# FROM SUSTAINABILITY TO IMPACT

## Can impact activism by institutional investors encourage a more inclusive capitalism?

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There is an ever-increasing anthropogenic influence on the evolution of our 4.5 billion year old planet whose effects we cannot comprehensively assess. However, it is becoming increasingly clear that sustainable solutions are necessary to counteract the risks of irreversible damage. As part of the UN's 2030 Agenda for Sustainable Development, the international community agreed on 17 concrete goals to jointly tackle the most urgent global challenges. These goals are increasingly reflected on capital markets as well. Sustainable investments with a focus on ESG (environmental, social, and corporate governance) criteria are expected to increase from USD 37.8 trillion today to USD 53 trillion in 2025, thereby accounting for approximately one third of the USD 140.5 trillion in globally managed assets. Although this development is very welcome, the use of ESG criteria alone is not sufficient to realize the UN's sustainability goals. A growing number of institutional investors are thus going a step further and promoting impact investments.

**The strong momentum of Impact Investing**

Since 2012, the "impact investments" asset class has roughly increased by a factor of 20, to over USD 700 billion (as of 2019). The International Finance Corporation (IFC), a World Bank subsidiary, distinguishes between impact investments and ESG investments based on three criteria:

(1) asset selection takes place based on clearly defined, significant impact goals that are followed by a company or a fund manager; (2) through their investments, impact investors make a direct contribution to the achievement of the desired impact; and (3) the impact goals can be objectively measured. With their Operating Principles for Impact Management (launched in April 2019), the IFC makes a significant contribution to the dissemination and maintenance of these criteria. There are now more than 130 signatories to these principles, most of whom are institutional investors.

elea Foundation for Ethics in Globalization has also become a signatory to these principles and has lived up to them since its founding in 2006 through its professional investment approach. The role of a philanthropic organization like elea is to test innovations – in our case, with the goal of fighting absolute poverty with entrepreneurial means – and thereby pave the way for larger-scale solutions. These investments are based on articulated "theories of change" (impact models) that are integrated into business models.

The impact is consistently measured, and an intensive, systematic due diligence process ensures that the capital invested makes a difference in terms of impact. During the whole investment process, a close partnerships with the entrepreneurs and leadership teams of the portfolio companies play a central role in order to work on concrete issues and strategies. Increasingly, investments by elea and other impact investors are also initiating systematic change processes beyond the limits of individual organizations.

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**Institutional investors as impact activists?**

In our work, we see that an impact orientation is becoming more and more mainstream, even in large companies. For example, our academic partner IMD has identified a strong increase in demand for impact investing content in their leadership development programs. Many of these initiatives currently appear to be primarily driven by management, which raises the question, in what way these initiatives are also promoted, legitimized, and shared by the owners of these companies, particularly by institutional investors.

Impact investments are still predominantly limited to private equity. In a publicly available working paper, the global impact investing network (GIIN) describes how the experience of pioneers in impact investing could be embedded into the institutional investment process with listed securities. Central to this is a stronger consideration of relevant, substantive criteria, as well as the intensive engagement of active investors in their interactions with the boards of directors and management teams of large companies (beyond pure "box ticking" in the sense of governance correctness). Ever more institutional investors are likely to develop and implement an active impact agenda in the future to encourage listed companies to move in the direction of a more inclusive capitalism. If such a movement is done in a content-based and ethically responsible manner, it could provide a substantial contribution to the sustainable development of our society and our planet – not the least by promoting the acceptance of capitalism in the wider society.

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