

EMPOWER YOUR KNOWLEDGE

MILANO | ITALY

Divisione Ricerche “Claudio Dematté”

Our approach to Impact Investing

In partnership with

Oltre
VENTURE CAPITAL SOCIALE

impact Lab
INVESTING

Impact Investing is becoming a keyword in the international lexicon, in the academia and in practice. It does not express, actually, only a financial instrument, referring to investments able to match social and financial returns. It is assuming a broader meaning, drawing the line of a new and potentially wide and relevant market, where innovation, entrepreneurship, management, finance, sustainability and public policies mix themselves to create and shape new approaches to answer communities needs, both in mature and emerging economies.

The **IMPACT INVESTMENT Lab** is an initiative of **SDA Bocconi** and **Oltre Venture** to study and foster the impact investment and to support private and public players to develop their own impact investing initiatives.

Our AIM

- ★ to study the Impact Investment current trends and future evolutions to understand the conditions required to support its development as an industry
- ★ to gather cases, experiences, players and stakeholders to assess and disseminate good practices
- ★ to stimulate coevolution and reciprocal understanding of entrepreneurs, policy makers and investors
- ★ to support policy makers in the building of a favorable ecosystem for impact investing growth
- ★ to sustain innovators in business and society to develop and action entrepreneurial ideas aimed at tackling the most pressing social and economic issues

The background

The edges of impact investing are still blurred, spanning from social enterprises and social innovation to shared value creation or blended value generation.

Despite its ambiguous meaning the word has an increasing influence both in academia and in practice.

Several entrepreneurs are moving from traditional private or not for profit sectors to impact investing; investment banks are setting up dedicated funds to support start ups; policy makers are relying on these new businesses, through partnership schemes, to find innovative answers to the most compelling societal needs.

Contemporary economy and society have relied for a long period on the contraposition between State and Market: the former in charge of generating a social impact and the latter focused on maximization of shareholder value. However, this dichotomy seems no more able to capture the complexity of relations between public and private organizations and to solve today's problems which affect communities, not only in developing countries (Mintzberg 2012, Moore et al. 2012).

For this reason, in the last few years, in the academy and in the practice, there has been a relevant effort in identifying and studying new approaches able to deal with contemporary economic and societal challenges.

