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Discussion of

"Impact Investing and Worker Outcomes"

by Lerner, Lithell, and Phillips

4th Sir Oliver Hart Conference on How to Make Impact Investing Work

November 13, 2026

Per Strömberg, SSE & SHoF

This paper

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- Question: Do impact investors pursue employment-related social goals – or is it "impact washing"?

- Data: HBS Impact Investment Database matched to US Census microdata
  - Firms (LBD): 700 impact-backed, 2,000 VC-backed, 4,600 control firms without funding
  - Workers (LEHD): 557,500 incumbent workers, 197,000 new hires

- Method: Nearest-neighbor matching on industry, size, growth, funding round
  - Multinomial logits (who gets funded/hired), diff-in-diff (firms, workers); no causal claims

- Findings (relative to VC-backed firms):
  - Impact funds more likely to invest in disadvantaged areas, minority founders, diverse workforces
  - Impact-backed firms grow less, but increase share of minority (+0.7pp) and female (+1.2pp) workers
  - Salary raises more favorable for minorities and rank-and-file workers
  - More likely to hire minority, female, less educated, lower-income workers

Overall

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- Very nice paper on a central question for this conference
  - First large-scale evidence on the real (worker) outcomes of impact investing
  - Fantastic data
  - Careful matching and analysis

- My comments
  - What do we mean by impact investing – and why are private markets different?
  - The measurement problem: are worker outcomes the funds' impact goals?
  - Other comments on design and interpretation

Trade-off I:
Doing well vs doing good

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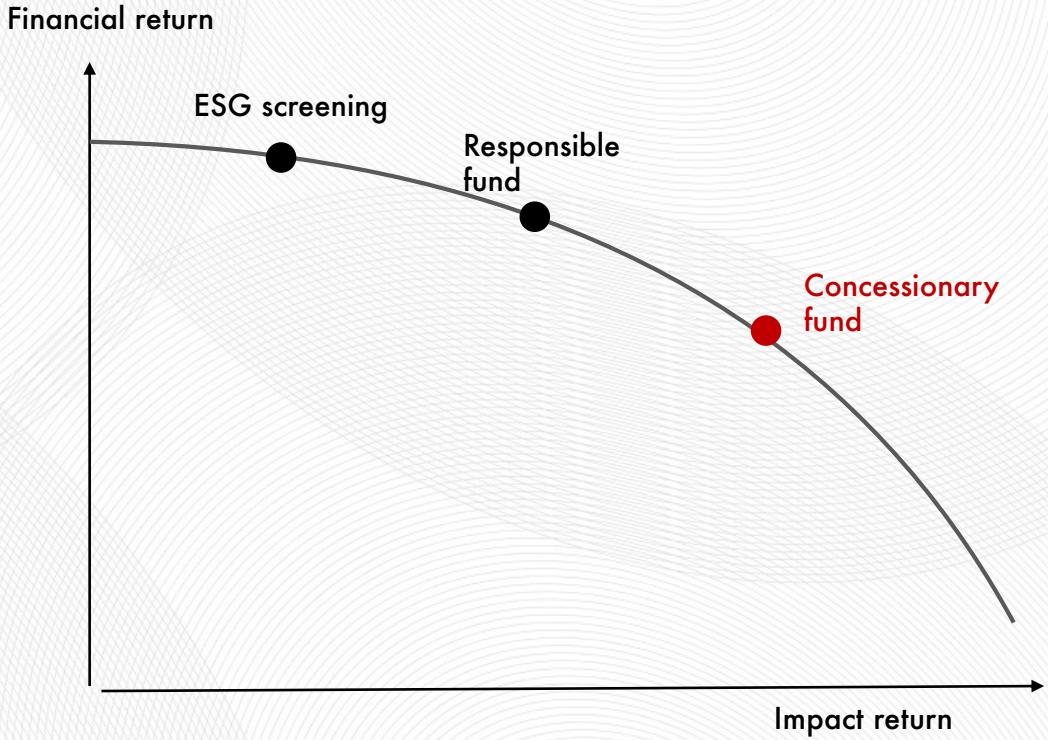
Maximize shareholder welfare, not wealth (Hart & Zingales, 2017)

- Exit vs. voice (Broccardo, Hart & Zingales, 2022)

Various degrees:

- ESG DD
- Negative screening
- Thematic / explicitly targeting
- Activist funds

- Q: What is shape of curve?
  - Win/win? Lose/lose?



