



POSITION PAPER

IMPACT INVESTING: BEYOND CSR AND SOCIAL ENTERPRISE

Impact Investing: beyond CSR and social enterprise

Veronica Vecchi, SDA Bocconi School of Management

Niccolò Cusumano, SDA Bocconi School of Management

Manuela Brusoni, SDA Bocconi School of Management

1. Introduction

Impact investing is the new buzzword: the concept first proposed by the Rockefeller foundation back into 2007/2008 immediately attracted the interest of donors, financial institutions and Governments. Both the G8 and World Economic Forum launched initiatives on this issue; the UK and the US Governments and the EU have allocated resources to develop the nascent industry.

However until now impact investing lacks a clear definition and it is often mixed up with other related concepts: Socially Responsible Investing, Social Investing, Sustainable and Responsible Investing, Blended Value, Values-Based Investing, Triple-Bottom Line, Mission-Related / Mission-Driven Investing, Ethical Investing, Program Related Investing (Robeco 2009).

Should we consider impact investing “just” as a CSR practice undertaken by financial institutions, in order to polish their brand tarnished by the collapse of Lehman Brothers and junk bonds? A new financial product to be offered to environmental and social conscious investors (mainly institutional and high net worth individuals) frustrated by traditional approaches or to social enterprises, with very constrained access to capital (Bugg-Levine and Goldstein 2009)? Or are we dealing with a radically new paradigm that won’ t only provide a new investment approach or evaluation metrics, but a new framework that recasts the relation between business, society and government in what has been called “the fourth sector” (Sabeti 2009)?

The aim of this paper is to shed the light on the blurred concept of impact investing, trying to understand its background and evolution. As discussed later in section 3, its roots could be found in the CSR, stakeholder and social enterprise theory and practice, but now we need to frame its peculiarities to

understand the boundaries and the synergies with corporate strategies and therefore also with the CSR itself.

So far impact investing has been mainly perceived as a new invest approach, a way to attract and channel more resources into social ventures. However, in our opinion it might represent a way to reconsider the view of business as opposed to society and government. Indeed, this perspective has not been deeply analysed and debated so far. This paper will try to do it!

This paper after an analysis of the different definitions given to the concept of impact investing, traces back at the reason why it has emerged and looks at the relation with CSR and Social Enterprise theories. In the conclusions it discusses the real innovativeness of impact investing as a way to overcome a traditional approach to CSR, thus stimulating businesses and investors to generate those innovations necessary to change the way in which they operate.

2. Impact Investing: looking for a common definition

The term “impact investing” was coined at Rockefeller’ s Bellagio Centre on the rivers of lake of Como in Italy back in 2007 (Rodin and Brandenburg 2014). The goal of the American foundation was to build “a worldwide industry for investing for social and environmental impact” (Rockefeller Foundation 2012). The idea is that social ventures lack access to capital in order to build a sufficient scale to address social and environmental challenges they are facing. In 2009 the Monitor Institute, established by professor Michael Porter, provided the first definition of impact investing. Since then the term has attracted the interest of several other institutions and has in part evolved as shown in table 1. Alongside Rockefeller Foundation, financial institutions, like J.P. Morgan and Credit Suisse have been the main promoters. In 2008, in the wake of the financial crisis, these organizations launched the Global Impact Investing Network, which in 2014 groups 199 members¹.

¹ <http://www.thegiin.org/cgi-bin/iowa/network/members/index.html>

Table 1: impact investing definitions

Author	Institution	Definition
Freireich & Fulton (2009)	The Monitor Institute with support of Rockefeller Foundation	<i>Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor</i>
Donohoe & Bugg-levine (2010)	J.P. Morgan	<i>Investments intended to create positive impact beyond financial return</i>
The Parthenon Group (2010)	Report commissioned by Bridges Venture & GIIN	<i>Actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor</i>
Grabenwarter & Liechtenstein (2011)	IESE University	<i>Any profit-seeking investment activity that intentionally generates measurable benefits for society</i>
Brown & Swersky, (2012)	Boston Consulting Group for Big Society Capital	<i>The provision of finance to organisations with the explicit expectation of a social, as well as financial, return</i>
Credit Suisse, (2012)	Credit Suisse	<i>Investments made with the primary intention of creating a measurable social impact, with the potential for some financial upside. The investment may face some risk of financial downside, but no deliberate aim of consuming capital as with a charitable donation</i>
Brest & Born (2013)	Stanford University and Hewlett Foundation	<i>Actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market</i>
World Economic Forum, (2013)	World Economic Forum	<i>An investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured</i>
The Global Impact Investing Network (GIIN)	GIIN	<i>Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return</i>

Rodin & Brandenburg, (2014)	Rockefeller Foundation	<i>A middle way between philanthropy and pure financial investment. A means of using capital to drive financial value and social environmental impact simultaneously.</i>
--	------------------------	---

Discussion and research in the professional and academic communities have been deployed mainly around some issues, discussed below: nature, distinguishing features, outcome and market dimensions.