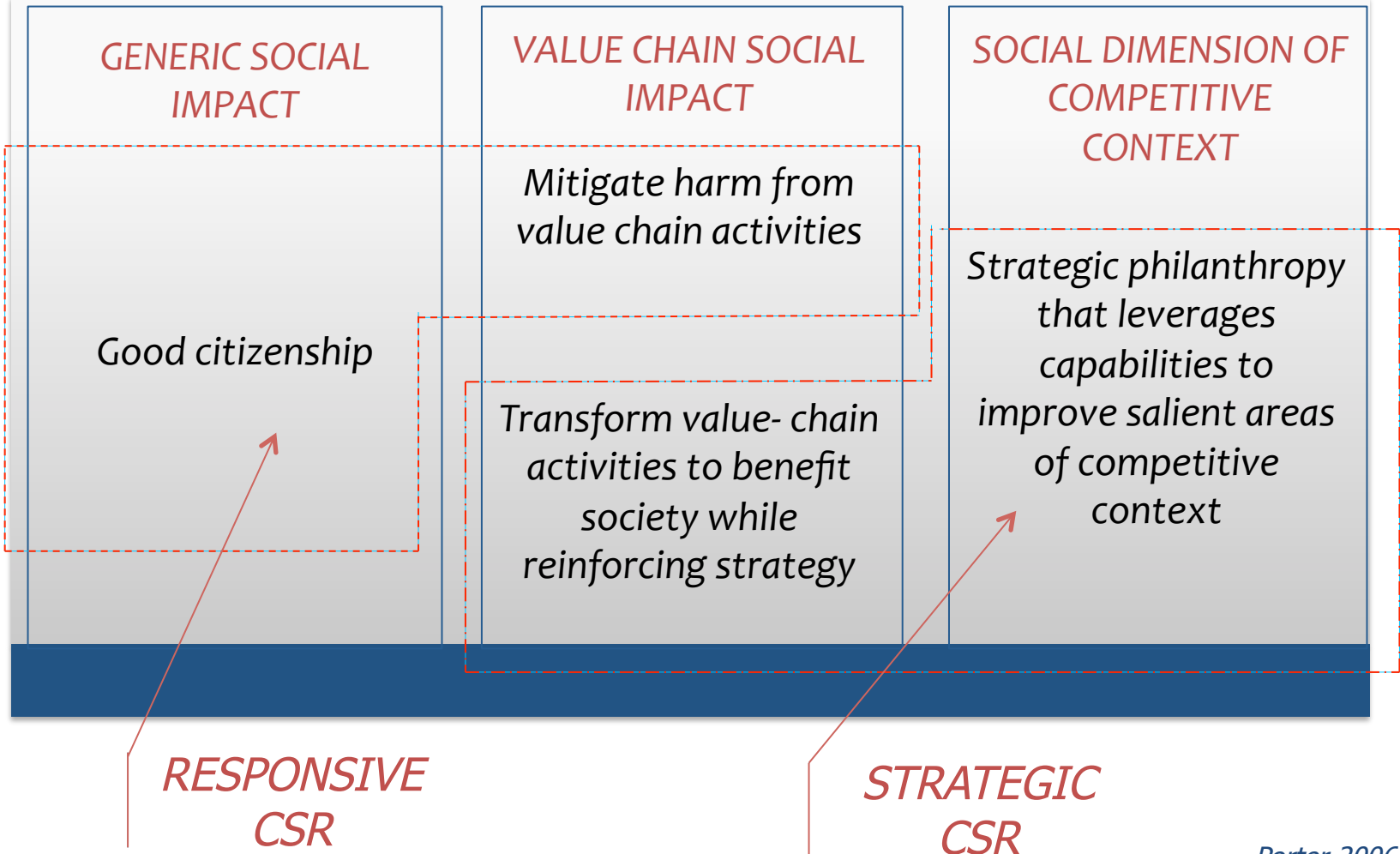
Three main streams have emerged, sometimes with deep interconnections: CSR (Porter 2006), social enterprise (Wallace 1999, Johnson 2000, Alter 2004) and social innovation (Kanter 1999, Mulgan 2007).

Social enterprise has captured the attention of many professionals and scholars in the last years (Bacq and Jansen 2012). Behind different definitions, the social enterprise's concept captures and describes organizations that adopt managerial models and tools to better answer societal needs. Therefore, it may be useful the suggestion (Nicholls 2008) to approach social enterprises through the entrepreneurial and management lenses in order to overcome academic or judicial speculations, though it is important to understand the peculiar differences with traditional businesses.

With reference to **Social Innovation**, the literature has developed so far several definitions, which have been well analysed by Pol e Ville (2009), who propose a pragmatic definition: “creation of new ideas able to generate a positive impact on the quantity and quality of life”, overcoming the assumption that social innovation is generated by social organizations or through a philanthropic approach (Mulgan 2007). Notably, social innovation could be also generated by for profit organizations (Kanter 1999), within CSR programs or approaching new potential clients (often among fragile segment of the society) that can create the stimulus to innovation.

Social Innovation as a key of competitive advantage drove Porter (2006) to conceptualize a new perspective to **CSR**, from a traditional responsive approach (based on corporate citizenship) to a strategic approach (see the next slide). **Strategic CSR** was then further expanded to conceive the **Shared Value Creation** (Porter 2012).

