Palladium
MAKE IT POSSIBLE

The Birth of the Impact Economy


Learning from History
DEVELOP

The Industrial Revolution was one of the most important developments in the history of mankind. The transition from an agricultural economy to an industrial economy fundamentally changed how people lived and worked, spawning new markets, organic demand, and nearly exponential growth. Industrialisation was not without its problems, but at the same time, it sparked the first consistent, sustained increase to the average standard of living.

Commentators on more recent history use this paradigm to discuss analogous shifts, where technological innovations created substantial changes to how we make a living and over time increased our standard of living by creating greater economic wealth overall. The increasing efficiency of manufacturing processes over the course of the twentieth century prompted a shift from an industrial economy to a service economy – that is, a growing number of people made their living performing services rather than creating a product.

In the last few decades, technological advances, particularly in computing, have created a knowledge economy that capitalises specifically upon the intellectual output of employees.

These shifts follow a discernible pattern. No one innovation sparks the shift. Instead, the intelligent and widespread application of a series of related innovations and a corresponding change in thinking gradually reshape the way organisations function.

The shift is gradual: early adopters are the first to see the potential and play a central role in shaping the still-nascent movement, while the bulk of the world lingers behind, gradually allowing global forces to push them into new ways of operating.

The shape of this pattern means that different types of economies will overlap with one another in different parts of the world. Today, subsistence farming remains widespread in rural parts of Asia, Africa, and Latin America, while at the same time, the demand for knowledge workers is at an all-time high. This pattern also means that emerging economies are poised for rapid change, leapfrogging many of the impediments to progress the other countries had faced already.


CONNECT

Given that the rate of technological innovation has accelerated rapidly over the last decades, it is not surprising that the established pattern is beginning to repeat itself already, even while the knowledge economy remains relatively young.

The modern era is marked by ever-increasing global connectedness and immediate access to information.

Since the turn of the millennium, globalisation has taken on unprecedented significance, heightening the interdependence of global economies. Multinational enterprises exist in greater numbers than at any point in history. International cooperation facilitates the increased movement of people, goods, and services across borders. International communication, thanks to growing access to the Internet, has never been easier or cheaper. Today, it is truer than ever before that no act takes place in isolation.

Not only are we more interconnected, we are more aware of that interconnectedness on a personal level, again in large part thanks to the Internet. Generation Z may well have an entirely different concept of global citizenship than preceding generations. A single generation ago, schoolchildren thought of their international counterparts as a world away. Today, they are as close as the click of a mouse.

We also live in an age of growing visibility. The Internet has led to the democratisation of information. Anyone with an Internet connection has access to mountains of information – and what's more, they have the ability to add their voice to the conversation and disseminate it widely. Just as no act takes place in isolation, no actor can count on being the only voice to tell the story.

What do interconnectedness and visibility mean for us? They mean that we, as citizens, as consumers, as employees, are increasingly aware of the impact of an organisation for good or for ill upon the communities and environments with which it interacts. We expect a greater degree of transparency and accountability from organisations, whether government, commercial, or non-profit. And if we do not receive it, we have the ability to make our opinions known – and, increasingly, to use our collective voices to drive change.

Add to this growing juggernaut the seemingly unstoppable momentum of market uncertainties and ever-changing dynamic forces like climate change, urbanization, migration, and other macro-level shifts, and a fundamental change on par with previous economic shifts seems inevitable.

This environment is giving rise to the impact economy, a highly integrated ecosystem of important players focused on dramatically and fundamentally redefining sustainable value across varied constituencies. This new economy is marked by the blurring of the line between social and commercial interests. Organisations that are conscious of their impact will widen their definition of stakeholders and search for sustainable positive outcomes, financial and otherwise, for everyone involved.

The impact economy sounds utopian, but it is at its core distinctly practical.

Organisations that make a conscious decision to create positive impacts for their customers, their employees, their suppliers, and their communities are setting themselves up for sustainable economic prosperity. Forward-looking organisations have already begun to make headway, and it is only a matter of time before more follow.

INVEST

Corporate social responsibility, or CSR, whereby businesses engage in activities with positive social or environmental outcomes, has become widespread over the past several decades. Today, it is not uncommon to see commercial enterprises lending their support to philanthropic efforts or participating in carbon-offset programmes. CSR is without a doubt a step towards the impact economy, but it is not that – yet.

CSR initiatives are usually ancillary to the existing business model. They do make positive impacts – at a minimum, they can mitigate a business' negative impact on an environment or community. Critics may dismiss these initiatives as empty "good will" gestures, but no matter what the motivation, they do create positive results.

In the impact economy, however, organisations go beyond CSR to create *shared value*, a term coined and explained by Michael E. Porter and Mark R. Kramer in their 2011 Harvard Business Review article. Whereas CSR is ancillary, *shared value* is mainlined into, and at the heart of, the business model.

By engaging in practices that create value in a broader sense – value for the community, for the environment, for the employees, as well as financial returns – organisations fundamentally re-think and change the way they do business.

These practices are not ancillary to the core business or a trade-off that the business chooses to make, sacrificing potential profits in favour of social or environmental welfare. Instead, these organisations operate so that the creation of stakeholder value, the improvement of bottom line profits and the growth of shareholder value are mutually reinforcing.

The Industrial Revolution was so significant in part because it did more than redistribute wealth – it actually grew the economy so that there was more wealth overall. Businesses in the impact economy have the opportunity to repeat this process, and to do it deliberately.

We call this deliberate march into the impact economy profit with purpose.


