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Higher Education Institutions and Impact Investing

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Motivations and Challenges

Over the past 60 years, technological innovation and enterprise have driven a dramatic increase in life expectancy and quality of life. However, the capitalist model that prioritizes such technological innovation has faced increasing scrutiny in recent years, given the exacerbating externalities of this model – including worsening social inequities and environmental concerns (Manyika, Pinkus, & Turin, 2020). As such, another economic shift is essential. Our model of capitalism must evolve to address social inequities and environmental concerns while providing innovation and economic growth.

Of interest, the belief that companies must sacrifice returns for societal change is being challenged, with the widespread uptake of Environmental Social Governance (ESG) frameworks in corporate decision-making. These frameworks focus on operational risk and how the environmental and social factors contribute to that risk (PwC, 2017). An emerging approach to catalyzing a shift in economic thinking is impact investing, which creates measurable, positive social and environmental change alongside a financial return. Impact focuses on the total contribution of investment towards sustainability with a strong focus on products and services. Although nascent, impact investments are a rapidly growing asset class that focus on providing capital to generate positive and measurable impact, while also providing a financial return. While impact investing is an important tool to fast-track the development of emerging socially impactful industries/practices that may not be supported by traditional investment approaches, there are gaps in this area that necessitate the involvement of novel and influential actors.

Although the need for impact investing is becoming recognized and supported, it is challenged by a vague definition. This is especially problematic, given that an impact investment mindset is likely to be a fundamental and irreversible shift in capital markets that will require significant buy-in from stakeholders (Sand, 2015). As we are in the early years of this shift, impact investing is also challenged by the absence of clear impact metrics and measurements. Because there is a lack of clear understanding, we have not yet reached a widely accepted framework to assess and measure impact in this way (KPMG, 2019). Impact measurements also suffer from a lack of expertise. As this change is primarily taking place in the private markets, it is difficult to publicly share results, creating an information divide (KPMG, 2019).

Institutions and Landscape

Higher Education Institutions (HEIs) are defined as organizations that offer postsecondary education, typically comprising universities, colleges, and further education institutions. HEIs play a critical role in the knowledge economy — their core mandate is to facilitate the transfer of knowledge to prepare its graduates for the workforce. Consequently, HEIs are uniquely positioned, as compared to the government, enterprise, and other non-profit organizations.

Firstly, HEIs can drive change to the status quo through a culture of innovation. HEIs can spark change through their capacity for knowledge creation. Although HEIs do not have a monopoly on knowledge production (Chatterton & Goddard, 2000), their substantial funding makes them significant players in the innovation process. In 2017/2018, spending on research and development activities in Canadian HEIs totalled $14.3 billion, resulting in the eighth consecutive annual increase in growth for this category (Statistics Canada, 2019). In response to strong financial backing and a traditional emphasis on research, HEIs have fostered a culture of innovation that is conducive to the exploration of new ideas. Their resources and networks can prove invaluable to the experimentation and development of impact investing.

Secondly, the impact of HEI policy changes are magnified due to their size and influence. It is well supported that HEIs are critical to the development of human capital and economic growth (Cvecic et. al, 2019). Institutions can effectively propagate ideas and information through the design of a robust curriculum and quality teaching practices. As such, HEIs can substantially influence the perceptions of its graduates—an impact that is further magnified by the sheer volume of students, and average four-year turnover for a degree. From a wider perspective, HEIs also possess strong connections to industry and alumni networks, making them influential stakeholders in the local economy. These attributes provide HEIs with an edge over other organizations in their capacity to amplify change.

Impact Investing

As social impact curriculums become a differentiating factor for students choosing a school, universities must be careful about how they approach impact investing. The largest barrier for HEIs is access to expendable capital as institutions cannot make investments themselves because it risks legitimacy. It is a concern that HEIs will make revenue outside of their core mission - education. As an intermediary, it is difficult for HEIs to define where the role ends in an effort to not risk their neutral position as educators (Bonnici, 2020). Therefore, universities must be careful in balancing the role of educator with fundraising and providing capital. Another concern is streamlining impact investing projects to be scalable in education curriculums. Since impact metrics are still ambiguous, it is difficult for institutions to provide consistent experiences for students.

HEIs are in an opportune position to develop standards for impact investing and assessing social impact. As the majority of impact progress is being made in the private sector, transparency and cooperation are lacking in discovering new processes. Through their neutral stance, schools can support multiple stakeholders, generate knowledge, and provide experience in a supportive environment. HEI should partner with other universities to create cohesive frameworks, engage in cross-cultural perspectives, and improve on existing theory (Rotondaro, 2020). As a neutral institution, HEIs are also in the perfect spot to support private business and engage systematic change with governments. For instance, HEIs can assist in due diligence, create metric frameworks, and lobby for policy change. As research institutions, HEIs must generate knowledge through case studies, conferences, academic publications, and workshops. Credibility from universities will contribute to cohesively defining the impact investment space. Lastly, HEIs must offer impact investing experiences to undergraduate and graduate students to remain competitive and further social change. Social impact classes should be offered to students and universities should also support social finance funds and clubs for students who wish to pursue more experience.

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