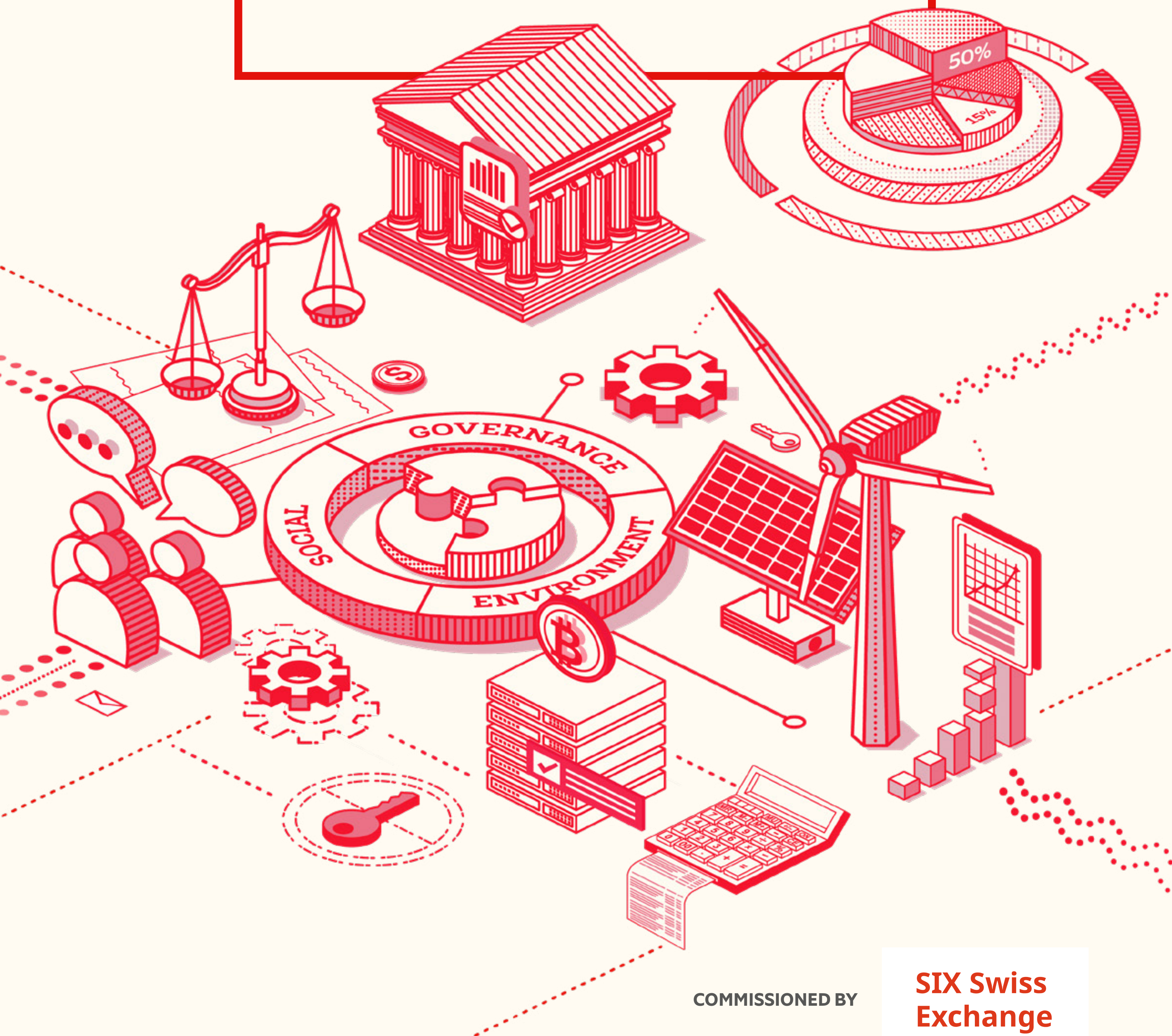
ECONOMIST IMPACT

Mobilising the global investment chain for social impact



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Ioannis Ioannou, associate professor of strategy and entrepreneurship, London Business School

Mark Kramer, senior lecturer, Harvard Business School

Kelly McCarthy, chief impact officer, Global Impact Investing Network

Maria Ortino, global ESG manager, Legal & General Investment Management

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Executive summary

Worldwide, the rising concept of "stakeholder capitalism" is putting pressure on investors and companies alike to move beyond mere financial returns and create social and environmental impacts from their partnerships. These positive outcomes range from improving human rights and combating climate change to reducing global inequality and managing resource consumption sustainably.

Engagement between companies and investors on sustainability has increased considerably in recent years as asset owners have faced increased pressure from their clients to fulfil their fiduciary duty. This has led to the implementation of stewardship strategies, including investor-corporate dialogue and voting at annual general meetings, to help companies achieve social impact, defined as a positive change addressing a pressing social challenge.

However, our research identifies misalignment of intentions and priorities, notably around short-term approaches to profit, as well as a lack of wider government intervention through policy and investment. This highlights a need for a more holistic approach and greater collaboration between companies, investors and other stakeholders in the global investment chain in order to maximise social impact and accelerate progress towards an "impact economy".

Our research programme, based on a literature review, insight from an advisory board and a series of in-depth interviews, found that:

All players in the business and investment chain need to be engaged in efforts to maximise social impact. Greater collaboration between companies and investors is essential. In addition, however, initiatives by key players in the investment chain—such as asset managers (creating investor coalitions to combat climate change), regulators (introducing alternative corporate structures), policymakers (creating new green financial instruments) and stock exchanges (requiring environmental, social and governance, or ESG, disclosure for listing)—are important in moving the needle. This highlights the need for a holistic approach in the transition to an impact economy.