- a. **Nature:** the first issue has been to classify impact investing. Freireich & Fulton (2009) defined it as an industry; later Donohoe & Bugglevine (2010) as an asset class; finally the World Economic Forum (2013) classified impact investing an investment approach or “a lens through which investment decisions are made” ².
- b. **Distinguishing features:** the second issue has been to define features that distinguish impact investing from philanthropy, venture philanthropy socially/environmentally responsible investing (SRI) and pure financial approaches. This issue is going to be analysed in section 2.1. In a nutshell, the main features of impact investing are (Brest and Born 2013a; Rodin and Brandenburg 2014):
 - Intentionality of social and/or environmental impacts, that makes the difference from a pure financial investment;
 - Additionality, it means that the investment must increase the quantity or quality of the social or environmental outcome beyond what would otherwise have occurred in case of a traditional investment;
 - Generation of financial returns, that marks the difference with a philanthropic approach.
- c. **Outcomes:** generating financial returns alongside environmental and social impact raises the question of the existence of a trade-off between social and financial returns and the dichotomy between

² An asset class as defined by investopedia is “a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments).”

profit versus not for profit (Grabenwarter and Liechtenstein 2011). This reflects the longstanding debate around the positive/negative contribution (or contribution at all) of CSR practices on companies performance (Barnett and Salomon 2012; Carroll and Shabana 2010; Cochran and Wood 1984; McGuire et al. 1988; Schreck 2011; Soana 2011; Tang, Hull, and Rothenberg 2012). According to Koh, Karamchandani, & Katz (2012) and all other authors cited in *table 1*, Impact investing seems to be able to attract in a stable way financial resources to be invested in companies able to generate that combination of value. The basket case is microfinance that from a pure philanthropic activity has become an 8 billion \$ global industry (MicroRate 2013). Even if we take for granted the generation financial returns by impact investments, it is still unresolved the issue about how social/environmental impact is defined, measured and correlated to financial performance (Reeder and Colantonio 2013). However, according to Grabenwarter & Liechtenstein, (2011), “a strategic approach to impact investing involves a strategic choice of sector; research-driven investment target selection with an organised deal funnel; strategic choices in asset allocation and portfolio strategy; and deliberate choices in impact and financial returns. The result is a clear definition of the target business models: how to produce social impact and financial return, and the expected scope and scale per deal.

- d. **Market dimension of impact investing:** the last matter of debate is the market dimension of impact investing. Freireich & Fulton (2009) of Monitor Institute estimate a potential demand in 2020 of \$500 billions; Donohoe & Bugg-levine (2010) of J.P. Morgan foresee a potential demand at 2020 ranging from \$400 billions to \$1 trillion. Calvert Foundation (2012) in 2012 report a market potential of \$650 billions. The World Economic Forum (2013) scales down these estimates, and, even though it doesn’ t provide a forecast, it points out that a market of \$25 billion in 2012 will need to grow by 53% per year in order to reach previous estimates. It is worth noting that these numbers considers capital that could be potentially invested and not the demand of capital (i.e. eligible projects/enterprises). As

discussed in point c) we may wonder if cases like microfinance could be actually replicated. In fact, the authors here quoted, has provided so far only anecdotal evidences. The deal flow of suitable investment is certainly an issue in the development of impact investment. As noted by McGoe (2014), Acumen Fund, a non-profit group that funds market-based solutions to development challenges, analysed 5.000 potential companies over 10 years and it invested in just 65 of them. Brown & Swersky (2012) of Boston Consulting Group estimated that there could be a potential demand from the social sector of £1 billion by 2016, in the UK only.

Based on the literature and the discussion so far, we can say that impact investing could be a new approach to:

1. Reconceive the way in which investors (i.e., individuals, foundations, investment funds, pension funds, sovereign wealth funds) allocate capital;
2. Generate a social/environmental impact intentionally, which should also be additional, measurable and correlated to the expected return on capital;
3. Generate a financial return intentionally, correlated to the expected impact and the risk embedded.

Impact investing may thus help to build innovative business models that can lead to the development of new enterprises in sectors where the Government is retreating or cannot cope with demand; or traditional non-profit organizations haven't been able to generate a meaningful impact in a sustainable way because of the lack of capacities and resources, which have hampered the scalability of their initiatives.

Impact Investing is therefore an approach that magnifies the concept of firm value creation for the primary benefit of shareholders, made possible by "reverse strategies" or social innovation solutions.

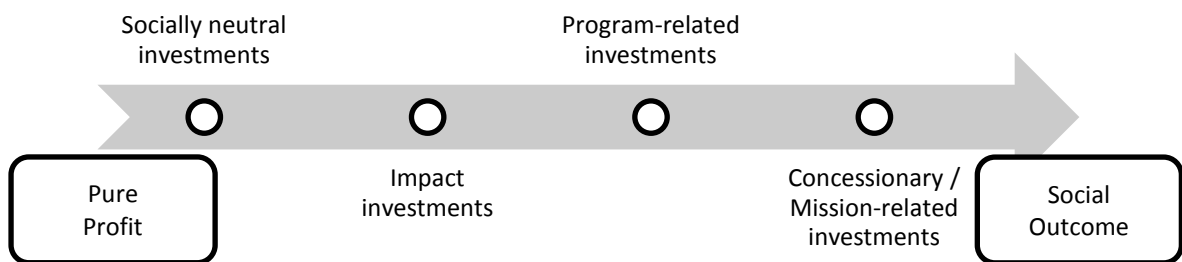
2.1 Where to position impact investing

As shown above, Impact Investing is different from concepts like socially Responsible Investments (SRI), venture philanthropy and traditional financial investments. To better address these differences, we position these

approaches along an investment continuum, which ideally shows the increasing investor propensity to include a social dimension in the asset allocation.

