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What Socially Conscious Investors Can Learn from Mission-Driven Entrepreneurs—and Vice Versa

By [Joshua Sternoff](#), [Ryan Derry](#) & [Irina Marinescu](#)

The trend toward greater corporate social responsibility is rapidly transforming the investment ecosphere. Individuals and institutions are looking for more than competitive returns. Their investors also expect them to create long-term societal wealth—or at least avoid creating any damage—in areas ranging from climate change and human rights to literacy and sanitation. McKinsey & Company thinks impact-driven investments will exceed \$300 billion worldwide next year. JP Morgan predicts they may amount to as much as \$1 trillion within 10 years.

We at Paul Hastings are intensely focused on the impact investing space and watch these developments with keen interest. We have been listening to and meeting with social entrepreneurs and investors alike, including at recent events that we convened with the Centre for Social Innovation in New York City and the Impact Hub in San Francisco (see Sidebar: [Gatherings of Impact—Speakers](#)). We learned a lot from hearing these organizations' unique stories: how they developed and refined their ideas, how they capitalized their ventures, and how they gauge and communicate their impact—reconciling the twin objectives of serving their causes and meeting the financial expectations of investors.

When people hear about socially responsible investing, they may think of grand corporate initiatives: oil companies diversifying into wind farms or drug companies airlifting malaria vaccines to remote African villages. These are indeed important and admirable endeavors, worthy of investor attention.

But some of the most promising and exciting impact investment opportunities are smaller in scale and often under the media radar. They include startups, early-stage ventures, and other privately owned companies that put social causes at the very forefront of their missions. These mission-driven entrepreneurs are putting new technologies to work bringing low-cost medical care to inner city residents in the Bronx. They are helping companies find and connect with homeless job candidates in San Francisco. They are introducing environmentally sound practices to existing industries like fashion and retail.

The purpose of our New York and San Francisco events was to give us insight into how these entrepreneurial companies work—the challenges they face raising and deploying capital, and how they deliver on their social and financial goals in a way that satisfies investors and their other stakeholders.



We also wanted to hear what investors look for in enterprises focused on environmental, social, and other ethically conscious goals.

We took away four main ideas:

1. Impact investing is not philanthropy. The only way to attract the vast sums needed to meaningfully address the world's social ills and raise standards of living globally is by offering investors a competitive financial return. As one of the panelists in NYC put it: it's really about connecting the back street to Wall Street.
2. Ideas for social enterprises often come from the founders' own experiences with injustice, waste, and other social issues. The business opportunity is grounded in a passion that is both personal and focused on other people's well-being. In San Francisco, a social entrepreneur said she wanted to fight what she saw as widespread exploitation of foreign garment workers while reducing excessive waste in the industry. But she had to overcome numerous obstacles, noting that in the fashion industry it is very difficult to bring change because more volume and more production means more money and more profit; that's the bottom line.
3. A good fit and open communication between investors and social entrepreneurs are crucial for both sides. Although investors and investees may share broad goals on paper, they don't always communicate effectively with each other. In such cases, it often falls to financial advisors, consultants, and attorneys to help clarify and reconcile financial goals. As a partner at an investment firm observed, alignment among companies, investors, and other partners is absolutely crucial.
4. Measuring and conveying how well companies are delivering on their missions is hard. A manager at a financial firm lending to social enterprises indicated that their borrowers were really good at telling stories, yet, collectively, they haven't been as good at articulating outcomes. Many businesses include social goals as well as financial objectives in their business plans and mission statements. Various measurement frameworks exist, but there are no widely accepted standards yet. Some 3,000 companies, including Eileen Fisher, Ben & Jerry's, and Patagonia, have obtained "B Corp" certification, a rigorous and sometimes costly process that confirms their claims of being environmentally friendly, socially conscious, and worker-friendly. Since the vast majority of companies do not have B Corp status, however, sustainable investment funds develop their own criteria based on industry or institutional standards.

Success is ultimately about building and maintaining trust among company builders, investors, and other stakeholders. It's about communication. That is why these kinds of gatherings are so valuable.

Gatherings of Impact—Speakers

How do mission-driven companies reconcile their causes with the financial demands of investors? Paul Hastings partners put that and other questions to entrepreneurs, corporate executives, and investors at events in New York City and San Francisco. Here are the speakers at each of them:



**New York City
July 16, 2019
The Centre for Social Innovation**

Ivelyse Andino, founder and CEO of Radical Health, a social enterprise providing training, workshops, and technology to increase health equity.

Amy Hall, the vice president for sustainability at Eileen Fisher, a women's clothing brand that supports clean air, clean water, and a healthy environment for workers and wildlife.

Kevin Moran, the chief operating officer, general counsel, and chief compliance officer at Tiedemann Advisors, an independent investment advisory firm emphasizing impact investing.

Durreen Shahnaz, founder and CEO of the Impact Investment Exchange (IIX), home to Asia's largest equity crowdfunding platform for impact enterprises.

Anne Van Riel, head of sustainable finance at ING Bank North America.

**San Francisco
July 22, 2019
The Impact Hub**

Ellie Damashek, senior director, client services at Indiegogo, a crowdfunding website for ideas, charities, and startup businesses.

Eric Desai, a partner at Greenhouse Capital Partners, a growth capital firm investing in companies that promote health and sustainability in food, agriculture, and the environment.

Stu Fram, lending manager, climate and environment at RSF Social Finance, a financial services organization dedicated to revolutionizing how people relate to money.

Saloni Shrestha, co-founder and design head at AGAATI, a sustainable womenswear brand creating clothing based on a philosophy of artisan promotion, organic textile, and zero-waste.

Shivani Siroya, the founder and CEO of Tala, a mobile technology and data science company that is opening up financial access for underserved people globally.



If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

New York

Joshua H. Sternoff
1.212.318.6011
joshsternoff@paulhastings.com

Irina Marinescu
1.212.318.6718
irinamarinescu@paulhastings.com

San Francisco

Ryan D. Derry
1.415.856.7092
ryanderry@paulhastings.com

Paul Hastings LLP

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