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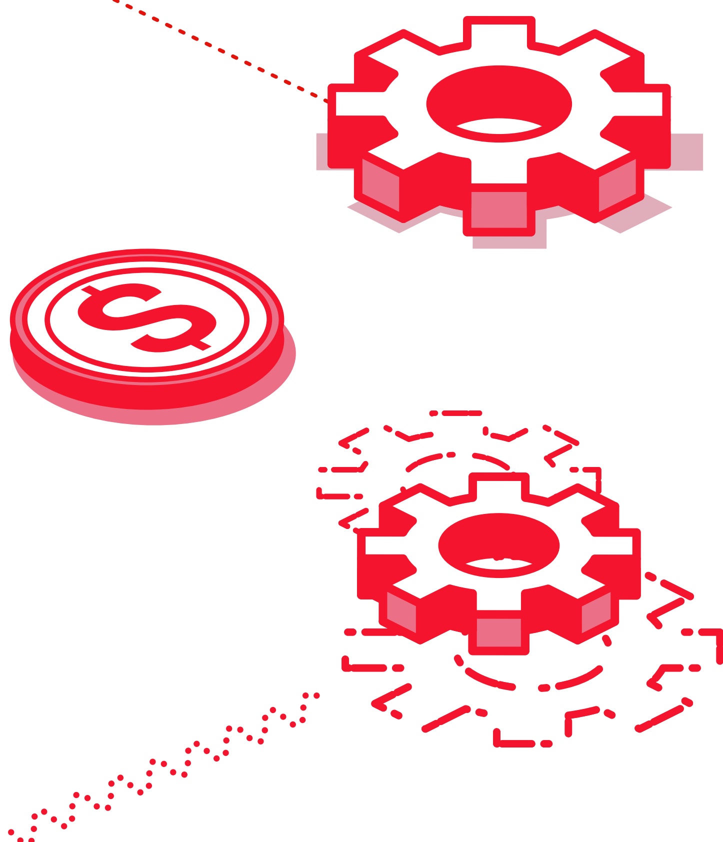
Together, institutional and retail investors constitute a powerful force pushing for corporate action on social and environmental challenges. Pension funds, sovereign wealth funds and other large investors have a growing appetite for green and sustainable portfolios, with ESG investment assets under management (AUM) growing by more than 50% between 2016 and 2020 and projected to reach US$53trn by 2025. In the process, investor engagement with companies on social issues has undergone a shift from a lack of interest a decade ago to an engaged approach, using tools ranging from proxy voting to conversations with the management and board to hold companies to account on social impact. Individual investors—particularly those from younger generations—also display a growing preference for social impact investments, both through direct and indirect ownership. These include high-net-worth individuals, who are attracted to impact investing as an alternative to their philanthropic activities.



To achieve social impact, engagement is favoured over divestment. While stewardship has risen up the agenda in recent years among both asset owners and asset managers owing to increasing client scrutiny around accountability and fiduciary duty, for many investors action is often limited to monitoring executive pay or divesting from "harmful" sectors. As part of sound stewardship practices, our advisory board members argue that investors should be active in pushing companies to do more to embed positive social or environmental impact in their operations rather than purely seeking to divest.

What constitutes "social impact" remains unclearly defined. Our advisory board noted that both investors and companies needed to focus more on the negative impact of their business activities in order to properly address societal and environmental issues. Meanwhile, misalignment of intentions and priorities persists, particularly given the continued dominance of short-term profit seeking.

Greater participation of governments and regulators is essential in developing an impact ecosystem. The "impact economy" will rely on a collaborative approach to everything from the streamlining of ESG/impact indices and metrics (including a wider use of the UN's Sustainable Development Goals sub-indicators) to stock exchanges, which play a role in setting sustainability standards and democratising investments in social enterprises. However, companies and investors can only go so far without governments—through their international development agencies—deploying capital for seed funding, capacity building and de-risking social impact projects to make them more attractive to mainstream investors. Meanwhile, regulators need to use legislation to create a level playing field and an enabling environment for social impact.

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Introduction

At one time, talk of saving the planet and delivering equitable opportunities for its citizens was largely limited to campaign groups and international development agencies. However, in recent decades the rules of the game have changed, with influential economists, businesses and investors leading the charge.

For example, in 2009 Unilever's chief executive shocked investors by announcing that the Anglo-Dutch consumer goods company would scrap quarterly earnings reports as part of a vision for a "long-term value-creation model, which is equitable, which is shared, which is sustainable."[1] In 2011 Michael Porter, an economist and management guru, sent ripples around the business world when he exhorted companies to create "shared value" by ensuring that their commercial activities benefited society as well as the bottom line.[2]

"Both corporations and investors are growing increasingly ambitious in their efforts to create social impact by bringing about positive social and environmental change."

More recently, one of the world's most prominent investors, Warren Buffett, and JPMorgan chief executive Jamie Dimon weighed in on the shifting purpose of capitalism, lamenting the "unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability."[3]

Today, the phrase "stakeholder capitalism" is well established in the lexicons of business and finance. As well as striving to improve the social factor (the "S" in ESG) within their businesses, such as labour standards, health and safety, and workplace diversity, companies are working to reduce their environmental impact and meet the needs of communities so as to secure a "social licence to operate". Meanwhile, investors are building portfolios that address the impact of global inequality, climate change and resource consumption. In fact, both corporations and investors are growing increasingly ambitious in their efforts to create social impact by bringing about positive social and environmental change.

[1] hbr.org/2011/01/the-big-idea-creating-shared-value
[2] www.ft.com/content/0af3adc6-950b-11e1-ad38-00144feab49a
[3] www.wsj.com/articles/short-termism-is-harming-the-economy-1528336801

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Corporate engagement by investors on sustainability has increased considerably in recent years. Whereas investors once focused mainly on financial returns and rarely questioned the companies in their portfolios about their social and environmental performance, today asset owners and asset managers are increasingly required by regulation to integrate ESG into their strategies—both to inform their investment decisions and once investments have been made.[4] However, misalignment of intentions and priorities persists, suggesting a need for greater collaboration and engagement between companies, investors, stock exchanges, governments and others to maximise social impact.