At one end we find socially neutral investments that look only at maximizing financial returns. At the opposite we find concessionary investments, also known as donations, or mission related investment, since the investment is motivated only on the basis of the mission pursued, without taking into consideration financial performance (B. P. Brest & Born, 2013). In between there are the so-called program-related investments that look at the financial sustainability of the programs financed (such as venture philanthropy): they ask a repayment of capital invested (the principal), but not a financial return. Whereas, impact investing looks not only at the payback of capital invested but also at a financial return.

Figure 1: the investment continuum³



So, if we define the investment decision as a function of the equation:

$$E(\pi) + E(S) \geq r$$

Where:

$E(\pi)$: Expected financial return

$E(S)$: Expected social impact return

r : Risk adjusted opportunity cost of the capital

³ Adapted from the framework laid down by (Brest and Born 2013a; Pinsky 2011)

B. P. Brest & Born (2013) and Freireich & Fulton (2009) define a pure profit driven and socially neutral investment when:

$$E(S) = 0$$

so that the investment function is:

$$E(\pi) \geq 0$$

In other words, a pure profit driven investment is made only if the return on investment is higher than opportunity cost of the capital.

In case of mission – related /concessionary investments the expected financial return $E(\pi)$ may tend to 0, since the main motivation of the investor is social. Therefore, the equation results as follow:

$$E(S) \geq r$$

It means that the donation occurs only if the expected social return is higher than the opportunity cost of the capital. The donor does not expect to get its money back; it expects its money to generate a social benefit. It considers the investment a failure only if that social benefit, as it has been defined, is not created (Brest and Born 2013a). Actually, in this second situation it would be more appropriate to apply a social (discount) rate (Layard, 1972): however, the debate on which may be the suitable interest rate to apply is rooted in the economic literature and, with reference to philanthropic investments, it is still an open issue in the studies and applications of SROI (social return on investment) (Emerson and Cabaj 2000).

Impact investment can be placed between the two opposites. However, it may be useful to understand also the differences with other form of hybrid investments such as program related investments ⁴, where financial performance is still required but it is subordinated to the social/environmental outcome. Impact Investing, in fact, put at the same

⁴ Concessionary investments are defined as investments whose primary purpose is to accomplish one or more of the foundation's exempt purposes and where production of income or appreciation is not a significant purpose. IRS, "Program Related Investments," <http://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Program-Related-Investments> (April 30, 2013). PRIs count toward a foundation's required minimum annual distribution, or pay-out.

level of importance the social outcome and the financial performance of an investment. Moreover Impact investing aims to correlate explicitly the two dimensions, which does not occur in the other approaches.

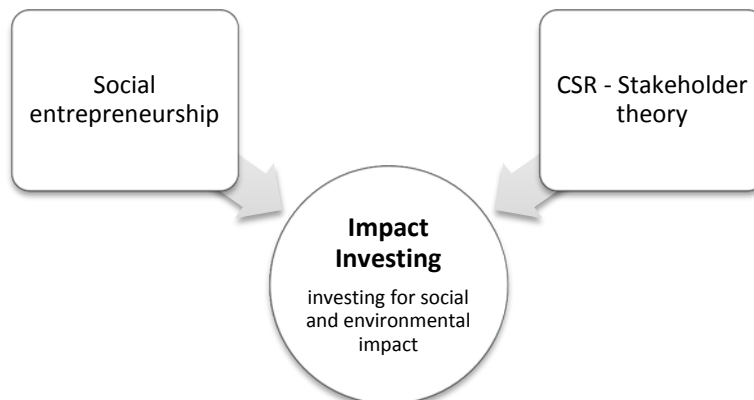
As clearly stated by Grabenwarter & Liechtenstein (2011) “if one accepts the positive correlation between the impact to be achieved and the financial sustainability of the underlying business model as a prerequisite for impact investing, the trade-off between social impact and financial return can no longer be the decisive factor in investment selection” .

3. Impact investing, a solution to old dilemmas?

Among the definitions given to Impact Investing reported in Section 2, now we want to focus on the one provided by the Rockefeller Foundation (2012), which described it as way to build “a worldwide industry for investing for social and environmental impact” .

From a theoretical perspective, this goal stems at least from two schools of thought: social enterprise/social innovation and CSR/Stakeholder theories.

Figure 2: the contribution of social entrepreneurship and CSR-Stakeholder theories to impact investing



The first stem – social entrepreneurship – constitutes both the approach and the target of impact investing. We define it as “an approach” because impact investing aims at recombining financial returns and social/environmental impact, as social entrepreneurship does. Social ventures then constitute the target of impact investors (see section 3.1). The second stem, CSR and stakeholder theories, provides on the one hand the

reason why institutional investors (asset managers, pension funds, foundations, corporations) allocate resources into impact investing; on the other hand it provides a theoretical framework to address the multidimensionality of value creation (see section 3.2).

3.1 Impact investing, social enterprise and social innovation

The combination of financial sustainability and social impact are often merged into social enterprises (Austin, Stevenson, and Wei-Skillern 2006; Dees 1998; Peredo and McLean 2006; Wallace 1999; Weerawardena and Mort 2006) or can be made possible through social innovation (Kanter, 1999; Mulgan, et al., 2007). These two elements have become crucial in the last years, in theory and in practice, to address the more and more serious economic and societal challenges.