Trade-off II:
The "canonical" governance-liquidity trade-off

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Concentrated and active ownership



Dispersed and passive ownership

+ **Informed and empowered** owners → strong governance → **efficient** management, higher productivity

- **High asymmetric information** relative to outside investors → **low** liquidity

- Investors are **undiversified** and cannot rebalance → **high** cost of capital for firms

- **Uninformed and passive** owners → weak governance → **less efficient** management, lower productivity

+ **Low asymmetric information** across investors → **high** liquidity

+ Investors can **diversify** and rebalance → **low** cost of capital for firms

PE = delegated active ownership

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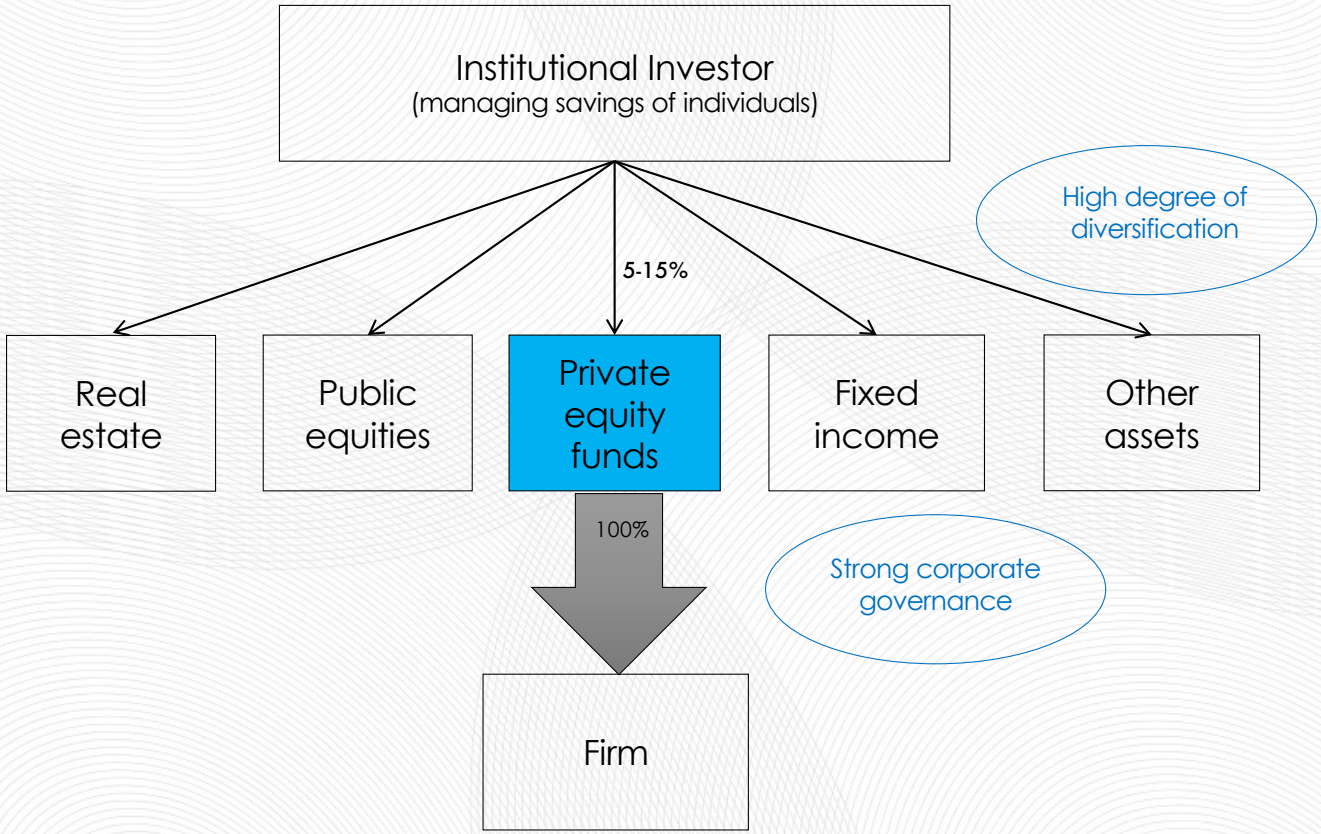

Public vs private governance

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CalPERS BlackRock ISS EQT THE CARLYLE GROUP KKR

Large public shareholder:

- Put forth shareholder ***proposals***
- ***Vote*** on board members & compensation
- ***Voice opinion*** about management team
- Access to ***public financials*** according to IFRS
- ***Quarterly earnings calls*** and occasional meetings with management (s.t. securities laws)
- ***Express views on strategy*** (based on public information)
- ***Vote*** on (some) mergers and acquisitions
- **Vote** on and participate in securities issues
- Can sell shares in liquid market at any time

PE owner

- Has majority ***control over decisions***
- ***Decide*** on board members & compensation
- ***Recruit/replace*** management
- Access to ***proprietary information***, reports & KPIs
- ***Weekly interaction*** with management discussing strategic and operational issues
- ***Develop business plan*** together with management with help of experts and *monitor* progress
- Source and ***execute M&A transactions***
- ***Design capital structure*** and help arrange financing
- Need to keep equity for several years until exit