Misalignment is most obvious in the short-term approaches that hamper the long-term efforts needed to address issues such as global poverty and climate change. Despite evidence that short-termism harms the bottom line—the CFA Institute put the cost in missed earnings to S&P 500 companies at US$79bn annually[5] —in one McKinsey survey, 70% of respondents said that executives in their companies would take actions to meet short-term financial goals that would not improve long-term growth.[6]

To explore the progress being made through corporate-investor collaboration, as well as revealing the challenges that remain and the other stakeholders whose participation is essential, the Economist Impact team overseeing this research programme has conducted a literature review, held an advisory board discussion and interviewed leading experts in the field of social impact.

Importantly, the research identifies gaps in stakeholder capitalism's ecosystem and reveals that greater engagement and collaboration between companies, investors and other stakeholders—from non-profits and policymakers to stock exchanges—will be critical in accelerating progress towards an "impact economy".

Since this will rely on all stakeholders playing a role, the next challenge is to put in place the mechanisms and market infrastructure that can foster this greater engagement and collaboration.

[4] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017L0828&rid=5
[5] www.cfainstitute.org/en/advocacy/policy-positions/short-termism-revisited
[6] www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-executives-can-help-sustain-value-creation-for-the-long-term

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Chapter I.
A complex ecosystem

The stakeholder capitalism ecosystem is a complex one in which companies and their shareholders interact with many other players. These range from regulators (which create an enabling environment for sustainable business) and stock exchanges (which facilitate capital raising and the upgrading of sustainability standards) to campaign groups, non-profits, consumers and employees, all of which need to lead or participate in initiatives that promote social impact.

Information sharing is a big part of the new wave of cross-sector collaboration. "There are constant conversations going on," says Maria Ortino, global ESG manager at Legal & General Investment Management. Ms Ortino notes that the nature of those conversations has changed significantly. "The difference now from when I started 15 years ago is that now you have long, in-depth conversations on climate change and other issues," she explains.

Upgrading sustainability standards

Increasingly, players from different spheres of the capital markets' ecosystem are also collaborating to develop new products and tools that can accelerate the flow of capital into sustainable investments. The proliferation of green and social bonds is one of the results, often with development funding taking first-loss risk in order to attract commercial capital. For example, in 2018 French asset manager Amundi and the International Finance Corporation (IFC), part of the World Bank Group, worked together to launch a green bond fund targeting emerging markets. The Amundi Planet Emerging Green One fund aims to make it easier for emerging-market banks to finance climate-focused investments that will accelerate the energy transition in developing countries.

Meanwhile, in the Seychelles, collaboration between policymakers (the government of the Republic of Seychelles), an international development institution (the World Bank Treasury) and investment managers (Calvert Impact Capital, Nuveen—a subsidiary of the Teachers Insurance and Annuity Association of America pension fund—and Prudential Financial) resulted in the launch in 2018 of a new financial instrument: a blue bond designed to raise funding to support projects ranging from sustainable marine enterprises to initiatives that protect the ocean's natural ecosystem, which is critical to local employment.[8]

[7] www.unpri.org/showcasing-leadership/pri-awards-2019-case-study-planet-emerging-green-one-fund/4826.article
[8] www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond

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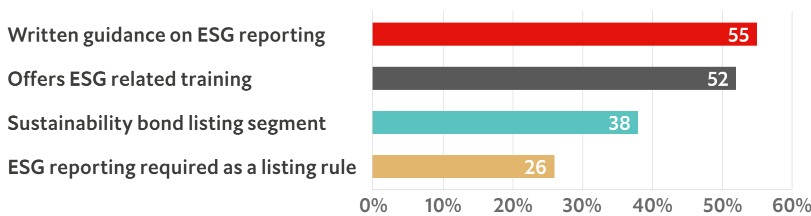
Standard setting is another focus for collaboration. In one example, two standard setters—the International Financial Reporting Standards (IFRS) Foundation, which oversees international accounting standards, and the Global Reporting Initiative (GRI)—are co-ordinating their standard-setting between the IFRS Foundation's International Sustainability Standards Board and the GRI's Global Sustainability Standards Board. The aim of the collaboration is to streamline global sustainability reporting in order to reduce the reporting burden for companies.[9]

Stock exchanges also have a role to play in upgrading sustainability standards. James Zhan, director of investment and entrepreneurship at the UN Conference on Trade and Development (UNCTAD) and chair of the governing board of the UN Sustainable Stock Exchange Initiative (SSE) explains that the role of exchanges in promoting sustainability standards ranges from providing guidance on sustainability reporting for issuers to imposing mandatory listing requirements. And although stock exchanges initially taking the lead on this were mainly in emerging markets such as Brazil, South Africa, Turkey and Egypt, this proactivity is expanding to other exchanges, with more than half of the 115 exchanges monitored by SSE providing written guidance on ESG reporting and a quarter requiring ESG reporting as a listing rule (see figure 1). "Since 2015, we have seen more and more exchanges getting into this, and that will gradually replace the role of individual firms' ESG metrics and ratings," says Mr Zhan.

Figure 1. Stock exchanges requiring ESG credentials

Percent of total stock exchanges, 2022



Source: Sustainable Stock Exchange Initiative

Mark Kramer, a senior lecturer at Harvard Business School, also sees sustainability listing requirements as a powerful tool. "To the extent that investment advisors are trying to identify better companies, listing requirements are more substantive and rigorous than just looking at where companies fall on ESG ratings," he says. "It's a much higher bar."

