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Toan Do
Empowering Social Impact Businesses

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Toan Do was born and raised in a small, poor village in Vietnam, where he could witness the rapid growth of the country from a poor nation with very little access to basic facilities such as clean water and electricity to the growth engine of South East Asia. He was fortunate enough to have earned his MBA degree at Hitotsubashi University, Japan and then Master of Advanced Management at Yale School of Management, learning how developed countries use their resources strategically. His goal is to bring back such knowledge to his hometown and help Vietnam grow more sustainably.

"We care more about baldness than malaria!" – Bill Gates said when making a presentation at the Royal Academy of Engineering in 2013, referring to the \$547 million spent on malaria research, compared with \$2 billion total investment in hair loss treatment.¹

Baldness is no joke, but we all know that the society gains more if we channel our resources to eradicate malaria, which kills more than 400,000 children each year.² The comparison that Bill Gates made shows how existing market imperatives lead the purpose of capital in an undesired direction, even in the most socially beneficial industry – healthcare. This essay discusses how short-termism rules the world, how long-termism evolves through time, and what we can do to help sustainable initiatives bloom.

Why we are here

Short-term minded investors tend to care less for social issues such as global warming or food security if these issues are less profitable. This happens partly

because we have been focusing too much on the financial performance of organizations. The Fortune 500 list applauds the most successful firms in the world; what it means by "success" is merely "highest revenue." To be fair, financial health is the easiest indicator to judge a company's performance, but it should not be the most important and definitely not the only one.

Company structure also supports this pattern. CEOs might be dismissed if they fail to deliver great performance. And by performance, shareholders often mean monetary benefits. With this pressure, even the most philanthropic CEO would have to focus on quarterly results to save his job.

Implication

If short-termism persists and dominates the business realm in the future, we should expect to see a world in which "the social responsibility of business is to increase its profits," as Milton Friedman originally expressed in his 1962 book Cap-

italism and Freedom. In other words, Wall Street would urge companies to gain as much money legally as they can, serving only customers who can pay big bucks. The poor, hence, would be left to the hands of good will.

Hopes

Fortunately, there are signs that we may not end up in that scenario.

Years ago, doing good for society was associated with "giving back." NGOs, NPOs, and philanthropists came to underserved communities to give them support. John D. Rockefeller and John Andrew Carnegie are examples of billionaires trying to give part of their fortune to the poor without expecting any financial returns. At this point, doing business and supporting the less blessed communities were two distinct concepts. While their generosity was necessary to save lives and improve education for millions, their method was merely one way – "give back," not an exchange. Evidence has shown that this way of doing good for so-

society was not the most sustainable one for three main reasons:

1. Limited size: since the support is conducted one way, no matter how big the foundation is, it will thin out one day.
2. Less intrinsic motivation: communities that receive the support would have little motivation to change and improve themselves, meaning the root of the issue might be left untouched.
3. Little echoing effort: since grant-making does not generate cash flow, it is not appealing to investors.

Knowing this tendency, Impact Investing was first coined in 2007 at a meeting hosted by the Rockefeller Foundation in Bellagio Conference Center, Italy³ to encourage investment in organizations that could solve long-term issues for financial benefits, not just for charity. Then in 2011, Michael E. Porter and Mark R. Kramer introduced a similar concept called Creating Shared Value in a Harvard Business Review article,⁴ stressing the idea that companies can be very profitable by addressing social issues. The emergence of these concepts, coupled with the take-over of millennials and Gen Z, who care more about the purposes of businesses compared to previous generations, forces corporate leaders to think about earning money more sustainably.

As a result, the last decade has seen the rise of brilliant ideas on both customer value proposition and business models to help entrepreneurs “do well by doing good.” Nestle, for example, did a great job transforming itself from a food and beverage company in the FMCG (Fast Moving Consumer Goods) industry into a nutrition⁵ company that embraces sustainable farming practices. Vestergaard – producer of LifeStraw, a water

filter that helps provide clean, uncontaminated water to rural Africa – went further by initiating a brand new business model: the company gives LifeStraw units for free and gains money back from selling carbon credits, since the product can help stop the Kenyan practice of purifying water by boiling it using coal or wood fires.⁶

Make it work – reinventing taxation systems

While I trust that this new normal in doing business will be the cure for the excessive short-termism issue we face today, I must admit that concepts such as Impact Investing and Creating Shared Values are still in their infancy. New business initiatives that create long term social benefits prosper here and there unsystematically. Our mission at this critical phase is to create a catalyst for this unconventional purpose of business to thrive. To make this idea work, a fully integrated Impact Ecosystem (IE), which includes all players in the economy such as governments, investors, business owners, and customers, must be built. Among all possible solutions, I trust that a new tax system can have the biggest influence.

