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The Time For Impact Investing Is Now

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Environmental, social and governance (ESG) and, by association, impact investing are in the hot seat. The current economic sentiment and geopolitical affairs, not to mention the recent US bank crisis, have created a compounding effect around the role that corporations need to play as we consider the future impact of our organizations as fiduciaries to our shareholders. KPMG's October 2022 CEO Outlook reported that 50% of CEOs worldwide say they are “pausing or reconsidering” their ESG programs in the next six months because of economic uncertainty, and 34% have already done this. Yet despite criticisms and uncertainty, as CEO of a company that prioritizes impact, I believe now is exactly the time real leaders should lean into their efforts around ESG and impact.

The Difference Between ESG And Impact Investing

ESG investing involves considering environmental, social and governance factors in the investment decision-making process; this may be framed as an internally focused investment by companies and the choices they are making today to mitigate negative outcomes. It is often backward-looking and used to assess past activity. In contrast, impact investing is forward-looking. It focuses on generating a net-positive social and environmental impact alongside financial returns. The distinction is essential. ESG is the foundation for impact investing. Organizations leverage ESG as a strategic driver for their business to align outcomes and drive impact on financial metrics. In simple terms, an authentic impact framework is about driving long-term value. Fundamentally, it’s about good business.

Financial Performance

Extensive research demonstrates the positive performance of companies that have operationalized ESG frameworks and the performance of impact investments. Yet a recent study by market analytics firm Refinitiv Lipper revealed that responsible investment posted net outflows globally of $108 billion in the 12 months ending in September 2022. This is the first time the firm noted such extensive withdrawals since it started tracking responsible funds in 2017. This is despite the fact that investments that prioritize ESG factors are generally more stable and likely to be more profitable in the long term. Many funds also offer competitive market-rate returns in the short term. This has been substantiated by several studies.

• A September 2022 report by global accounting firm Moore Global found that companies across the world that prioritize ESG saw revenues significantly outperform those companies that ignore ESG between 2019 and 2022 (9.7% for ESG-focused firms and 4.5% for traditional organizations).

• In a 2021 survey by the Global Impact Investing Network (GIIN), 88% of impact investors said their investments were either meeting or exceeding their financial expectations.

• An exhaustive report by the NYU Stern Centre for Sustainable Business that examined more than 1,000 studies from 2015 to 2020 concluded that improved financial performance due to ESG becomes more marked over longer time horizons, and ESG integration performed better than negative screening approaches.

Beyond profits, companies that review ESG factors can be less prone to operational and reputational risks because strategically implementing an ESG framework early on can help identify threats to their business and turn these into opportunities. As an example, mitigating environmental threats can result in lower insurance and financing costs. More anecdotally, I find that ESG-focused firms tend to prioritize a culture of transparency and place importance on proper governance. This can reduce risks of impropriety and reputational risk that can adversely impact business. Strategically, I believe these companies also create a culture based on values alignment that directly correlates to employee satisfaction and retention.

Measurement As A Tool, Not A Result

ESG is not easy to implement from an operational or financial point of view—it takes concerted effort through a lens of investment (time, people, money). Companies that are doing it right dedicate the appropriate resources that include external advisors paired with internal champions and the right budgets. Even then, there are initiatives that are hard to characterize, as the entire process needs to be understood as a continuum versus the traditional linear approach of setting goals and outcomes. The process must be seen as an iterative one, where incremental wins help motivate progress, and learnings are applied as the process advances. This requires leadership to approach this through a lens of innovation, recognizing that teams need to be motivated when there are setbacks and that there is no looming threat. It also requires a culture of accountability that is paired with innovation and anchored on measurable outcomes—everyone needs to be committed to measurement to make this real and to account for the investment that is being made.

The reason companies invest in ESG is to drive purpose, build reliance and create long-term stakeholder value. While measurement is essential to ensure you are driving tangible results, the measurement is not the end goal and should be used to drive accountability and progress. And it should not stand in the way of continued ESG work.

Furthermore, organizations committing to an ESG roadmap are also setting a culture of transparency that is paramount to building a values-aligned culture that builds trust within the company and dispels the greenwashing stigma that is used to debunk the true value of why we need to be committed to the future.

Why Invest In ESG And Impact Now?

We are seeing the threats and challenges that have emerged broadly across the globe. Simply put, while we have made great progress as a species, I find that we are going to need a different approach to empower the generations that are coming behind us. We need to see ourselves as generational stewards and align our idea of value creation through a lens of collective outcomes where all tides rise. Like all investments, investing in ESG sets the foundation for driving impact long term and creating resilient outcomes, which the collective set of stakeholders can benefit from. Simply put, investing in ESG and impact is about good business with a lens to the future and commitment to create value generationally—it's an all-win approach that we can all be proud of!

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