Check for updates

Commentary

Making Impact Investing More Than Just Well-Meaning Capital

Business & Society
1–6
© The Author(s) 2022
Article reuse guidelines:
sagepub.com/journals-permissions
DOI: 10.1177/00076503221112864
journals.sagepub.com/home/bas

Francesca Casalini[1,2] and Veronica Vecchi[1]

Abstract
Impact investing is progressively losing focus in ensuring investments really do make a difference; therefore, the growth of the market may not make real social and environmental change. We propose three ways to put the "impact" back into the heart of impact investment.

Keywords
additionality, impact investing, impact-washing, intentionality, social and environmental impact

Back in 2007 the term "impact investing" came to light, when it was used for the first time by the Rockefeller Foundation to give a name to various forms of investments that simultaneously pursue financial returns and social or environmental goals. At that time, the market was a small niche affair, populated by just a few pioneer investors and fund managers, and most of them came from not-for-profit and social sectors. However, since then, the market has changed dramatically and become a full-fledged entity in its own right, with investment sums growing from mere millions into billions, and even trillions. According to most recent estimates by the Global Impact Investing Network and the International Finance Corporation, the total amount globally committed to Impact Investing ranged from USD 715 billion to USD 2.3 trillion in 2020, thus far exceeding forecasts made only a decade ago.

[1]Bocconi University, Milano, Italy
[2]University of St. Gallen, Switzerland

Corresponding Author:
Francesca Casalini, SDA Bocconi School of Management, Bocconi University, Via Roberto Sarfatti 10, 20136 Milano, Italy.
Email: francesca.casalini@unibocconi.it

In addition, the impact investor community has subsequently evolved and grown; it now stands as a collective mainly populated by for-profit asset management companies targeting market-rate returns. What has fallen by the wayside has been its original focus of driving positive social and envinronmental goals, as now the investors only seem interested in pursuing minimal impact affairs for people and the planet. Unfortunately, the lack of "impact" has been heightened by the unprecedented amount of capital flowing into the space, which when combined with new financial players currently entering the market, means that Impact Investing has most certainly lost track of its original key concepts and values (Hehenberger et al., 2019). In particular, intentionality and additionality, namely the proactive and purposeful search for investment opportunities that increase the quantity or quality of social or environmental outcomes beyond what would otherwise have occurred through traditional investment approaches (Brest & Born, 2013), seem now to be entirely de-emphasized. In such a context, the ultimate risk is that Impact Investing is simply no more than an advertising gimmick rather than a real force to drive change.

Impact Investing: From "Doing Good" to "Feeling Good"?

When Impact Investing originally emerged, it was conceived as an advanced model of philanthropy and venture capitalism that combined the best of both (Roundy et al., 2017). At that time, pioneers started to engage in Impact Investing with the ambitious goal to proactively solve the failings of contemporary society through new business models able to generate small and patient, yet sustainable, financial returns for investors. With this idea of helping communities and addressing pressing societal issues at its core, intentionality and additionality were at the heart of Impact Investing. Earlier debates had focused on concepts such as the relationship between financial and social returns, and whether a trade-off between the two was entirely necessary, as well as concepts such as attention to diverse and local needs, and how to redesign business models and value chains to serve communities better and more sustainably (Agrawal & Hockerts, 2021).

Starting from the mid-2010s, the interest in Impact Investing among practitioners, investors, and policymakers began to escalate, mostly thanks to supranational policy efforts such as the Social Business Initiative of the European Commission and the Social Impact Investment Taskforce established by the G8. Major mainstream asset owners and financial institutions, including pension funds and insurers, as well as banks such as UBS, J.P. Morgan, and Bank of America, have since entered the market, looking at

Impact Investing as a proper investment strategy, within a broader sustainable investing portfolio, aiming to achieve risk-adjusted market returns in a shorter investment horizon. This is where the focus draws the attention of return-oriented actors, referred to as "finance-first" impact investors, who are different from "impact-first" impact investors who prioritize impact objectives by focusing on tougher issues. The true "impact-first" investor aims to pilot new models, and usually targets patient and below-market returns or accepts higher financial risk. In contrast, the "finance-first" investors are more attracted by the interest than any impact.

With such finance-first investors providing the majority of assets in the market, the use of standardized metrics have become more and more prominent. There is now a plethora of sophisticated impact measurement frameworks and tools used to drive and measure asset allocation, which also tries to truly distinguish Impact Investing from Socially Responsible Investing (SRI) and Environmental, Society and Governance (ESG) Investing (Höchstädter & Scheck, 2015).

By focusing on optimal risk-return strategies and impact measurement tools, the complexity of societal issues, and the search for innovative solutions to tackle them, seem to be completely forgotten and ignored. It's a "prioritization of means over ends" (Hehenberger et al., 2019, p. 1,689). In addition, in an attempt to respond to increasing client interest in Impact Investing, more and more asset managers are creating funds without taking on the long and difficult work of ensuring true and honest investment impact. For example, in venture capital only, according to the latest State of European Tech by Atomico, more than 20% of investment in Europe has been channeled toward loosely defined "purpose-driven companies" and an increasing number of venture capital firms are marketing themselves as Impact Investors. These asset managers tend to invest in solutions that focus on societal challenges that are relatively easy to solve, with an impact that is neither additional nor intentional, but just easily measurable, and generate a predictable financial return for investors.

