UNIVERSITY OF CAMBRIDGE Faculty of Economics

Impact Investing

Discussion

4th Sir Oliver Hart Conference • LSE

Constantine Yannelis | University of Cambridge

Impact Investing

What do Impact Investors Do Differently

Cole, Jeng, Lerner, Rigol & Roth (2026)

Impact Investors and Worker Outcomes

Lerner, Lithell & Phillips(2026)

Impact Investing

The Review of Financial Studies

What Do Impact Investors Do Differently?

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Impact Investing

Do impact investors seek impact, or merely "impact wash"? We provide systematic evidence on the nonfinancial determinants of impact investing. Impact investors focus on firms aligned with the priorities of the federal government and disproportionately invest in economically disadvantaged regions. While we find high levels of coinvestment between impact and traditional investors, we also show that impact investors influence the strategies of their traditional coinvestors, are more likely to fund firms in nascent industries, and invest countercyclically. Finally, we characterize investment heterogeneity based on a novel classification of impact investment theses, with a focus on climate, environment, and jobs and equity. (*JEL* G11, G23, G24, H41, M14)

The central question

Do impact investors deliver on their social goals — mixed literature

Brest and Born (2013) argue that impact investors may finance activities that would have occurred anyway

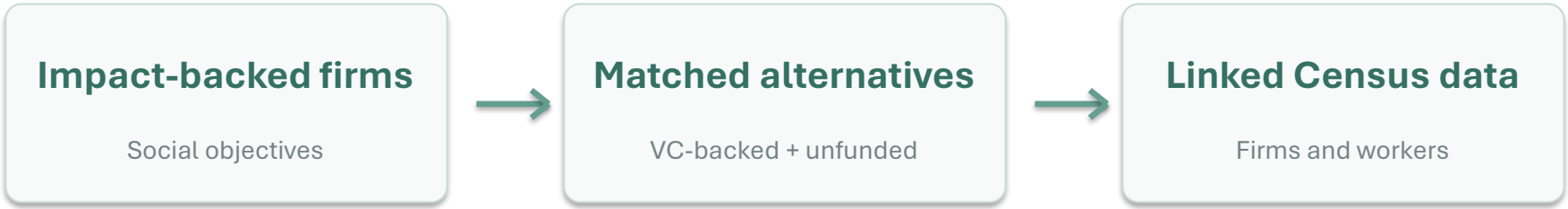
Barber, Morse and Yasuda (2021 JFE) show that impact investors see lower returns. Consistent with adding constraints.

Selection effects could drive differences.

Measurement issues: what is social impact?

Impact Investors and Worker Outcomes

Do impact investors deliver on their social goals — and how do these goals interact with firm performance?



Worker inclusion improves while **employment and payroll growth lag** those of comparable conventionally funded firms.

A new and valuable test of impact using real outcomes, not ESG labels alone.

What the paper does particularly well

DATA

Unusual granularity

Private fund classifications linked to Census firms, jobs, earnings, and worker characteristics.

DESIGN

Two benchmarks

Impact-backed firms matched to conventional VC/growth firms and to firms without professional funding.

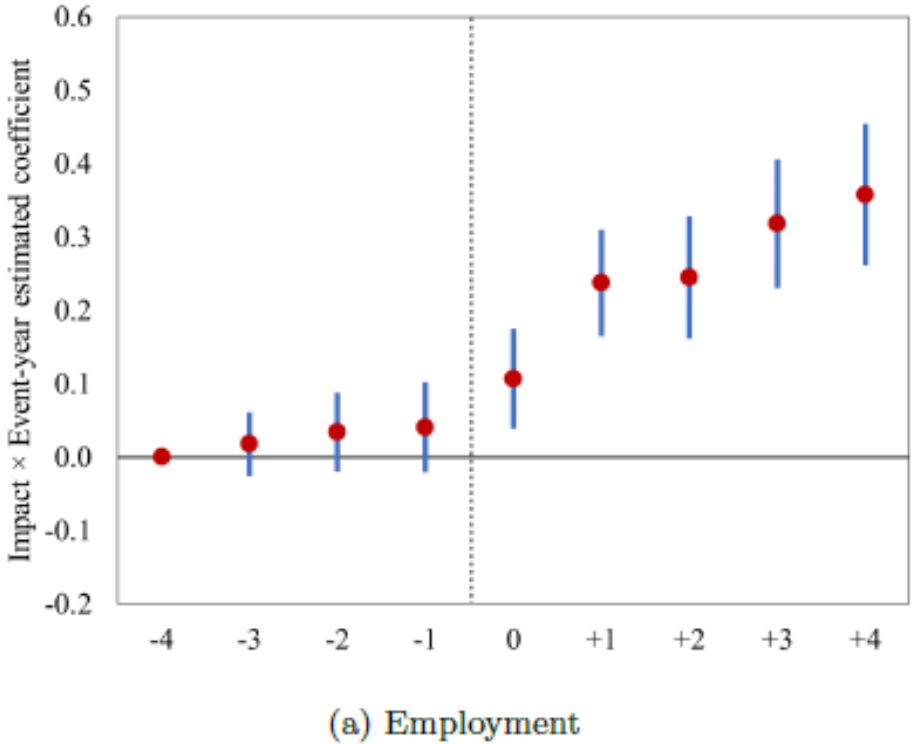
DIAGNOSTICS

Careful validation

Firm and year effects, event-study pre-trends, matching by financing round, and checks on attrition.