Corporate Involvement in Society: A Strategic Approach

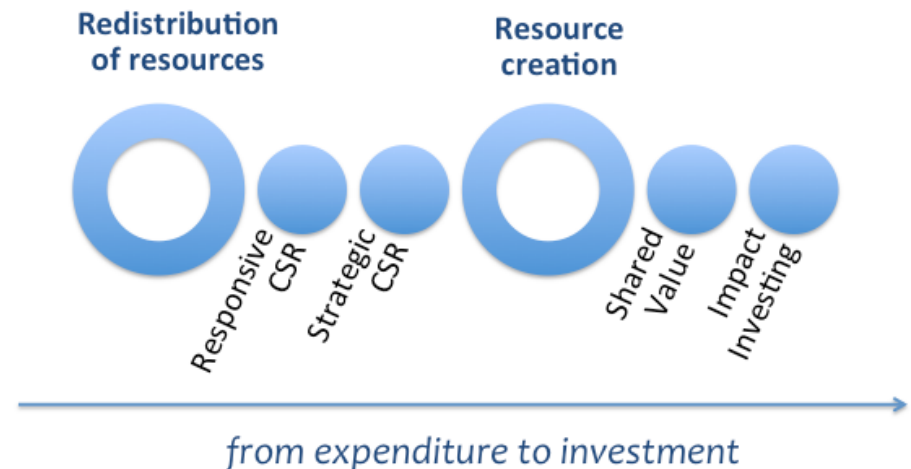


Shared value can be defined as “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates”.

Shared value makes the boundaries between profit and not for profit blurred: creating blend value means meeting social value by using viable business model, thus generating economic and social value. It is therefore the production of the economic value in a way that creates value also for society by addressing its needs and challenges.

Differently from CSR, it is not redistribution of value already created, but it is creation of a new value as a new scope of the business and not as a peripheral output/outcome (again as within CSR).

An approach that, Porter says, should be recognized and strengthened by Governments, which are often unable to look after the increasingly complex and diversified social needs.



Towards Impact Investing

Several are the definitions given to impact investing, however the concept still remains loosely outlined.

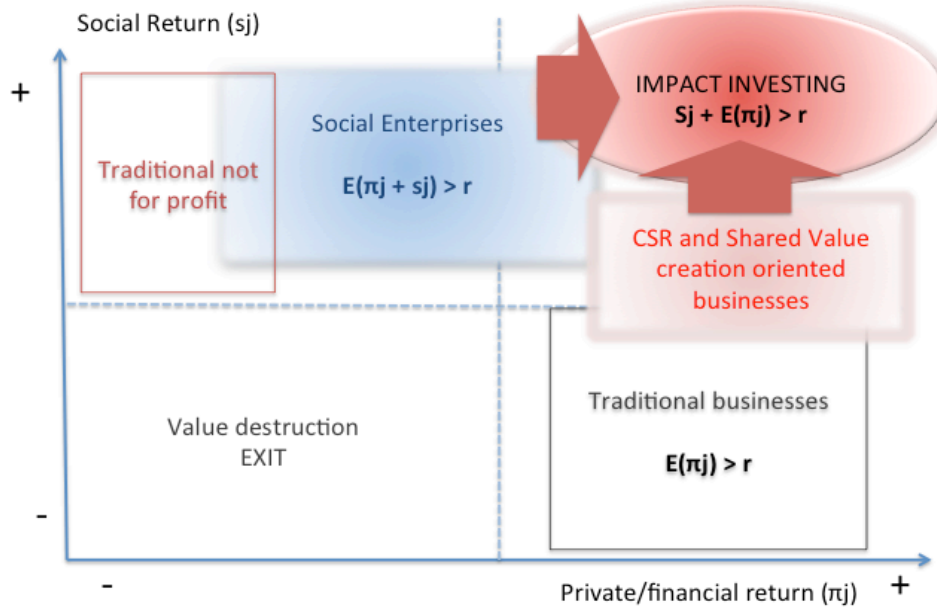
The World Economic Forum, similarly to other Institutions, defines the Impact Investing *an investment approach that intentionally seeks to create both financial return and measurable positive social or environmental impact.*

It is however a broad definition, which defines above all the mission of impact investing. Therefore, we believe that the best definition would come from the street level, from a conceptualization rooted in the concrete experience. **This is ultimately the approach of Impact Lab, whose aim is to stimulate, support and observe initiatives in order to concretely contribute to impact investing development.**

The following figure could be useful to contribute to discuss the impact investing domain. Based on Stiglitz and Wallstein (1999), it places impact investing as an evolution from social enterprise and CSR/shared value-oriented business. However, how to place or interconnect these domains is still a open question, as practitioners and scholars are still discussing the meaning of blended value and blended value generation (Emerson 2003):

- does it means that the social return can compensate a reduction in the financial return, as captured in the picture by the formula $E(\pi_j + S_j) > r$, mainly referred to a broad definition of social enterprise?
- or does it means that financial return should be set at commercial or market value if the aim is to make impact investing an asset class, capable of attracting the necessary funds to scale and spread innovation, as captured in the picture by the formula $S_j + E(\pi_j) > r$, where the social return could represent a gate or a precondition to generate the financial returns?