Active PE ownership comes at a cost

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1. PE investments are illiquid →

   LPs require higher expected returns

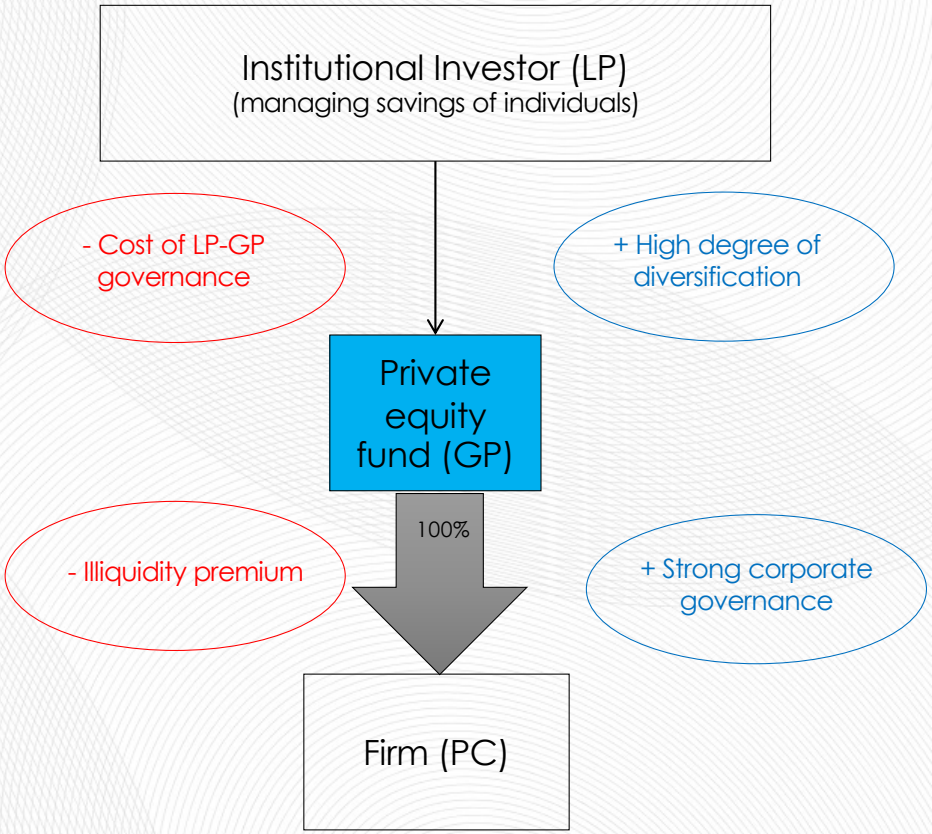
   Illiquidity premium ≈ 2 – 3% ***net*** *over public equity*

2. Delegated portfolio mgmt →

   Need to align LP & GP incentives

   Average fees+carry ≈ 5-7% of AUM

→ GPs need to generate a large *gross* "alpha" (≈ 7-10%) to meet LPs' required *net* returns!