According to Dees (1998) a social enterprise is mission-related, and wealth creation is just a mean to reach the desired impact. The European Commission (2011) posited that the social enterprise is an operator in the social economy, whose main objective is to have a social impact rather than make a profit for their owners or stakeholders. These definitions do not exclude the possibility of profit generation, as ventures created by social entrepreneurs can certainly generate income, and they can be organized as either not-for-profits or for-profits (Martin and Osberg 2007). 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 2006) 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 & Ville (2009), who propose a pragmatic definition of social innovation as: “(the) 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 (Mulgan et al. 2007). Indeed, Kanter (1999), looking at the examples of IBM and Marriot Hotels, shows that social innovation is not

necessarily generated by social enterprises or through a philanthropic approach; it can be, on the contrary, generated also by private for profit companies, by looking at new targets that can create the stimulus to innovation.

The opportunity or the urgency to create a social impact has created stimuli also on the financial side, with the aim to identify the most appropriate financial strategies and instruments to fund social enterprises and scale social innovation. In this sense, impact investing is often perceived as a way to channel resources into and fund social enterprises. Therefore, some social financial instruments have been quickly associated in the practice to impact investing, such as: Social Lending; Social Impact bond; Venture Philanthropy (as equity investment).

However the capacity to attract capital relies on performance measurement (Leonard, McDonald, and Rangan 2008) and the balance between financial return and social return still remains for many an open dilemma.

The view of impact investing as a way to channel resources into the social enterprise is clearly summarized by the Commission on Unclaimed Assets (The Commission on Unclaimed Asset 2007), set up by the UK Government, which led to the establishment of the first public impact investing fund in Britain. It reached the following conclusions⁵:

- *If the third sector is to continue to grow and meet its goal of supporting marginalised communities in a way that neither the state nor the private sector can, it urgently needs greater investment and professional support. Suitable capital should be available for organisations at all stages of development, from charities without trading revenue all the way to social enterprises that reinvest some or all of their profits in their mission and commercial businesses with a social purpose.*
- *The most effective way of providing significant capital to the third sector is by facilitating access to private finance as well as to the broader capital markets.*

⁵ Page 1 conclusions 1 and 5

In the table below, we have traced the main steps undertaken by scholars and practitioners in the “social enterprise journey” towards the definition of the social business model and the measurement of social value as one of the core issue for the impact investing affirmation.

Table 2: the long journey of social enterprise towards impact investing

1996	New social entrepreneurs: The success, challenge and lessons of non-profit enterprise creation (Emerson and Twersky 1996) : the paper provides a first definition of social enterprise as different from a traditional not for profit organization and a business enterprise
1997	Virtuous Capital: What Foundations Can Learn from Venture Capitalists, Harvard Business Review (Letts, Ryan, and Grossman 1997): the authors propose a new approach to donation, borrowing from lessons learnt in the venture capital industry
1998	The Meaning of “Social Entrepreneurship” (Dees 1998) : the article appeared in Harvard Business Review provide one of the most known definition of social entrepreneurship putting a strong emphasis on innovation and accountability
1999	Philanthropy’ s New Agenda: Creating Value (Porter and Kramer 1999): the two authors call again a change of the approach of foundations and in general grant-making asking for more accountability on results achieved and a professional approach in grant-making
2000	Enterprising Communities: Wealth Beyond Welfare (Social Investment Task Force 2000) the report start to investigate the new role of private sector in providing public services Social return on investment: Exploring aspects of value creation (Emerson, Wachowicz, and Chun 2000): the paper calls for a more scientific approach in the way impact is measured
2003	The blended value proposition: Integrating social and financial returns (Emerson 2003) the article and suggest that financial and social performances may be integrated
2004	Unleashing Entrepreneurship: Making Business Work For The Poor (UNDP 2004) also international institutions start to overcome a traditional approach to economic development based on donations, moving towards the use of market instruments

3.2 Impact investing, CSR and stakeholder theories

The notion that the firm has to be made accountable for the effects of its practices on the environment is certainly not new. The calculation of Pareto optimality of a firm activity, according to welfare economics, should also factor in “indirect” aspects such as pollution, job destruction/creation that affect society and natural environment at large. Moreover investment decisions, according to social choice theories, are not only the result of the maximization of profit function, but the aggregation of individual preferences.

Management studies translated these ideas into stakeholder and CSR theories. Stakeholder theory rejects profit maximization as a single overarching objective of the firm, and affirms that a company is accountable towards any group or individual who is affected by, or can affect directly or indirectly, the achievement of its objectives (R Edward Freeman et al. 2010; R. E. Freeman 1984; Jensen 2010). This lead the way to CSR which assumes that the responsibility of a firm goes beyond its economic and legal duties (Carroll 1979, 1991; Garriga and Melé 2004) and according to some authors it outstretches to the administration of citizenship rights (Matten and Crane 2005; Windsor 2006).

However traditional approaches of both stakeholder and CSR theories fail to embed social/environmental considerations in the value creation process of a firm. The strategic approach to CSR (Baron 2001; Bhattacharyya 2010; McElhaney 2009; Porter and Kramer 2006), lately evolved into shared value (Porter and Kramer 2006, 2011), attempts to solve some issues related to the social responsibility (Carroll and Shabana 2010; Schreck 2011) of a firm and to overcome the questions associated to value identification and measurement, as emerged in the classical stakeholder theory (Crane, et. al, 2014).