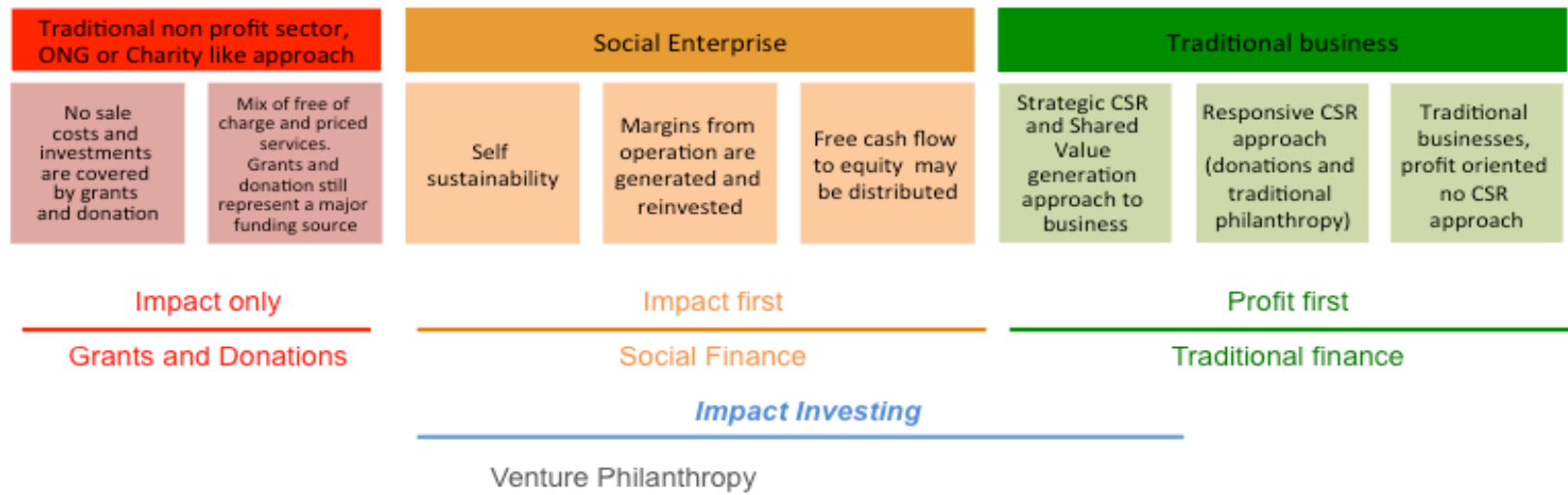
Moving to Impact Investing



$r = \text{risk adjusted opportunity cost of the capital}$

Tracing the boundaries between the Porter's concept of shared value creation and Impact Investing may be difficult. However, if shared value creation may be a frontier for companies working in "traditional sectors", impact investing could represent a market niche in which new business models/social innovation could trigger the generation of new businesses in sectors that could be critical for improving the quantity and quality of life.

A tentative legend of different form of businesses

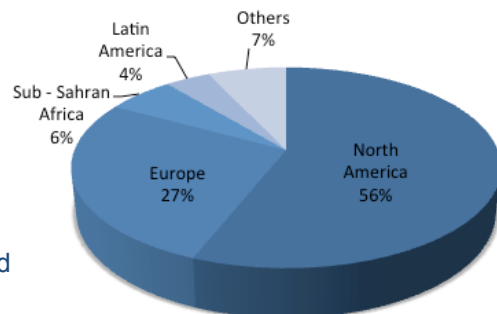


Impact investing has stimulate the interest also of financial community, both of Institutions historically committed to social sector (foundations and philanthropist) both of those operating in the traditional debt and equity markets. The first are looking for a diversification of fund allocation in order to expand the scale of the impact that could be potentially generated.