As an active player in coordinating this business environment, the government can shift the focus of corporations through its taxation policies, which need radical changes for the birth of our ideal IE. Currently, the most popular models of corporate taxes are: (1) the flat tax system, which imposes a constant tax rate on all organizations, and (2) the progressive tax system, which dictates how much a company has to pay based on its taxable income. Unfortunately, neither system gives encouragement to firms that embed social values in their core business. If we are to make the world a better place through the power of businesses (private sector), the way governments tax firms and even individuals

must reflect our willingness to make social impact a market imperative. Otherwise stated, an impact-based tax system should be invented. Let us call it Social Impact Taxation (SIT).

SIT measures the positive impact of each business based on its purpose, industry, business model... before deciding on a specific tax rate. “Impact” is considered at all three levels that a company can contribute: reconceiving products and markets, improving internal operations, and developing external environments.⁷ The better an organization answers pressing social issues, the lower tax rate it has to pay, regardless of the company’s scale. SIT also allows people working in IE to enjoy a favorable income tax, compared to workers in traditional firms. This new tax system is expected to encourage all business elements to join IE:

Business owners and investors: low tax rates for impactful business opportunities make them more attractive and more profitable to investors. The new system can also empower these businesses to compete with traditional ones.

Consumers and the public as a whole: the radical change will directly impact people’s perspective on business, raising awareness of social issues. More importantly, this move might gradually redefine “success,” which is now stuck as a synonym of “more money.”

Governments: by embracing the new tax system, governments might turn the private sector, who used to be a problem maker, into a problem solver, reducing government spending on social issues.

However, as is the case with any other drastic tax changes, SIT may face possible concerns about its complexity, fairness, and effects on the government budget deficit. Now let us consider each one of

them.

Complexity. It is true that the current tax system is complicated enough, and with this new system, more work must be done before we can decide on a tax rate – both for corporate and individual income. Fortunately, governments do not have to do it from scratch. Many NGOs have been working on this matter for years, and governments can partner with these bodies to build a proper measurement. Currently, the Global Impact Investing Rating System (GIIRS), developed by B Lab, a non-profit organization based in Wayne, Pennsylvania, stands out as the most thorough rating system for for-profit companies that lay sustainability at their hearts. Using GIIRS, firms are evaluated through a questionnaire comprised of 50 – 120 weighted questions covering all 3 levels of social impact mentioned above. Using this as a framework to decide tax rates is worth considering.

Fairness. The new system may lead us to the following situation: Noah and Emma earn the same gross salary and they both work in the same city, same industry, which produces toilets, but while Emma only has to pay approximately 12% of her income for tax, Noah has to pay 15%. This does not sound fair. But if we take a closer look, we can see the differences between the two scenarios. Emma's company mainly focuses on selling low-priced toilets for underserved populations, where thousands of kids could not survive over the age of 5 due to diarrheal diseases, while Noah's company primarily targets a luxury segment. From a holistic point of view, Emma's company is solving a big social issue, poor sanitation, which traps many people in poverty and claims almost 800 children's lives a day.⁸ Therefore, the government should help it attract more talent through favorable income tax policies.

One of the (traditional) purposes of tax is to redistribute wealth in society to maintain equality, so people earning the same salary should pay the same tax rate. The underlying assumption of this argument might be a zero-sum implication: the more you take from the society (income), the more you should give back (in the form of taxes). However, in the new IE, this assumption does not necessarily hold true, because with a long-term vision, we are aiming at expanding the current "pie" so that everyone benefits, instead of competing to have a bigger portion in the constant pie at the cost of others. This new assumption allows governments to differentiate tax rates imposed on individuals while remaining fair.

Government budget deficit. Another concern with the new tax system is that it may bring in less money to finance governments' activities such as infrastructure development or healthcare improvement. However, as we know that social impact firms are joining hands with governments to solve these issues, the deficit is not too big of a problem. In many cases, the private sector is even more efficient than governments in community improvement. Take Project Shakti, initiated by Unilever, which financially empowers people, mostly women, in remote areas in India, for example. The company can gain higher coverage and sales for its products while these women, who were supported to become Unilever's retailers at a very low cost, can earn substantial income to support their families and learn about entrepreneurship at the same time. Unilever's program was so successful, it helps India accomplish goals, which the Indian government could hardly achieve itself, at no extra cost.

For the love of money is the root of all evil?

For years, for-profit firms have taken the fall for our high-level issues due to the dominance of short-termism, and people turned to NPOs, NGOs for solutions. However, I trust that the most sustainable solution lays in the hand of for-profit firms. They can use their market power to solve multiple issues at once while earning monetary benefits if they are motivated to use their resources for the good purposes. And governments, as market coordinators, can give them the much-anticipated nudge through tax system.

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