BUILD

A key difference between impact economy organisations and their predecessors is the timeline on which they measure the creation of value. Today's financial markets foster environments in which the short-term financial performance of a company takes on greater and greater importance, often forcing long-term concerns, financial or otherwise, to take a backseat. The outcome of this environment is that organisations frequently face intense pressure to make decisions that favour short-term results without due consideration of the long-term consequences. Business executives will always care about their quarterly numbers, but impact economy leaders also ask whether they will steadily increase shareholder value over the next several years.

A leader in the impact economy looks longer-term and seeks solutions that do not result in an inevitable winning and losing side. The supply chain, for example, isn't simply an opportunity for cost-reduction; it is a resource that must be built and maintained to sustain the business' success. If the existing supply chain could better suit their needs, in many cases businesses are in a position to improve it. They can partner with suppliers to put in place practices that will increase yield and quality while using sustainable methods. Business receives a better product at a lower cost, and the suppliers gain improved income and economic stability.

These initiatives are not about altruism. They are motivated by profit improvement, like any other business decision, because that's what makes them scalable and sustainable. The difference lies in the way in which that decision is approached. Businesses that seek to steal share from competitors often approach markets under the rubric of a zero-sum game: there are winners and there are losers. Organisations in the impact economy actively search for win-win solutions by exploring areas of overlapping interest with a broader range of stakeholders – all with the intentional desire of expanding existing markets or creating new markets.

There are, and always have been, organisations that pursue profit even at the expense of ethical practices, but increased visibility and social consciousness is making these organisations an ever smaller minority. But in the impact economy "profit with purpose" is not only an admirable objective, it is a necessary one. Profit is a necessary driver of innovation and economic development. Growth begets growth and profit is its fuel.

In the impact economy, organisations fully leverage partnerships between the public and private sectors and civil society in a total market approach to the optimisation of outcomes. All are engaged in the creation of value. Where that value creation intersects – which it does, frequently and significantly, all parties can bring their resources and skills to bear.

Enabling Agents of Change

With the growth of the impact economy, Palladium is in the vanguard of this exciting environment, making substantial investments to support its strategic focus. We enter the impact economy not as a passive observer but as an active leader – convincing, compelling, and encouraging clients to consider the opportunities this new economy offers. For 50 years, we've helped transform the outcomes and performance of public and commercial interests through strategic and innovative solutions -- improving lives, businesses, societies, and economies. Today, we're forging the way in a new era of positive impact.

Palladium is built on the idea that progress towards the impact economy will be supported by four key pillars, each of which is fundamental to its success. With decades of experience and thousands of engagements under our legacy company belts, our newly combined company is ideally positioned to enable an impact innovation lab model, combining equal parts of time-tested, proven know-how with purposeful innovation to identify opportunities. We have unleashed our imagination and broadened our view of the evolving impact development world. The four pillars are:

International Development

Clearly, many emerging economies are outpacing the developed world in both population and economic growth. These economies offer unparalleled potential for value creation and represent some of the greatest opportunities for meaningful positive impact. At the same time, the profile of international development finance is shifting as private and commercial funders join government and non-profit donors. Organisations seeking to drive value from their investment in international development need access to leading technical knowledge, an understanding of context and a wide range of partners who can support new and innovative approaches. They also need efficient, best in class project management in order to deliver impact at scale.

Training and Events

The first meaningful forays into the impact economy have only just begun, and there are relatively few organisations that have made sustained headway and whose examples others can follow. Research is needed to collect, codify, and disseminate best practice and to develop the next wave of management knowledge. As this body of research and knowledge increases, organisations seeking to make real impact will invest in their own education if they are to become leaders in their field. Knowledge transfer is the key to sustainability, buttressing the long-term creation of value.

Impact Investing

Traditional sources of funding are built with traditional ventures in mind – but what of the projects of the future? When traditional sources of funding become less fit for purpose, new models must emerge. Impact investing is a specific type of socially responsible investment that funds organisations or ventures for which social impact is an explicit part of the strategy. Investors in this space create both economic and social value, while also enjoying returns on their investment. Investments of this type are central to the growth of the impact economy.

Strategy Execution

A key difference between true impact economy organisations and those that practice CSR is that shared value is fully mainlined into the DNA of the business model. To be more than simple lip service, impact initiatives must be actionable – and then be actioned! Whether public or private, organisations that build their strategy execution capabilities will be better positioned to take advantage of the impact economy. As evidenced by the extraordinary results achieved by those entities that have systemic, scalable strategy execution programs, every entity in the impact economy stands to achieve measurably higher results while improving their ability to execute real and lasting change. Strategy execution expertise is invaluable for the sustainability of a project by building repeatable, disciplined management systems that will support future success.


ROI: Realisation of Impact
REALISE

The global economy is a tightly interwoven ecosystem. Individual constituencies are conditioned to view that ecosystem through a particular lens that colours their perception of the role they play. Leaders in the impact economy are those who take a step back from that lens to view the ecosystem as a whole that transcends the notion of private sector, public sector and civil society as separate constituents. Each of us, as neighbours, citizens, customers, consumers, employers, and employees, will become acutely aware of the extent of our interconnectivity and interdependence. Our actions in any one area of this ecosystem sends ripples throughout it.

We are broadening our ideas about what constitutes value creation, how we develop value, and how we measure it. The private sector talks about return on investment, while the public sector seeks value for money spent. In the growing intersection in the middle, we need a blended measure that captures the combination of financial, social, and environmental returns: realisation of impact. We will find new sources of value creation in unlikely, underutilised places and in the process create enriched futures for the world. In the impact economy, we reject the notion that the economy is a zero-sum game.

We are standing on the brink of the impact economy, and it's an exciting time.

Palladium's call to action to public, commercial, and investment interests embraces this new opportunity offering a robust and actionable strategy of positive impact approaches that drive shared value. Our goal is to make your positive impact strategy possible. Join us!

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