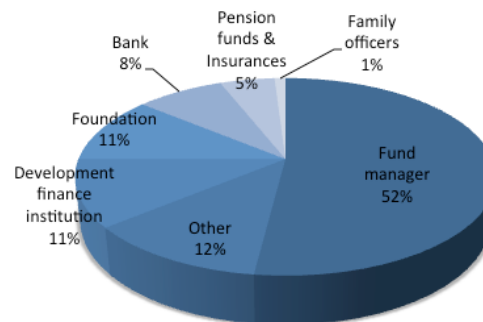
The second are maybe looking for new market niches that could be able to secure the expected financial returns or where to find diversification opportunities?

J.P. Morgan and Global Impact Investing Network (GIIN) are trying to profile these impact investors. In their recent 3rd survey (January 2013) they reached 99 impact investors, who have allocated USD 36bn to impact investments since their inception, of which USD 8bn was committed in 2012 and USD 9bn represents the target for 2013. This is a first attempt to analyse this market: the majority of respondents are located in North America, they are mainly fund managers that invest directly in businesses, through equity (83%) and/or debt (66%) and/or equity – like debt (44%). The main sectors in which they invests are: food and agriculture, healthcare, financial services, education, housing, energy, water and sanitation, both in emerging and in developed markets.

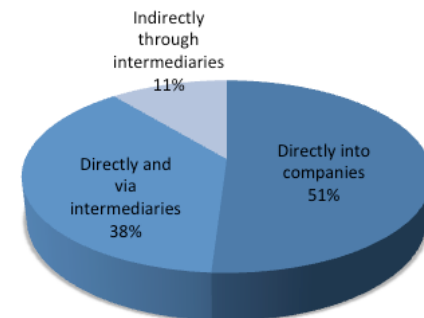
Impact investor location



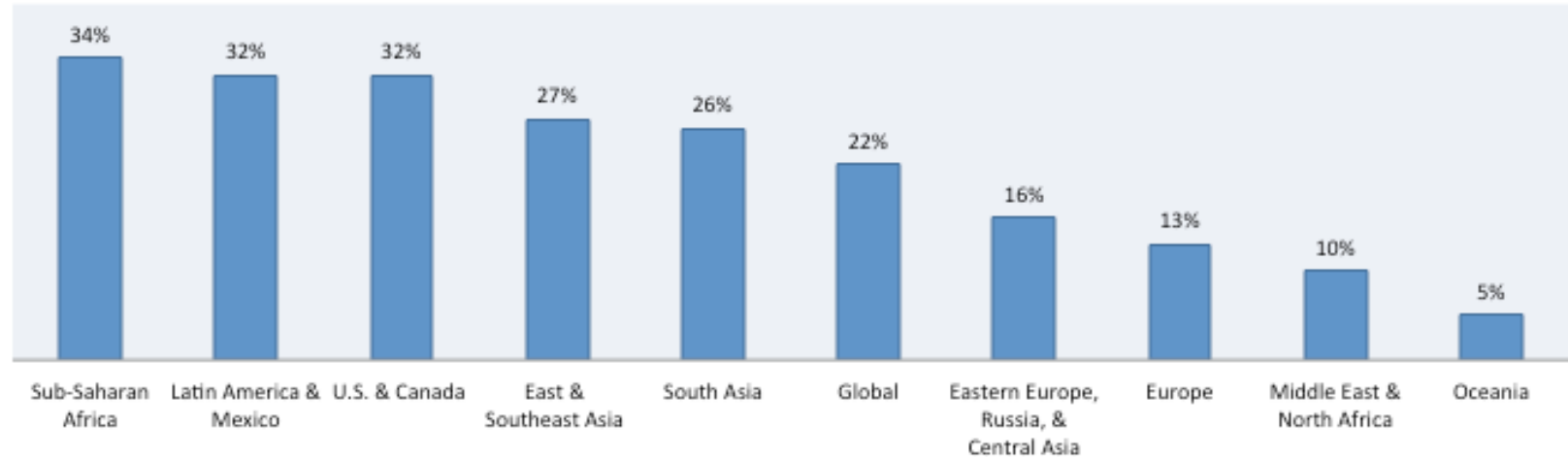
Impact investor profile



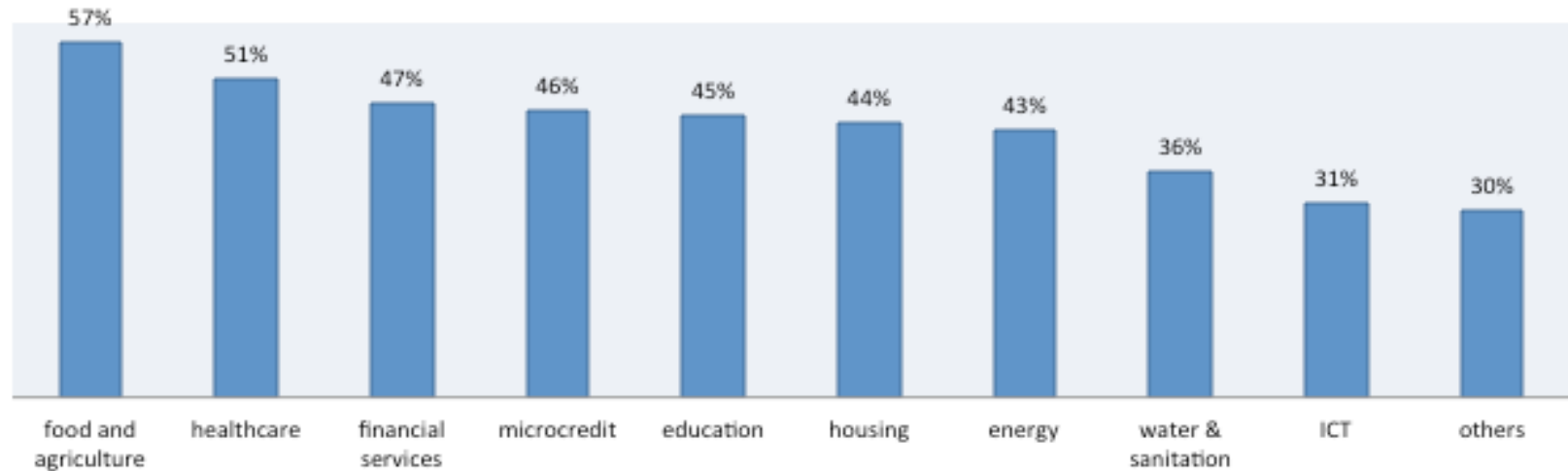
Investment strategy



Impact investing geographical target



Impact investing target



Investors expressed more than a geographical and sectorial target for their investments

Impact Investing meets the Public Sector

Impact investing could represent a new approach in sectors where the answers provided so far by public organizations appear insufficient, or no more able, to deal with complexity and diversification of needs in contemporary plural societies.

By nature, impact investors represent a marriage of public and private interests (Bendell et al. 2011). They combine a commitment to improving public welfare with the power and efficiency of capital markets (Clark, Emerson and Thornely 2013).

Therefore, the public sector may play a strategic role for the development, consolidation and expansion of impact investment, through:

