

Abstract

Those who embrace the paradigm of impact investing understand that:

- Economic sustainability is fundamental both in the short term and in the medium term;
- Profit in the medium term can be pursued by being on the market with a value proposition that is attractive to all stakeholders - consumers, employees, managers, entrepreneurs, investors.
- Consumers shifting from "1.0" to "4.0": As an example, customers are increasingly now sensitive to the amount of plastics we find on the beaches, to the quality of the air we breathe, to the quality of the water we drink, to the quality of life we have when we stuck on the highways (sigh!). Even if "being impact" often implies that you can't be low cost immediately and certainly not now: however, what you can count on is an increasing amount of consumer that are willing to pay a premium for your products. ...
- Employees: today, in the battle for talent and therefore, ultimately, in the battle to remain competitive, we must know how to present ourselves as a company that knows how to do good: good to its customers / consumers, good for its employees, good to the local community. Talents are no longer willing to work for companies that make our cities less livable, our seas more polluted, etc ... talents, those who can choose what to do, choose activities with a high social and environmental impact.

The new paradigm for Impact Investing comes from a long-standing experience in no-profit: with less-than-average returns on capital, we are unable to attract new capitals and this, at the end, was the basis for the failure of many initiatives. Projects, also social impact ones, need to return above average returns to attract new capital to get start-ups at the scale-up / maturity phase. Even with all this in mind and making sure to take advantage of the beauty of this new world, then to make profit is difficult. This is the real paradigm of Impact Investing: healthy innovation. The review of the paradigm stems from fieldwork with approx. 1,500 start-ups reviewed and analyzed, with investments (with our financial resources) in 30 start-ups. However, being a player in Impact Investing is hard work, on a daily basis. It requires technical skills, soft skills, a strong network, platforms, International outreach and marketing (both digital and non-digital) capabilities. These capabilities were developed alongside with a strong deal-flow process, managed with focus and precision. Once we selected the start-up, we used them either in the Incubation or in the Acceleration program, with Monitoring or full involvement on our side, depending on the maturity of the business idea or its team.

Keywords

Acceleration
Environmental impact
Impact Investing
Incubation
Scouting
Social Impact
Social Innovation
Startup

Purpose

The objective of our paper is to show how to embrace the new paradigm of Impact Investing, which is focused on making profit and remain sustainable in the long run. Regardless of the megatrends in place (toward a more environmentally and socially friendly investing), it is very difficult to make Impact Investing a reality. IHM has been doing for five years now and we can affirm a convincing degree of success, however, issues remain and are mainly related to the Capital Market for Start-ups in our country.

Results

IHM is a start-up itself and it is successful as now is a company, with more than 1.0 M€ in revenues, and it is breakeven.

In the six years, we have:

- Reviewed 1.402 applications to our Incubation Program
- Accepted in our spaces as "incubated" 172 companies;
- Invested in 30 companies
- We expect find 1-2 "good" companies that will grow to the "tens-of-millions" size

We experienced a strong growth in the number of Applicants over time: this is due to the fact we are recognized in the marketplace as the Social Impact Incubation Program of reference and we represent the partner of choice (for the Social Impact) in many other Incubation programs, such as (to name few):

- B-heroes
- Premio Marzotto
- Global Social Venture Competition

The number of Applicants went from 8 in 2014 to 533 in 2018 (growing 17% YoY in 2018).

Impact Investing, for IHM, implied investing in Social Sector, but also in other industries to make them as socially impactful as possible. We, therefore, looked in many other Industries such Healthcare, Food, ICT, Smart Cities and Intelligent Cities (with strong impact on Environment) and Travel.

Healthcare represented for us a reference and we focused on developing devices, drugs, business model that took care of the less fortunate (the poor, the handicap people, the blind/deaf, elderly,...).

We have now

- 30 start-ups in our portfolio;
- 7 years of experience in Social Impact
- 2-3 years of impacting investing (we started to take equity directly in 2016)

We are usual in taking 7% equity in order to start them up in our Acceleration program and the 100% Equity Value of our portfolio, at investment day, was 715.000 Euro.

Now, the value is estimated to be above 1.5 M€

Design, Methodology, Approach

We started from reviewing the results of Impact Investing in the last ten years: results are largely available in the press and specialized literature (See Bibliografia, for few of the main publications).

We then summarized and review our activity in the last few years and dedicated value time to:

- Describe in detail the activities performed in our Innovation Hub;
- Review critical issues in the activities and highlight the more important ones vs. the more processive ones;
- Measured the number of applications per year and per industry,
- Measured the number of companies we "incubated" per year and per industry (analyzing the root cause for them to fall out during the selection process)
- Measured the number of companies we invested in, on which we can a first indication of the level of success of our investing efforts.

Finally, we were able to describe the capabilities and the skills that over the years IHM has developed in order to be able to run successfully Call4Startups, scouting, selection and investing processes.

- A set of capabilities which is quite unique, because includes technical skills, soft skills, platforms, Marketing (digital and non digital) as well as a wide and trustworthy network of angels and family offices.

Originality

This paper represents the first publication of our activities and IHM is the first Incubation Hub, that can claim such a long history and that is breakeven. IHM is also the only Incubation Innovation Hub, that invests and focuses only on Social and Environmental Impact.

References

Forum per la Finanza Sostenibile – CSR Manager Network (2014), *Engagement su temi di sostenibilità. Le società quotate e il dialogo con gli investitori.*

Forum per la Finanza Sostenibile – Social Impact Agenda per l'Italia (2017), *Impact Investing: la finanza a supporto dell'impatto socio-ambientale.*

Martin M. (2014), *Come rendere appetibile l'Impact Investing*, ed. italiana a cura di Fondazione Cariplo.

Social Impact Investment Task Force (2014), *La finanza che include: gli investimenti ad impatto sociale per una nuova economia, Rapporto Italiano della Social Impact Investment Task Force istituita in ambito G8.*