> **"To identify better companies, listing requirements are more substantive and rigorous than just looking at where companies fall on ESG ratings."**
>
> Mark Kramer, Harvard Business School

Stakeholder pressure

Collaboration with intermediaries is vital to help companies and investors improve their performance on social impact. However, not all stakeholders in the capitalist ecosystem are using collaboration to bring about change, with some creating new pressures for companies and investors to shift towards a more inclusive form of capitalism. Employees, particularly younger workers, are an increasingly powerful force and

[9] www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/

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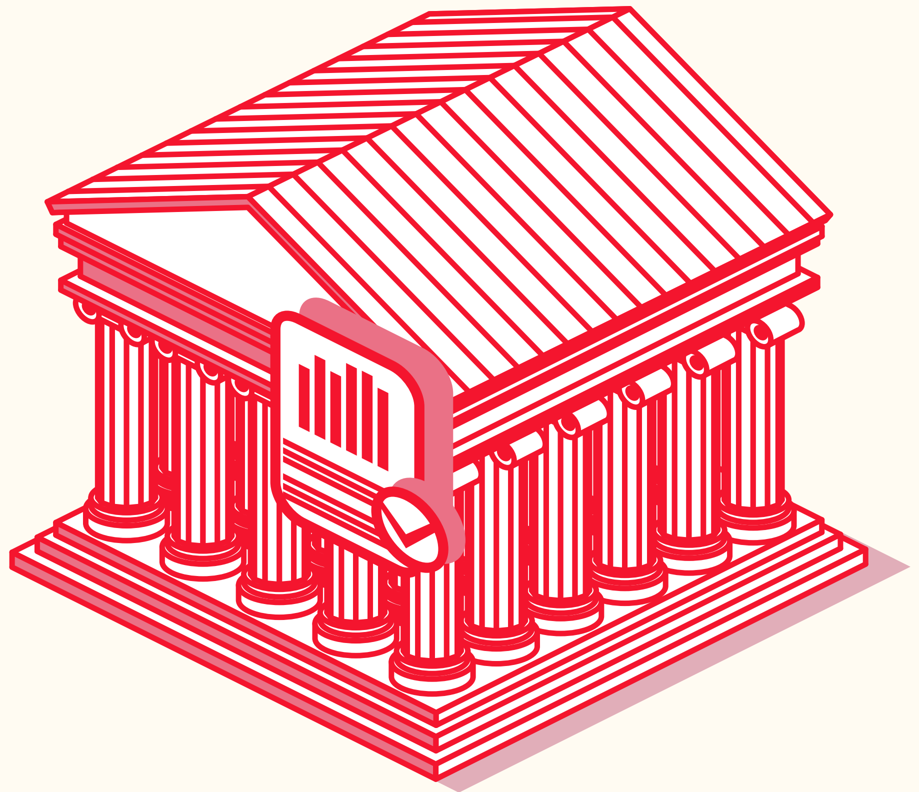
"We're part of a variety of working groups and roundtables that increasingly have brought together investors, policymakers and others. That's definitely a market shift."

Kelly McCarthy,
Global Impact Investing Network



are becoming more vocal in expressing their views about the role of business in society, says Ioannis Ioannou, associate professor of strategy and entrepreneurship at London Business School. This is something that companies need to pay attention to, he says. "There are labour market implications in that younger generations want to work for companies where their values and norms align." Mr Ioannou cites a letter written in 2021 by more than 1,100 McKinsey employees, accusing the consultancy of "inaction" on its clients' emissions, which they said was damaging the firm's reputation and hampering its ability to hire.[10]

In some cases, non-profit organisations are taking the lead, as is the case with ShareAction, which is mobilising institutional investors and individual shareholders to push companies to improve their performance on sustainability. But whether it is by exerting pressure or more collaborative forms of engagement, the days when different sectors operated in silos are over. "We're part of a variety of working groups and roundtables that increasingly have brought together investors, policymakers and others," says Kelly McCarthy, chief impact officer at the Global Impact Investing Network (GIIN). "That's definitely a market shift."

[10] www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/

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Chapter II. Social impact engagement strategies

A number of pressures drive the activities of many companies as they embrace strategies to increase their social and environmental performance.

Consumers are able to push companies in new directions—with the help of regulation. “There’s increasing demand for more environmentally and socially responsible products and services,” says Mr Ioannou. But while consumers can nudge companies towards embracing more sustainable practices, legislation on everything from anti-slavery to carbon trading can force them to comply. “The Securities and Exchange Commission, the EU, the Hong Kong Stock Exchange and others are looking at embedding measures into regulation that will require greater disclosure around environmental, social and governance issues,” says Ms McCarthy, who oversees IRIS+ (Impact Reporting and Investment Standards) at the GIIN. “That’s another pressure point.”

Engagement or divestment?

One of the biggest forces driving corporate behaviour in recent years has been the investment community, with shareholders increasingly looking to build portfolios that meet sustainability and ESG standards. Assets under management integrating ESG criteria have grown by more than 50% between 2016 and 2020 (see figure 2) and are projected to reach US$53trn by 2025—which would represent a third of assets managed globally.[11] “There’s tremendous investor demand, and that’s got CEO and C-suite attention,” says Mr Kramer. “This is being driven by the asset owners, who are increasingly interested in the social impact of the companies they invest in.”