Putting them together: Impact funds

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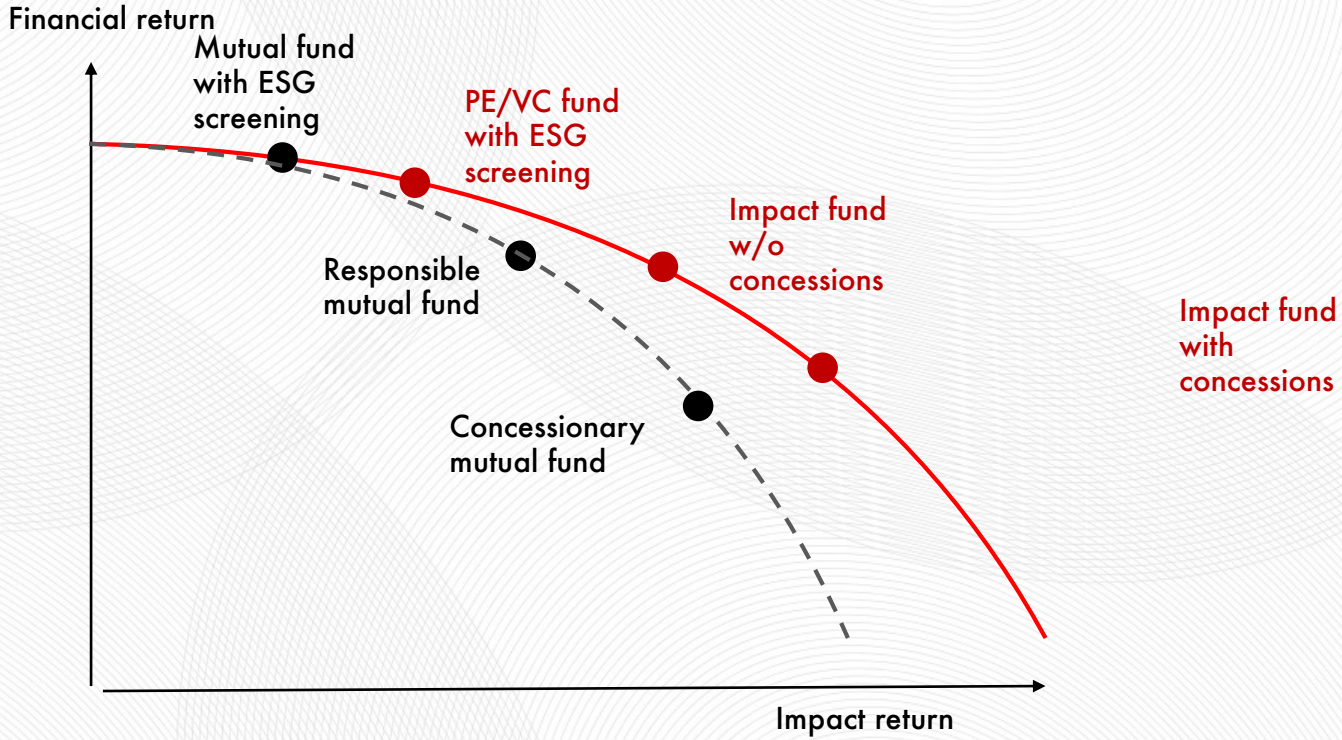
Shifts the curve?

- + Information and control enables more effective impact → shift to the right?
- - Private capital more expensive → shift downward?



Private vs listed impact – specific issues (I)

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- Measurement problem pervasive for non-financial goals
  - "One-size-fits-all" problem: forcing companies and funds to focus on the wrong goals
  - "Greenwashing" problem: fooling investors about responsibility

- Private market advantage:
  - Companies can share more information with impact funds →
    - More detailed impact goals, KPIs → avoid OSFA
    - Can verify company claims → avoid greenwashing
  - GPs can share more detailed information with LPs
    - Enables catering to more sophisticated and homogenous investors
    - Better alignment with LP preferences?

Private vs listed impact – specific issues (II)

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- Complementarity between private and listed ESG strategies
  - Listed market → less about change/activism, more about valuation
  - Private equity → change company to increase exit value

- Public market ES investors →

"greenium" / valuation premium for responsible companies →

PE investor can realize "multiple expansion" by making companies more responsible

Heterogeneity across impact funds

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- Impact investing: intention to achieve specific, measurable social outcomes
  - Worker outcomes as the goal, e.g. create quality jobs, hire minorities
- Responsible (ESG) investing: financial goal + "do no harm"
  - Worker outcomes as a constraint, e.g. no discrimination, decent working conditions
- Worker outcomes can play two roles:
  - (a) Specific impact goal, e.g. hire minorities, create quality jobs in low-income areas
  - (b) Do no harm, while main impact goal is something else (e.g. climate, health, education)
- Are you capturing (a) or (b)?
  - Your funds include both E and S funds, with different explicit strategies
  - Why not use more of this information?

Examples (Appendix A.1):

Impact goal
"...creation of wealth and job opportunities in low-income geographic areas..."

Selection criterion
"...support small, women and minority led businesses..."

Industrial policy
"...promote the development of a regional entrepreneurial ecosystem in Northern Colorado."

Co-investment with VCs

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- Impact and VC investors frequently co-invest: ~60% of impact investments (Cole et al., RFS 2026)
- VCs have purely financial goals → co-invested firms are ones where
  - (1) impact does not conflict with returns, or (2) impact funds have to "hold back" on impact goals
- Here: any firm with impact funding is an impact PC, also if VC-backed → cases are pooled
- Is the impact on firms and workers different across these cases?

Financing sequence	Interpretation	Question
Impact fund only	Impact goals unconstrained? Firm not VC-fundable?	Largest worker effects? Lower financial performance?
Simultaneous co-investment	No conflict with returns – or impact fund holds back	Smaller impact effects if holding back?
VC first, impact fund later	Impact fund joins a financially driven firm	Spillovers on traditional VCs?
Impact fund first, VC later	Impact fund de-risks / certifies the venture?	Do worker effects persist after VC entry?

Summary

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- Very nice paper! Important evidence on the real effects of impact investing
  - Results inconsistent with pure "impact washing"
- Main suggestion: measure outcomes against each fund's stated goals
  - Distinguish impact goals from responsible investment
- Next step: what do investors get for the returns they give up?

Thank you