Fantastic graphical evidence!

What the paper does particularly well



(a) Employment

The core result: social gains, slower growth

SOCIAL OUTCOMES

Who gets hired and paid?

- More minority, less-educated and lower-earning workers
- Wage gains favor rank-and-file and minority workers

FIRM OUTCOMES

What happens to growth?

- Slower employment and payroll expansion than conventional VC
- A more complicated picture for productivity and revenue

Does impact investing move us along a trade-off — or change the frontier?

Profitability Puzzle

Productivity rises; similar to effects from VC.
=> Surprising since adding constraint!

Conditioning on disadvantaged-area status changes the interpretation.
=> Much of effect driven by location

WHAT WOULD CLARIFY THE MECHANISM?

- Decompose within-location productivity from changes in geographic composition.
- Separate revenue growth, headcount changes, and worker composition.

Profitability Puzzle

Dependent variable:	Employment (1)	Payroll (2)	Revenue (3)	Salary (=Pay/Emp) (4)	Productivity (=Rev/Emp) (5)	Profitability (=Rev/Pay) (6)	% Black or Hispanic (7)	% female (8)	% without college (9)
Impact×Post	0.194***	0.208***	0.183***	0.045***	0.056**	0.021	0.007*	0.012**	0.007
	(0.028)	(0.030)	(0.037)	(0.013)	(0.024)	(0.020)	(0.004)	(0.005)	(0.005)
VC×Post	0.256***	0.278***	0.221***	0.054***	0.039**	0.000	-0.001	0.002	0.004
	(0.018)	(0.020)	(0.024)	(0.010)	(0.016)	(0.000)	(0.003)	(0.004)	(0.003)
Post	-0.058***	-0.087***	-0.098***	-0.036***	-0.050***	-0.022***	-0.002	-0.002	-0.004*
	(0.008)	(0.009)	(0.011)	(0.005)	(0.008)	(0.007)	(0.001)	(0.002)	(0.002)
Firm age	0.709***	0.565***	0.716***	-0.060***	0.178***	0.221***	0.011***	0.031***	0.030***
	(0.027)	(0.029)	(0.034)	(0.015)	(0.023)	(0.019)	(0.004)	(0.006)	(0.006)
Lag growth	0.568***	0.511***	0.473***	0.009	0.040***	0.052***	0.008***	0.008**	0.020***
	(0.017)	(0.019)	(0.022)	(0.009)	(0.014)	(0.013)	(0.003)	(0.004)	(0.004)
Lag profitability	-0.033***	-0.029**	0.263***	0.006	0.273***	0.262***	0.000	0.006**	0.002
	(0.011)	(0.011)	(0.016)	(0.005)	(0.012)	(0.011)	(0.000)	(0.002)	(0.002)
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Scaling factor control				Y	Y	Y			
Observations	40,000	40,000	40,000	40,000	40,000	40,000	32,000	32,000	32,000
Adjusted R^2	0.928	0.925	0.897	0.819	0.779	0.819	0.901	0.865	0.825
Impact×Post=VC×Post	**	**	.	.	.	.	*	*	.

Profitability Puzzle

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Why is conditional productivity/profitability weak for both impact and conventional VC firms?

Comment 1: what is the economic cost of impact?

OBSERVED IN THE PAPER

Employment, payroll, and revenue dynamics

NOT DIRECTLY OBSERVED

Fund returns: IRR, MOIC, or exit value

Slower firm growth need not imply lower investor returns.

- Could higher margins, entry valuations, subsidies, or exits offset slower growth?

Show investor returns if possible; otherwise frame these as operating outcomes.

Comment 2: is place part of the treatment?

Impact funds are disproportionately active in disadvantaged areas.

Impact financing — Local characteristics — Other local policies

The location effect could reflect selection, local trends, or place-based incentives.

Check Opportunity Zones and other place-based policies; exploit finer geography × time controls.

Comment 3: who counts as an impact investor?

The fund classification is central to the interpretation.

Ex ante social commitment	vs.	Ex post relabeling

- Can funds switch into or out of impact status? When is status recorded?
- Freeze labels at the investment date; compare persistent impact funds with switchers.

The strongest evidence would identify a social mandate before the portfolio investment.

Three areas of focus that would sharpen the paper

1

Returns and efficiency

Are social gains costly to investors — or only associated with lower growth?

2

Productivity and place

Can the paper separate operating effects from geographic composition and local policies?

3

Selection and timing

Are impact labels predetermined, matches convincing, and follow-on investments accounted for?

An important, carefully executed paper on what impact means for workers.