[11] www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

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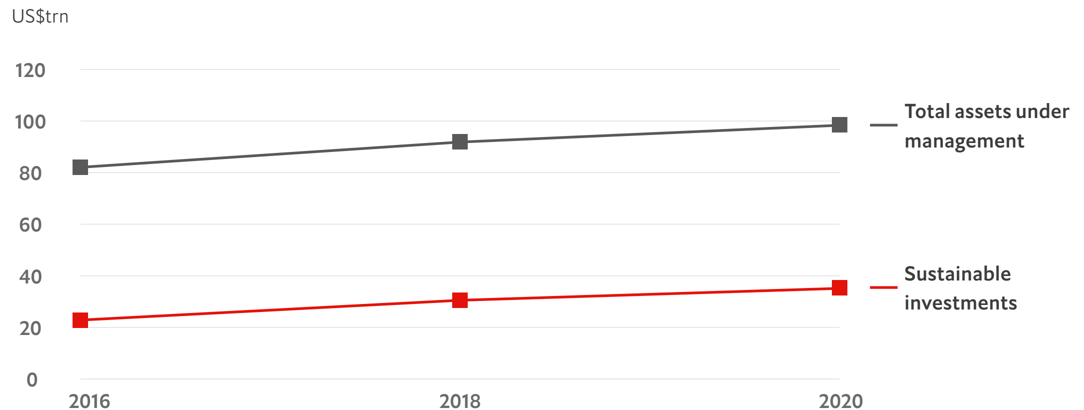
Figure 2. Sustainable investments versus total assets under management



Source: Statista.

When it comes to investor pressure—particularly around climate change and the race to meet global net-zero goals—two strategies are emerging: divestment and engagement. In recent years, many investors, particularly academic institutions responding to student campaigns, have rid their portfolios of fossil fuel stocks, with half of the UK's universities announcing that they would do this by 2020.[13] However, a rising number of experts argue that divesting can be counterproductive. "If it increases the cost of capital and forces companies to integrate into the business the cost of what they do, it makes sense," says Mr Ioannou. "But if divestment means those assets go to private investors that don't care and those assets become more polluting than before, it defeats the purpose."

"Until recently, it was very much about the effect the world was having on companies and their bottom line and not the effect that companies were having on the world."

Kelly McCarthy, Global Impact Investing Network

Engagement between investors and companies on social impact takes many forms and addresses many topics, from diversity and equity audits to climate risk reporting and political donations that are not aligned with corporate sustainability goals. "I've seen a whole range. It's anything from sending a letter, to meeting the board and the CEO, all the way to filing shareholder resolutions or getting even more aggressive by filing a lawsuit," says Mr Ioannou.

Shifting the dialogue

When it comes to conversations between companies and investors, some experts note a marked shift in the nature of the discussions and increased direct engagement. Ms McCarthy has noticed the change from the days when, while working at SustainAbility, a consultancy, more than a decade ago, she would sit in on calls between corporate clients and their investors to find out what investors were looking for in terms of disclosures on their social or environmental impact. "The answer was very little to nothing," she says. "Until recently, it was very much about the effect the world was having on companies and their bottom line and not the effect that companies were

[12] www.ft.com/content/fb857a39-7b02-466a-a88e-1c2852b25b1c

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having on the world." Since 2019 the nature of the conversations has evolved, she says, with investors now far more interested in companies' social and environmental impact. "We've really started to see a shift in the dialogue."

Asset owners have tended to limit their stewardship activities to divesting out of "sin" stocks such as natural resources companies. More than 1,485 institutional investors with total assets amounting to US$39.2trn have committed to divest from fossil fuels—a figure higher than the annual GDP of the US and China combined.[13] However, the trend Ms McCarthy has observed is also confirmed by our literature review, which found that investors are increasingly demanding that companies go beyond measuring and reporting on ESG metrics, and that investors are directly engaging with companies to influence their strategies on social impact.

Evidence of the impact of this increased engagement is in the growing number of shareholder proposals that are winning significant votes or are withdrawn before going to a vote. "This [proxy] season, I think we're going to see quite a small number of proposals go to the ballot box because the vast bulk of them have already been settled," says Anne Simpson, global head of sustainability at investment firm Franklin Templeton.

"A shareholder resolution becomes a strong signal if it's eventually withdrawn, as both parties can say they agreed on doing something—that can be perceived as a step forward," agrees Mr Ioannou.

The rise of impact activism

A few investors have set themselves up for the explicit purpose of pushing companies in a certain direction. The most prominent recent example of this—something of a David and Goliath story—is Engine No. 1, a tiny activist investor that took on oil giant ExxonMobil through a proxy campaign claiming its focus on fossil fuels created "existential risk" for the company. Engine No. 1 succeeded in winning three seats on the company's board.[14] "That's perhaps the most aggressive approach," says Mr Kramer, who wrote a Harvard Business School teaching case on the Engine No. 1 engagement with ExxonMobil. "But a very small percentage of investors are using really aggressive interventions and shareholder activism."

"A shareholder resolution becomes a strong signal if it's eventually withdrawn, as both parties can say they agreed on doing something—that can be perceived as a step forward."

Ioannis Ioannou, London Business School

[13] divestmentdatabase.org/report-invest-divest-2021/
[14] www.nytimes.com/2021/06/09/business/exxon-mobil-engine-no1-activist.html