Porter & Kramer (2006) argue that good citizenship, generic philanthropic contributions to local charities as well as mitigation of harms produced don’ t maximize the capacity of a company to generate value for society. On the contrary, a business should “identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit” .

Notably, by making social impact integral to the overall strategy, by using the words of Porter & Kramer (2006), businesses embed the social value into their profit generation objective, according to a new capitalist paradigm, described by the authors as “profits that create societal benefits” (Porter & Kramer 2011). Their strategic approach to CSR, as opposed to a mere responsive approach, evolved into the famous concept of shared value, described 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” . A company can therefore generate a shared value when it creates economic value by creating societal value. As the shared value approach combines the economic and the social value, overcoming the research of a trade – off, it could be considered a possible approach to impact investing, or better: companies that shape their strategies according to the shared value approach could be the target of impact investors. However, if this new approach can be reached only through a “reverse strategy” or social innovation, as written before, it could be possible that it requires the creation of a new company, as spin off, or the investment into promising start ups (following a corporate venturing approach). In fact, relevant or disruptive innovation is often impossible within the boundaries of established organizations.

4. Doing good doing well, moving beyond CSR and social enterprise?

Impact investing may be the result of the drive to improve the performance of philanthropy (Porter and Kramer 1999) and the ascent of the so called “philanthrocapitalism” (Bishop 2013; McGoey 2014; The Economist 2006) that brings ‘hard-nosed’ strategy, performance metrics, innovative financing models that aim to 1) make philanthropy more effective; and 2) make it a more lucrative industry in itself (McGoey 2014). However at least three other trends are at play.

The increasing marketization of the non profit sector (Eikenberry and Drapal Kluver 2004) is blurring the line between “conventional” and “social” enterprises (Rodin and Brandenburg 2014). It is therefore increasingly harder

to distinguish between CSR practices and the pursuit of new business strategies. The decision made by GE Healthcare, back in 2009, to design and develop an ECG solution specifically for India reducing the cost of the appliance from \$10,000 down to \$500 without compromising the quality of diagnosis, may fit into a CSR decision to provide affordable healthcare, as well as a way to tap on a huge underserved market, thus making CSR more strategic and generating shared value. Serving the poor is no more seen as a duty of government and charities, but also as an opportunity land for innovative entrepreneurs.

The increasing awareness on the effect of environmental and social issues on profits is pushing companies and investors to internalize externalities in their business model. During the last ten years, companies like Coca Cola and Nestlé spent million of dollars in water saving projects and pledged to cut respectively by 20%⁶ and 33%⁷ their water use because they are aware that availability of water resource is critical for their operations. Nestlé is also helping its farmers to adopt sustainable water management practices. In 2013, Moody's, the rating agency, warned investors that water shortages may directly impact mining companies' profitability and credit risk profiles, and in turn the ratings the agency assign⁸. Investors like Calpers (California Public Employees' Retirement System), and Norwegian Oil Fund, with combined assets of over \$1 trillion, require companies where they invest in to adopt water and environmental policies. In the meantime startups like WaterHealth International, which developed a low-cost modular system for processing healthy drinking water⁹, demonstrate that it is possible to build new businesses while solving social problems.

⁶ Compared to 2004, source Coca Cola water stewardship report. The target has been reached in 2011.

⁷ Compared to 2005, source Nestlé in society – Creating Shared Value and meeting our commitments 2013

⁸ Source: Moody's (2013), Special Comment: Global Mining Industry: Water Scarcity To Raise Capex And Operating Costs, Heighten Operational Risks

⁹ See also The Fast Company, The Case For For-Profit Solutions To The World's Water Problems

The last trend is represented by the emergence of the “gratis economy” (Anderson 2009; Kelen 2001). In its last book Rifkin (Rifkin 2014) advocates that the drive towards “extreme productivity” is driving marginal costs towards zero and, since in a competitive market prices are equal to marginal costs, prices too are falling to zero. It is certainly true that the digital revolution is reshaping entire sectors of the economy driving down prices and creating dramatic opportunities of service’ s accessibility. However this does not mean that capital investment is nil. Who is going to provide the capital? How these investments are going to be evaluated in presence of zero/close to zero prices and possibly razor-thin margins? In 2013 Amazon generated \$20 billions of net revenues and posted \$274 millions in profit, with a \$162 billions market capitalization¹⁰ its price-earning ratio is about 560¹¹. Clearly, in this case investors are not evaluating the company on the sole basis of profits. This example demonstrates that the problem of how to assess and measure value is not confined to impact investing, but is becoming central in many industries where the zero marginal cost theory applies.

These trends (marketization of non profit sector, internalization of externalities, zero marginal costs) show that Impact Investing, CSR and Social Entrepreneurship are increasingly blending with standard business practice. Shall we argue that impact investing is no more than venture capital/private equity applied to social/environmental sector rather than a whole new investment approach?