- the creation of an adequate ecosystem (with macro and microeconomic actions – the public sector as legislator and regulator)
- partnerships, which can assume different geometries and therefore defined by Mintzberg (2012) as “plural public private partnership”
- procurement for innovation.

Probably, the last two forms, mainly put in place at street level, next to pioneers, investors and stakeholders, may be particularly useful to experiment impact investing models. However, Impact Investing may develop even regardless the public sector, which is one of the main stakeholder at least in Europe and in developed countries.

The next steps

As Impact Investing is a phenomenon in evolution and under consolidation, the Impact Investing Lab intends to apply mainly a qualitative approach, based on cases analysis, ethnographic research and focus group with players and stakeholders, to study Impact Investing.

To attempt a first definition of impact investments, we will run interviews to some international investors, who defined themselves as impact investors.

Results will be discussed with some international players (professionals and scholars) and throughout an inductive – deductive approach we will define a framework useful to make a contribution to theory and practice.

Even though the Lab will analyse impact investing from the perspectives of entrepreneurs, financiers and policy makers, our first effort will be dedicated to understand how new impact investing cantered businesses can be created: what can be considered an impact investing business model? why is it different? what are the social and economic expected returns? Answers to these questions are preconditions to understand how funds can be attracted and channelled and how policy makers could create the suitable ecosystem and room to develop and scale impact investing businesses.