associations, utilities and competition policy that reinforce a broadly defined social compact.

- Examples of this include supplier and enterprise development programmes, and common incubation programmes like Alpha Code, which serve to create an incubated environment for early-stage fintech solutions that can facilitate and broaden financial inclusion.

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Incentives for collaboration

What, then, are the incentives and rationale for collaboration? Put simply, they are a combination of reporting requirements for Broad-Based Black Economic Empowerment (B-BBEE) purposes, and for integrated reporting systems which are becoming increasingly important for companies and investors alike. But ticking boxes is hardly a solution. Beyond some of the examples mentioned, multistakeholder collaboration is not just about regulatory compliance; it's an awareness that collaborative decision-making is important for inclusive outcomes. This is a conversation which has contemporary relevance in South Africa, where many public sector unions have called for worker representation in the Government Employee Pension Fund (GEPF) and its fund manager, the Public Investment Corporation (PIC), which is the largest fund manager on the continent. Thomas Piketty, delivering the Nelson Mandela Annual Lecture in 2015, said this is a debate with global relevance, not least of all in his own native France:

In my country, in France, for a long time, employers and business people were completely against it; well, they are still against it, but the difference is that two years ago there was a law that there was going to be one employee representative out of 12 board members […]. In the end, maybe it's a way to involve workers in the strategy of the company, so instead of just fighting you can have effective discussion about the strategy of the company, and sometimes this can also be a way to promote a more long-run strategy than short-term maximisation of profits.[5]

This approach will ensure two related outcomes which make multistakeholder collaboration important: Firstly, it will ensure that firms take multiple stakeholder perspectives into account in their decision-making matrix. Secondly, given the changes in the future of work, collaborative engagement is required to align the pace of structural change with reskilling initiatives, and ensure a just transition from old to new models.

In this discussion, we looked at the possibilities for multistakeholder collaboration. We explored the role that the financial services industry and employee benefits framework can play in securing the future of members, allowing them to take the risks necessary to build intergenerational wealth and facilitate upward social mobility and well-being. The role of innovative and disruptive technologies in achieving this cannot be understated.

We also discussed the role of a conducive environment of employer–employee relationships, and how the notion of shared value can bring together company-level profitability and social progress.

In sections that follow, we discuss what such collaborations ought to look like and provide a roadmap for stakeholder action.

> **In securing the future of members and allowing them to take the risks necessary to build intergenerational wealth and facilitate upward social mobility and well-being, the role of innovative and disruptive technologies cannot be understated.**

References

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SHARED VALUE
SOCIAL IMPACT BONDS
DEVELOPMENT IMPACT BONDS
NEDLAC