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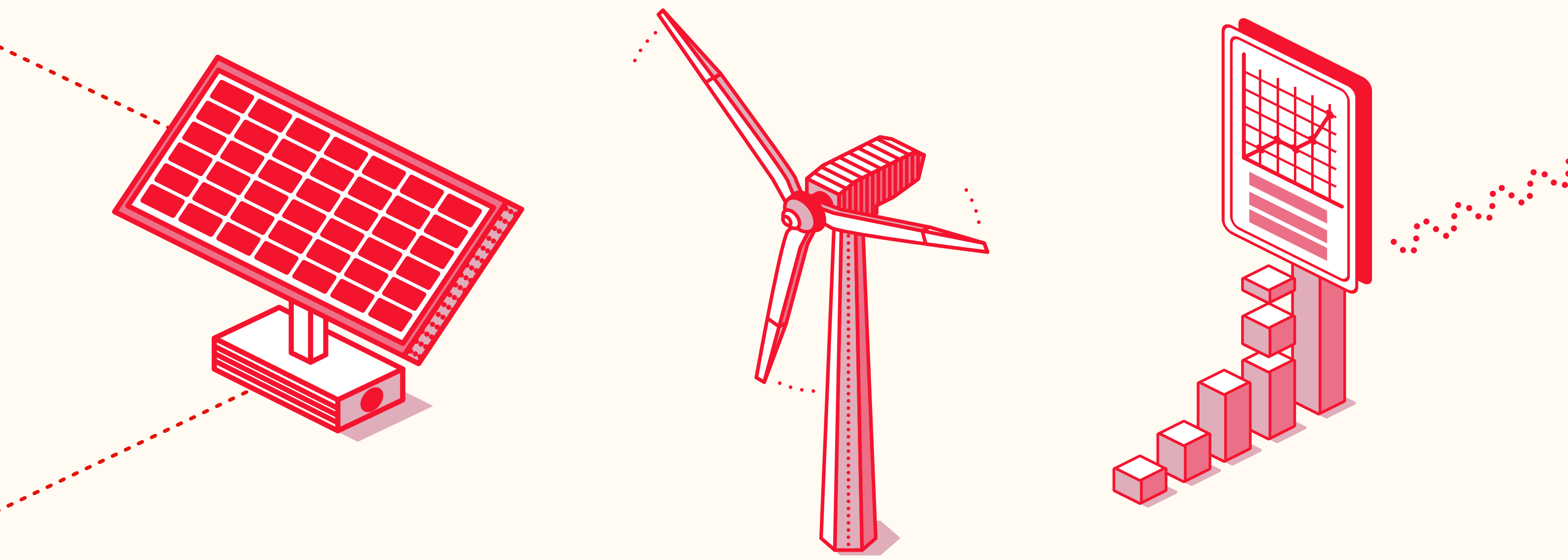

More often, investors are engaging with companies by forming or joining coalitions. These include Climate Action 100+ (CA100+), a group of 700 investors with combined assets of US$68trn.[15] CA100+ is pushing the world's biggest corporate greenhouse-gas emitters to take action on climate change, including by pressing companies to strengthen their governance frameworks, align their strategies with the Paris Agreement and increase transparency and disclosure on their climate impacts.[16]

For example, in 2021 CA100+ targeted the steel industry, which it said was not acting sufficiently quickly on its climate goals. Having highlighted this, CA100+ announced that it would hold twice-yearly meetings with industry executives to discuss their plans to address topics such as plant efficiency, carbon capture and storage, and scrap steel recycling.[17]

"Investors are increasingly demanding that companies go beyond measuring and reporting on ESG metrics. They are directly engaging with companies to influence their strategies on social impact."

Meanwhile, CDP (formerly the Carbon Disclosure Project), a non-profit organisation, helps companies, cities, states and regions to report on their climate, water and deforestation footprints on behalf of investors and buyers. At least 680 investors with more than US$130trn in assets and buyers with combined purchasing power of US$5.5trn disclose through CDP on climate change, water security and forests.[18]

As well as exerting pressure on companies, some coalitions also conduct research and advocacy initiatives that strengthen the business case for social impact strategies. This is the approach at Ceres, a network of investors and environmental groups that includes 200 institutional investors managing more than US$47trn in assets.[19] Mr Kramer sees power in these kinds of numbers. "Ceres represents a huge amount of assets and they have got the attention of corporate leadership," he says. "They've also done some interesting things like focusing on insurance companies and gathering data that suggests more sustainable companies are lower risk."

[15] www.climateaction100.org/about/
[16] www.climateaction100.org/
[17] www.ft.com/content/e75eef5d-7d19-4a77-be16-5387b7c9a13f
[18] www.cdp.net/en/info/about-us/what-we-do
[19] www.ceres.org/networks/ceres-investor-network

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Chapter III. Leveraging the global investment chain

In addition to engaging directly with companies, investors such as pension funds, sovereign wealth funds and university endowments need to work with other parts of the investment chain to advance sustainability and social impact. These include groups in the non-profit and international development sectors. However, many of the collaborations are with the public sector.

Collaborative efforts

Ms Ortino says policy and regulatory work is an important form of engagement for Legal & General Investment Management when it comes to raising market standards and best practices. The firm has worked with agencies ranging from the US Environmental Protection Agency (to address methane emissions in the oil and gas sector) to the UK government (with which it has engaged on the development of various sustainable finance regulations). "If there are policy consultations, we feed into those," Ms Ortino says.

Whereas some collaborative initiatives have focused on designing new types of financial instruments, such as the Seychelles blue bond, others have come together to work on new environmental and social standards for industry. In 2017, companies and investors collaborated with UNICEF to strengthen children's rights in the apparel industry. Led by UNICEF and Norges Bank Investment Management, which manages the assets of the Norwegian government's pension fund, the initiative convened companies such as fashion brands Adidas, H&M and Kering to improve corporate policies and practices governing the rights of children.

More recently, the initiative has expanded to food and nutrition for children, and, following the model of the apparel industry collaboration, it will bring together companies from the food retail sector to explore the role that those businesses play through their policies and practices to improve children's diets.[20]

Collaborative efforts are also helping to streamline the measurement and reporting of social impact. For example, when the IFC developed its Operating Principles for Impact Management, a framework designed to help investors and asset managers embed social impact considerations across their investment processes, it worked with representatives from industry.[21]

[20] www.unicef.org/partnerships/unicef-and-norges-bank-investment-management-expand-partnership
[21] www.impactprinciples.org/

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Bridging the gaps

Nevertheless, gaps remain in the interaction between companies and investors and the broader economic and financial ecosystem. One example cited by the advisory board experts was that companies and investors could make greater use of the UN's Sustainable Development Goals (SDGs), particularly their sub-indicators, given that one of the barriers to advancing sustainable development in business and the capital markets is a lack of quality indicators. Limited use of SDG sub-indicators is a missed opportunity, says Yann Wyss, global lead for social impact at Nestlé. "These sub-indicators are very relevant to companies and investors that want to make progress on social impact, so they could help create further synergies."

