



Making net present value fit for purpose, with Alex Edmans

Nothing is more difficult, and therefore precious, than to be able to decide
– Napoleon Bonaparte

Net Present Value is one of the most essential financial tools in the modern business arsenal. There is no major decision at the C-Suite level that isn't informed by NPV. But as firms increasingly target purpose as well as profit, how NPV be adapted for ESG-conscious decision-making – where a simple dollar-value calculation won't tell the whole story?

Alex Edmans, Professor of Finance at London Business School and author of **Grow the Pie** believes in the continued value of NPV. He has developed three principles to inform purposeful decision-making for executives: check out the primer below.



TEST 1: MULTIPLICATION

Use NPV to estimate the benefit to all stakeholders from a given decision – not just the firm.

Example: Offering childcare worth \$1000/week will benefit employees and the firm. But if an equivalent-quality local childcare provider costs \$600/week, the firm might see greater total stakeholder benefit by increasing wages instead.



TEST 2: COMPARATIVE ADVANTAGE

Evaluate whether a given investment lines up with the firm's specialisation and competitive edge.

Example: An industrial landowner could attempt to re-wild parts of its holdings to improve biodiversity. But without expertise and experience, it might be more effective use of resources to fund rewilding projects run by NGOs elsewhere.



TEST 3: MATERIALITY

Consider whether those stakeholders who would benefit most from a decision are material to the firm and its operations.

Example: In a world of scarce resources, a restaurant chain will benefit more from improving the welfare of its workforce and local community than investing in diversity efforts in a foreign country.

The three tests are drawn from chapter three of Grow the Pie: how great companies deliver both purpose and profit (2020)

You can find out more about Alex Edmans [here](#)

To find out more about Alex Edmans' work on ESG and finance, listen to his full *Conversations on Climate* episode [here](#)