Under this approach, Impact Investing has the ability to encompass anything from venture investment in health technologies in Switzerland to microfinancing loans in South East Asia, from supporting access to education in Africa to cattle ranchers using organic feed in Germany. Therefore, intentionality and additionality of social and environmental impact seem to have become too detached, disconnected, and diluted, with the risk of turning Impact Investing into a "feel good" rather than a "do good" exercise (Freireich & Fulton, 2009). In a worst case scenario, investment firms that promise both impact and higher yields would be able to attract more capital, thus diverting much needed money away from philanthropy and impact-first investments,

while seriously decreasing the amount of resources dedicated to tackling bona fide societal challenges. As making an impact requires delivering additional contribution, we argue that sincere effort is needed to make the growth of the impact investing market genuinely correspond to proportional social and environmental change.

Impact as a Renewed Priority in Impact Investing

It is plainly obvious that the availability of more well-meaning capital to be invested in Impact Investing can certainly be beneficial for society at large. However, this is not enough to make any kind of real social and environmental impact. To avoid turning Impact Investing into a "feel good" exercise and fall for "green and impact washing," it is not too late to have additionality and intentionality put back into the heart of Impact Investing, to distinguish it from other investment approaches. Without the intentional search for additionality, it will not deliver genuine impact and simply become a refocusing of traditional investing, or a "stretched version" of ESG investing, by targeting profitable companies that have a purpose in some way related to broader societal issues.

Therefore, greater effort is needed to grow true Impact Investing over the next 10 years and mobilize well-meaning capital to drive positive change. First, it would be of great benefit to have improvements in standards, soothing rising concerns around the integrity of the field. The regulatory efforts underway to discipline ESG investments, such as the EU Taxonomy Regulation, and the ever-increasing pressure to measure the so-called impact-weighted profit, will help to create a clearer diversification between what generates additionality and what is simply socially compliant.

Second, de-risking mechanisms are needed. These would include blended finance instruments, where concessional money (i.e., capital provided by governments, supranational institutions, impact-first investors and philanthropists) is invested to attract the capital of finance-first impact investors toward more innovative and riskier investment opportunities. They could prove to be essential to fund serious societal challenges and generate authentic impact. In fact, blended finance, as a structuring mechanism, has been already experimented with in different fields, including microfinance, as an effective way to combine layers of money with different risk appetites.

Finally, to bring about a real impact revolution, there must be conspicuous effort to support a new generation of entrepreneurs and investors, with strong public value vision and commitment. On this journey, business schools can most definitely play a pivotal role in providing education for coming

generations, through the promotion of new skills and vision. Schools should deeply revise the curricula of their MBAs and Masters of Finance, which are, regrettably, still focused on economic theories, financial models, and management studies, and stimulate more connection with not-for-profit, public and social enterprise values and practices.

Acknowledgments

The authors are grateful to Luciano Balbo for inspiring discussions about the trajectories of Impact Investing. In addition, the authors would like to thank co-editors Frank de Bakker and Hari Bapuji for their constructive and useful feedback on earlier versions of the manuscript and for their exceptional editorial steer that helped move this commentary toward publication.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The authors received no financial support for the research, authorship, and/or publication of this article.

ORCID iD

Francesca Casalini https://orcid.org/0000-0002-8514-6097

References

Agrawal, A., & Hockerts, K. (2021). Impact investing: Review and research agenda. *Journal of Small Business and Entrepreneurship*, *33*, 153–181. https://doi.org/10.1080/08276331.2018.1551457

Brest, P., & Born, K. (2013). When can impact investing create real impact? *Stanford Social Innovation Review*, *Fall*, 22–31. https://doi.org/10.48558/JFWQ-GZ70%0A

Freireich, J., & Fulton, K. (2009). *Investing for social & environmental impact*. https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-monitor-Investing-for-Social-and-Environmental-Impact-2009.pdf

Hehenberger, L., Mair, J., & Metz, A. (2019). The assembly of a field ideology: An idea-centric perspective on systemic power in impact investing. *Academy of Management Journal*, *62*, 1672–1704. https://doi.org/10.5465/amj.2017.1402

Höchstädter, A. K., & Scheck, B. (2015). What's in a name: An analysis of impact investing understandings by academics and practitioners. *Journal of Business Ethics*, *132*, 449–475. https://doi.org/10.1007/s10551-014-2327-0

Roundy, P., Holzhauer, H., & Dai, Y. (2017). Finance or philanthropy? Exploring the motivations and criteria of impact investors. *Social Responsibility Journal*, *13*, 491–512. https://doi.org/10.1108/SRJ-08-2016-0135

Author Biographies

Francesca Casalini is Junior Lecturer of Government, Health and Not for Profit at the SDA Bocconi School of Management, Italy, and Research Assistant of Systemic Management and Public Governance at the University of St. Gallen, Switzerland. Her areas of expertise include public-private collaborations, ecosystems for public value creation, impact investing and new entrepreneurial models with an impact on communities.

Veronica Vecchi (PhD, Università di Parma) is Full Professor of Practice of Government, Health and Not for Profit at the SDA Bocconi School of Management, Italy, where she serves as Director of the Impact Investing Lab, Director of INVESTinIT Lab and Director of the Research Observatory on Public Procurement for the Health care Sector. She is also Director of Executive Education and Director of the International Executive Masters in Business at the SDA Bocconi Asia Center, India. Her areas of expertise include public–private collaborations, impact investing and social innovation, and infrastructure financing. She is author of several scientific papers and books on these topics.