"SDG sub-indicators are very relevant to companies and investors that want to make progress on social impact, so they could help create further synergies."

Yann Wyss, Nestlé

By increasing access to impact investing, stock exchanges are helping to bridge the gap between retail investors and social impact.[22] Individual investors, particularly those from younger generations, show a strong appetite for investing their capital in companies that reflect their values, while high-net-worth individuals are increasingly attracted to impact investing as an alternative to their philanthropic activities.[23,24] Given their ability to impose entry and reporting requirements, stock exchanges are an increasingly important part of the sustainable investing value chain, providing a route into impact investment for retail investors and giving the credibility and assurance needed to attract more mainstream investors to sustainable investing.

There have been several initiatives to link retail investors with social enterprises, some more successful than others, and most acting as a directory and connection platform rather than a trading facility, such as the UK's Social Stock Exchange. Other entities, such as Canada's Social Venture Connection, the South Africa Social Investment Exchange and the Impact Investment Exchange (launched in 2013 as a joint initiative by IIX in Singapore and the Stock Exchange of Mauritius)[25] are based on a crowdfunding model that allows social enterprises to raise capital through the issuance of securities. The next step will be for mainstream exchanges to follow suit in setting up their own social stock exchange segment and to increase their capacity-building efforts to support smaller exchanges in less developed countries to gain an understanding of social impact investing.

Creating an enabling environment

Corporate-investor collaboration can only go so far without greater input from the broader ecosystem, with different players—from stock exchanges to industry bodies—all contributing to the conditions that make possible the scaling up of sustainable investing and social impact. Policymakers play a particularly important role—indeed, legislation can create an enabling environment for social impact—but it can also hamper progress. The limitations that current antitrust legislation places on companies' ability to work together to solve social and environmental challenges are one example of this (see box).

[22] reports.weforum.org/impact-investing-from-ideas-to-practice-pilots-to-strategy/5-1-social-stock-exchanges-democratizing-impact-investing/
[23] impact-investor.com/retail-investors-are-the-next-frontier-for-impact-investing/
[24] evpa.eu.com/uploads/publications/EVPA_Investing_for_Impact_Toolkit_2020.pdf
[25] www.jbs.cam.ac.uk/insight/2020/from-hype-to-impact-social-stock-exchanges/

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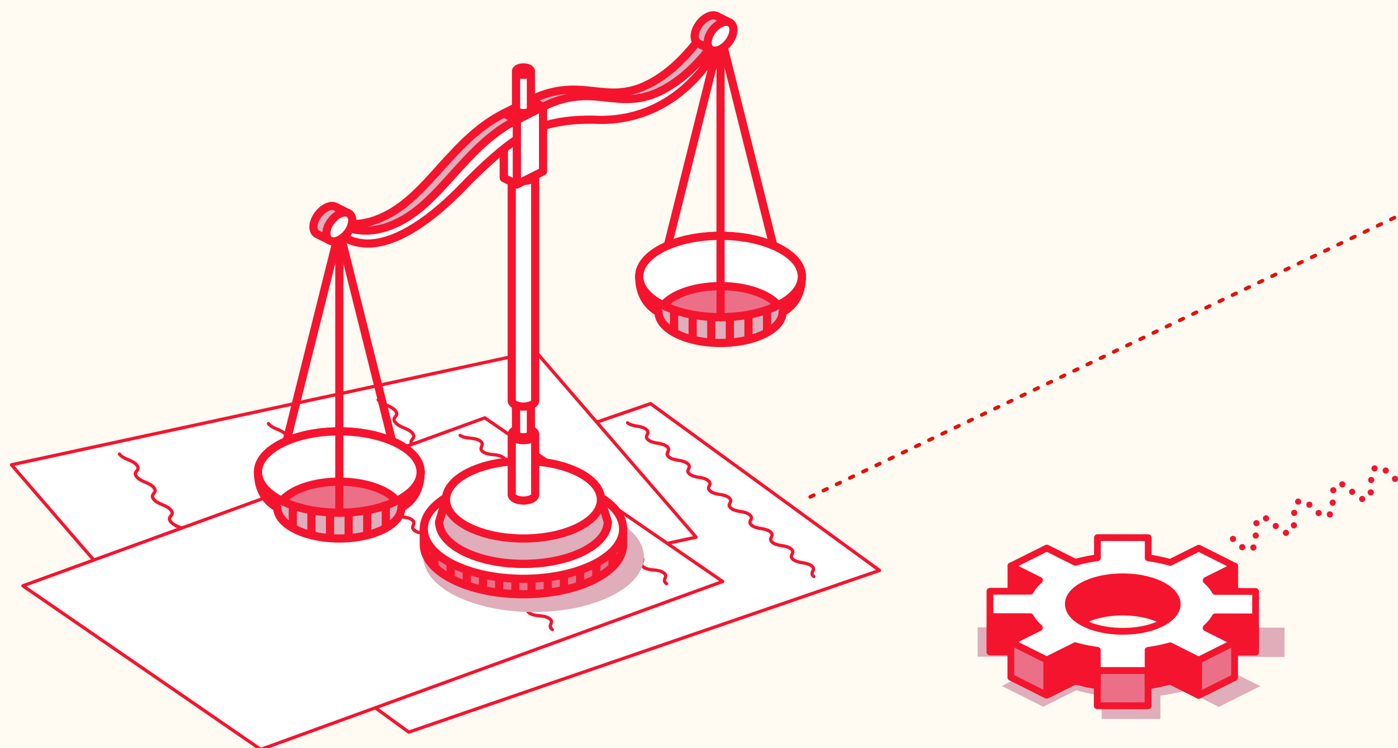

Overcoming the antitrust barrier to collaboration

Industry groupings in sectors such as cocoa, apparel and electronics have focused on issues such as human rights and labour conditions. Such activities require collective action among companies, as they seek convergence on certain sustainable practices. This has raised questions as to how antitrust regulators might view these collaborations.