4.1 Conclusion: a proposed common framework and issues at stake

As discussed above, Impact Investing may have the potential to bring together and to evolve social enterprise and CSR theories. In a recent work, (Clark, Emerson, and Thornley 2014), try to lay a common framework. They

¹⁰In July 2014

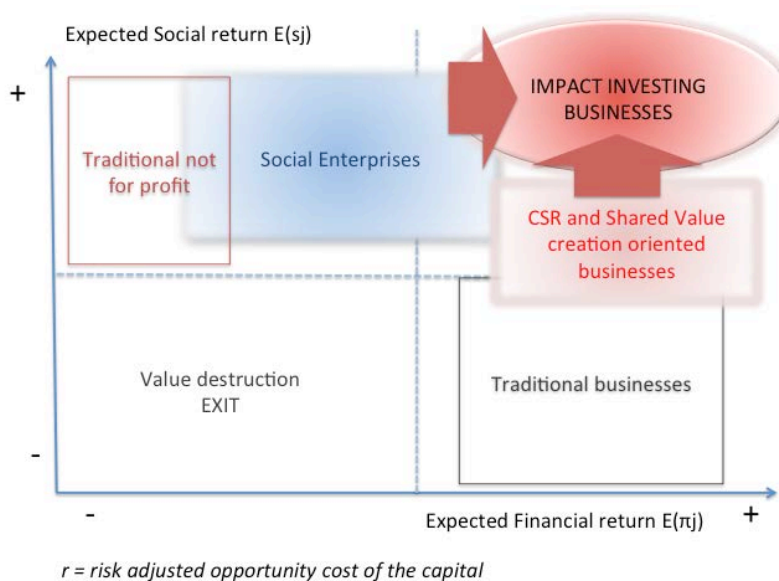
¹¹As Investopedia explains: the P/E is sometimes referred to as the “multiple”, because it shows how much investors are willing to pay per dollar of earnings. If a company were currently trading at a multiple (P/E) of 20, the interpretation is that an investor is willing to pay \$20 for \$1 of current earnings. So it anticipates future earnings.

adopt a double perspective, the enterprise side and the investment side, and identify two main features of new investment model:

1. The explicit focus on outcomes (i.e. impact);
2. The internalization of environmental, social and governance (ESG) risks in the assessment of corporate and investment strategies as a matter of risk mitigation.

The following figure could be useful to draw a possible framework to understand how impact investing could represent an evolution of social enterprise and CSR consistent with the emerging need to fix capitalism (Porter and Kramer 2011) but also to find new domains where to allocate financial resources, globally available. Based on Stiglitz & Wallsten (1999), the matrix places impact investing as an evolution from social enterprise and CSR/shared value-oriented business.

Figure 3: The stretch to Impact investing¹²



In this imperfect graphical representation, we assume that impact investing could address financial return set at the coherent commercial or market value, considering the risk born by investors. In this way, impact investing

¹² Source: author elaboration

may be seen as a new frontier and a possible evolution of social enterprise with the aim to attract in a stable and conventional way financial resources. If we look impact investing from the perspective of the shared value, it could represent a market niche in which new business models/social innovation could trigger the generation of new enterprises in sectors that could be critical for improving the quantity and quality of life. Or, alternatively, a frontier for businesses that decide to fully base their competitive advantage on shared value, which results also as an evolution of CSR.

However, this more conservative view may curtail the hybrids that spangle the discussion. Indeed, attracting the necessary resources to sustain the business lifecycle, in a stable way, may require certain level of financial return.

Actually, analyzing Impact Investing in comparison with CSR and social enterprise theory has shown the need for a breakthrough perspective by which to reframe the study of this phenomenon. Therefore, now it's time for encouraging all the actors to start applying a "reverse" approach: in other words there's nothing left to do but stimulate the key would-be players (entrepreneurs, companies, investors and even the Government) to directly apply/experiment the key concepts underpinning impact investing into new businesses.

As to the role of scholars, we should observe, study and try to explain this phenomenon in evolution through an inductive – deductive approach focalized on an extended perimeter of impact investing, to define its distinctive value- if any- and to trigger its take-off.

References

- Anderson, Chris. 2009. *Free: The Future of a Radical Price*. Random House.
- Austin, James, Howard Stevenson, and Wei-Skillern. 2006. "Social and Commercial Entrepreneurship: Same, Different, or Both?" *Entrepreneurship theory and practice* 30(1): 1–22.
- Barnett, Michael L, and Robert M Salomon. 2012. "Does It Pay to Be Really Good? Addressing the Shape of the Relationship between Social and Financial Performance." *Strategic Management Journal* 33(11): 1304–20.
- Baron, David P. 2001. "Private Politics, Corporate Social Responsibility, and Integrated Strategy." *Journal of Economics & Management Strategy* 10(1): 7–45.
- Bhattacharyya, Som Sekhar. 2010. "Exploring the Concept of Strategic Corporate Social Responsibility for an Integrated Perspective." *European Business Review* 22(1): 82–101.
- Bishop, Matthew. 2013. "Philanthrocapitalism: Solving Public Problems through Private Means." *Social Research* 80(2): 473–90.
- Brest, Paul, and Kelly Born. 2013a. "Unpacking the Impact in Impact Investing." *Stanford Social Innovation Review*. 1–14.
http://www.ssireview.org/articles/entry/unpacking_the_impact_in_impact_investing.
- . 2013b. "When Can Impact Investing Create Real Impact?" *Stanford Social Innovation Review*. 22–27.
http://www.ssireview.org/up_for_debate/article/impact_investing.
- Brown, Adrian, and Adam Swersky. 2012. *The First Billion a Forecast of Social Investment*.

- Bugg-Levine, Antony, and John Goldstein. 2009. "Impact Investing: Harnessing Capital Markets to Solve Problems at Scale." *Community Development Investment Review* 5(2): 30–41.
- Calvert Foundation. 2012. *Gateways to Impact*.
<http://www.calvertfoundation.org/storage/documents/Gateways-to-Impact.pdf>.
- Carroll, Archie B. 1991. "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders." *Business Horizons*. 39–48.
- Carroll, Archie B. 1979. "A Three-Dimensional Conceptual Model of Corporate Performance." *The Academy of Management Review* 4(4): 497. <http://www.jstor.org/stable/257850?origin=crossref>.
- Carroll, Archie B., and Kareem M. Shabana. 2010. "The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice." *International Journal of Management Reviews* 12(1): 85–105.
<http://doi.wiley.com/10.1111/j.1468-2370.2009.00275.x> (March 19, 2014).
- Clark, Cathy, Jed Emerson, and Ben Thornley. 2014. *Collaborative Capitalism and the Rise of Impact Investing*. John Wiley & Sons.
- Cochran, P. L., and Robert A Wood. 1984. "Corporate Social Responsibility and Financial Performance." *Academy of Management Journal* 27(1): 42–56.
- Crane, Andrew, Guido Palazzo, Laura J. Spence, and Dirk Matten. 2014. "Contesting the Value of 'Creating Shared Value.'" *California Management Review* 56(2): 130–53.
<http://www.jstor.org/stable/info/10.1525/cmr.2014.56.2.130>.

- Credit Suisse. 2012. *Investing for Impact How Social Entrepreneurship Is Redefining the Meaning of Return*. <https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88E808B6-83E8-EB92-9D52FE6556283AAA>.
- Dees, J G. 1998. "Enterprising Non Profits." *Harvard business review* 76(1): 54–67. <http://www.ncbi.nlm.nih.gov/pubmed/10176919>.
- Donohoe, Nick O, and Antony Bugg-levine. 2010. *Impact Investments An Emerging Asset Class*. http://www.jpmorganchase.com/corporate/socialfinance/document/impact_investments_nov2010.pdf.
- Eikenberry, Angela M, and Jodie Drapal Kluver. 2004. "The Marketization of the Nonprofit Sector: Civil Society at Risk?" *Public Administration Review* 64(2): 132–40.
- Emerson, Jed. 2003. "The Blended Value Proposition: Integrating Social and Financial Returns." *California Management Review* 45(4): 35–52.
- Emerson, Jed, and Mark Cabaj. 2000. "Social Return on Investment." *Making Waves* 11(2): 10–14. <http://hdl.handle.net/2149/1028>.
- Emerson, Jed, and F Twersky. 1996. San Francisco *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation*. San Francisco.
- Emerson, Jed, Jay Wachowicz, and Suzi Chun. 2000. "Social Return on Investment: Exploring Aspects of Value Creation in the Nonprofit Sector." *The Box Set: Social Purpose Enterprises and Venture Philanthropy in the New Millennium* 2: 130–73.
- European Commission. 2011. *COM (2011) 682 Final Social Business Initiative*. Brussels.

- Freeman, R Edward et al. 2010. *Stakeholder Theory: The State of the Art*.
Cambridge University Press.
- Freeman, R. E. 1984. *Strategic Management - A Stakeholder Approach*. ed.
Pitman. Boston: Pitman.
- Freireich, Jessica, and Katherine Fulton. 2009. *Investing for Social &
Environmental Impact*. http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf.
- Garriga, Elisabet, and Domènec Melé. 2004. "Corporate Social
Responsibility Theories: Mapping the Territory." *Journal* 53: 51–71.
- Grabenwarter, Uli, and Heinrich Liechtenstein. 2011. SSRN Electronic Journal
*In Search of Gamma - An Unconventional Perspective on Impact
Investing*. <http://www.ssrn.com/abstract=2120040>.
- Jensen, Michael C. 2010. "Value Maximization, Stakeholder Theory, and the
Corporate Objective Function." *Journal of Applied Corporate Finance*
22(1): 32–42.
- Kanter, Rosabeth Moss. 1999. "From Spare Change to Real Change: The
Social Sector as Beta Site for Business Innovation." *Harvard business
review* 77: 122–33.
- Kelen, András. 2001. *The Gratis Economy: Privately Provided Public Goods*.
Central European University Press.
- Koh, Harvey, Ashish Karamchandani, and Robert Katz. 2012. *From Blueprint
to Scale*. <http://www.mim.monitor.com/blueprinttoscale.html>.
- Leonard, Herman B, Susan McDonald, and V Kasturi Rangan. 2008. Harvard
Business School Working Paper *The Future of Social Enterprise*.
- Letts, Christine W, William Ryan, and Allen Grossman. 1997. "Virtuous
Capital: What Foundations Can Learn from Venture Capitalists."
Harvard business review 75: 36–50.