While their purpose is to share experiences, reduce inefficiencies (such as multiple social audits of factories) and use collective purchasing power to push suppliers to increase their social impact, the collaborative nature of these industry groupings means that they must be careful not to breach laws designed to prevent monopolistic behaviour.

"While competition law helps clarify the rules of the game, [regulations] also set a specific framework that defines what we can share and how much we can work together on procurement practices and pricing," says Mr Wyss. Mr Kramer agrees. "Antitrust law makes it hard for companies to work together even when they are working together for positive social purpose. So we need a rethinking of antitrust law for the modern world," he says.

Some governments are producing guidelines to facilitate switching towards more sustainable practices in the presence of antitrust law. For example, Dutch authorities have drafted guidelines on which sustainability benefits can be considered, and how to measure these in order to determine whether the benefits outweigh the anticompetitive externalities.[26]

[26] www.mofo.com/resources/insights/220225-sustainability-and-antitrust.html

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Beyond antitrust law, government action is critical in creating the conditions in which sustainable businesses can thrive. In the US, for example, legislation is introducing alternative corporate structures such as benefit corporations (also called public-benefit corporations) that enable companies to prioritise social and environmental objectives alongside profit. In the UK, the Better Business Act campaign has seen politicians and more than 1,000 companies call for an overhaul of the UK Companies Act so as to mandate directors to take into account the interests of stakeholders and the environment.[27]

Building on its 2011 Social Business Initiative, the European Commission launched its Social Economy Action Plan in 2021, which aims to put forward concrete measures to implement an impact economy in the EU. A new EU Social Economy Gateway will provide stakeholders with information on EU funding, policies, training and initiatives, alongside a new European Competence Centre for Social Innovation.[28] To improve access to funding, new financial products will be launched under the InvestEU programme. The Programme for Employment and Social Innovation will enable access to investments of up to €500,000 (US$541,000) for social enterprise finance providers and give support in the form of "a guarantee, capacity building investments, a funded instrument and advisory support."[29]

Mr Ioannou argues that governments also need to remove certain economic distortions—for example, they often subsidise oil and gas companies more generously than those in the renewable energy sector. "We need to make sure companies that are breaking the rules are not being subsidised for it," he says. "And we need regulatory support to level the playing field."

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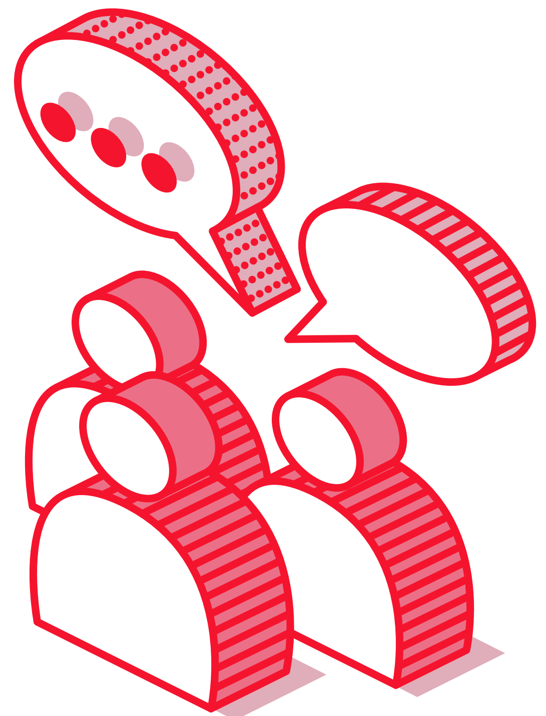
Ioannis Ioannou, London Business School



[27] https://betterbusinessact.org/about-the-act/
[28] ec.europa.eu/social/main.jsp?catId=1537&langId=en
[29] Ibid.

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Conclusion: building the impact economy

Given evidence of what can be achieved when companies and investors work together on social impact, addressing the barriers to further collaboration will be essential. Some of the action must come from government in the form of regulations that push corporate laggards in the right direction and reward companies that are ahead of the game in addressing everything from inequality to climate change.

"Governments could also play an increased role in convening different market players and creating new institutions or agencies that could engage all companies in the transition to an impact economy."

Governments could also play an increased role in convening different market players (as was done in the UK's Better Business Act campaign) and creating new institutions or agencies (such as the European Competence Centre for Social Innovation) that could engage all companies in the transition to an impact economy.

At a corporate level, change needs to come from the top, with the board of directors and corporate leadership fully engaged in steering the enterprise towards social impact. This in turn will help to build investor trust.

With an estimated US$2trn-4trn needed to meet the SDGs in the world's poorest countries, scaling up funding flows will also be critical. New mechanisms such as development impact bonds and other forms of blended finance will play a role. Meanwhile, public-sector and philanthropic grants and seed funding can improve the risk-return profile of projects, making them more attractive to mainstream investors.

Securing funding for the sustainability transformation also means mobilising smaller impact investors so that "patient capital" can be deployed towards social enterprises that might find it hard to attract institutional investors. These hands-on investors help to fill another gap: the need for more on-the-ground consultation with local stakeholders, so that when funding is deployed initiatives are developed in ways that meet the needs of local communities.

Above all, what has emerged from this research programme is that in advancing a resilient, sustainable and inclusive economy, a holistic approach will be essential at every level—not only between companies and investors but also across government, regulators, stock exchanges and non-profit groups. In pursuit of the impact economy, true scale can only be achieved through the participation of every player in capitalism's ecosystem.

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