- Martin, By Roger L, and Sally Osberg. 2007. "Social Entrepreneurship : The Case for Definition." *Stanford Social Innovation Review*.
http://www.ssireview.org/articles/entry/social_entrepreneurship_the_case_for_definition.
- Matten, Dirk, and Andrew Crane. 2005. "Corporate Citizenship: Toward an Extended Theoretical Conceptualization." *Academy of Management Review* 30(1): 166–79.
- McElhaney, Kellie. 2009. "A Strategic Approach to Corporate Social Responsibility." *Leader to Leader* 52(1): 30–36.
- McGoey, Linsey. 2014. "The Philanthropic State: Market–state Hybrids in the Philanthrocapitalist Turn." *Third World Quarterly* 35(1): 109–25.
<http://www.tandfonline.com/doi/abs/10.1080/01436597.2014.868989>
 (July 17, 2014).
- Mcguire, Jean B, Alison Sundgren, Thomas Schneeweis, and Jean B Mcguire. 1988. "Corporate Social Responsibility and Firm Financial Performance." *Academy of Management Journal* 31(4): 854–72.
- MicroRate. 2013. *The State of Microfinance Investment 2013 Survey and Analysis of MIVs – 8 Th Edition*.
<http://www.microrate.com/media/downloads/2013/11/MicroRate-The-State-of-Microfinance-Investment-2013.pdf>.
- Mulgan, Geoff, Simon Tucker, Rushanara Ali, and Ben Sanders. 2007. *Social Innovation: What It Is, Why It Matters and How It Can Be Accelerated*. Skoll Centre for Social Entrepreneurship.
<http://youngfoundation.org/publications/social-innovation-what-it-is-why-it-matters-how-it-can-be-accelerated/>.
- Nicholls, Alex. 2006. *Social Entrepreneurship: New Models of Sustainable Social Change*. 2008th ed. Oxford University Press.

- Peredo, Ana María, and Murdith McLean. 2006. "Social Entrepreneurship: A Critical Review of the Concept." *Journal of World Business* 41(1): 56–65. <http://linkinghub.elsevier.com/retrieve/pii/S1090951605000751> (March 19, 2014).
- Pinsky, Mark. 2011. " 'Impact Investing' : Theory, Meet Practice." *Community Development Investment Review* 7(2): 48–52. 2.
- Pol, Eduardo, and Simon Ville. 2009. "Social Innovation: Buzz Word or Enduring Term?" *The Journal of Socio-Economics* 38(6): 878–85.
- Porter, Michael E, and Mark R Kramer. 1999. "Philanthropy' s New Agenda: Creating Value." *Harvard Business Review* 77: 121–31.
- Porter, Michael E., and Mark R. Kramer. 2006. "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility." *Harvard Business Review* (December): 78–93.
- . 2011. "Creating Shared Value." *Harvard Business Review* (February): 62–77.
- Reeder, Neil, and Andrea Colantonio. 2013. *Measuring Impact and Non-Financial Returns in Impact Investing: A Critical Overview of Concepts and Practice*.
- Rifkin, Jeremy. 2014. *The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism*. Macmillan.
- Robeco, Booz&Co. 2009. "Responsible Investing: A Paradigm Shift." *From Niche to Mainstream*.
- Rockefeller Foundation. 2012. *Accelerating Impact: Achievements Challenges and What' s Next in Building the Impact Investing Industry*. New York.
- Rodin, Judith, and Margot Brandenburg. 2014. *The Power of Impact Investing: Putting Markets to Work for Profit and Global Good*. Wharton Digital Press.

- Sabeti, Heerad. 2009. *The Emerging Fourth Sector*. <http://www.cami-health.org/documents/4th-sector-paper-exec-summary.pdf>.
- Schreck, Philipp. 2011. "Reviewing the Business Case for Corporate Social Responsibility: New Evidence and Analysis." *Journal of Business Ethics* 103(2): 167–88. <http://link.springer.com/10.1007/s10551-011-0867-0> (April 28, 2014).
- Soana, Maria-Gaia. 2011. "The Relationship between Corporate Social Performance and Corporate Financial Performance in the Banking Sector." *Journal of Business Ethics* 104(1): 133–48.
- Social Investment Task Force. 2000. "Enterprising Communities: Wealth beyond Welfare." *A report to the Chancellor of the Exchequer from the Social Investment Task Force, October*.
- Stiglitz, Joseph E, and Scott J Wallsten. 1999. "Public-Private Technology Partnerships Promises and Pitfalls." *American Behavioral Scientist* 43(1): 52–73.
- Tang, Zhi, Clyde Eiríkur Hull, and Sandra Rothenberg. 2012. "How Corporate Social Responsibility Engagement Strategy Moderates the CSR–financial Performance Relationship." *Journal of Management Studies* 49(7): 1274–1303.
- The Commission on Unclaimed Asset. 2007. *The Social Investment Bank Its Organisation and Role in Driving Development of the Third Sector*.
- The Economist. 2006. "The Birth of Philanthrocapitalism." *The Economist*. 1–6.
- The Parthenon Group. 2010. *Investing for Impact*.
<http://www.parthenon.com/GetFile.aspx?u=%2FLists%2FThoughtLeadership%2FAttachments%2F15%2FInvesting%2520for%2520Impact.pdf>.

- UNDP, H D R. 2004. "Unleashing Entrepreneurship: Making Business Work for the Poor." *New York, USA: UNDP.*
- Wallace, Sherri Leronda. 1999. "Social Entrepreneurship: The Role of Social Purpose Enterprises in Facilitating Community Economic Development." *Journal of developmental entrepreneurship* 4(2): 153–74.
- Weerawardena, Jay, and Gillian Sullivan Mort. 2006. "Investigating Social Entrepreneurship: A Multidimensional Model." *Journal of World Business* 41(1): 21–35.
<http://linkinghub.elsevier.com/retrieve/pii/S1090951605000532> (March 19, 2014).
- Windsor, Duane. 2006. "Corporate Social Responsibility : Three Key Approaches." *Journal of Management Studies* 43(1): 93–114.
- World Economic Forum. 2013. *From the Margins to the Mainstream Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors.*
http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf.

Main Sponsor

OltreVenture

with the contribution of



Member of

