Bates Wells

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What ESG lessons can businesses learn from impact investing firms?

Nirav Patel, our new Corporate Partner, shares some thoughts on how businesses can learn Environmental, Social and Governance ("ESG") best practice from impact investing firms.

The climate crisis and an increased self-awareness have meant that businesses now have a much better understanding of their wider impact on ESG matters beyond that deriving from their core function. However, many struggle to digest the often nebulous and overwhelming concepts that make up ESG and how it therefore might be relevant to their business.

Is ESG a new concept?

Whilst ESG has become more of a mainstream concept in recent years, impact funds have been investing entirely based on ESG principles for several decades.

Is ESG the preserve of Impact Investing funds?

Not at all. In fact, impact investing is often confused with philanthropic or charitable endeavours, whereas, at its core, impact investing still seeks to make a financial return (like most businesses), but with an added focus on using that investment to create a positive environmental, social or governance impact.

Non-impact focussed businesses can therefore effectively adopt some of the practices of impact investing funds in an "ESG light" manner without too much upheaval.

What are some impact investing ESG concepts that businesses can adopt?

Introducing environment focussed policies can be quite effective. These might include to manage carbon-footprint (e.g. reducing unnecessary inter-office travel where meetings can be held over Teams or Zoom), to reduce reliance on non-recyclable materials (e.g. offering staff reusable coffee cups rather than single use / disposable ones) or to reduce use of recyclable materials (e.g. adopting "paper-free" or "paper-light" policies).

Similarly, certain social aims can be achieved through adopting fair employment practices. These commonly include encouraging diversity and inclusivity, impartial grievance and disciplinary procedures and proper procedures and policies for the protection of whistleblowers.

Lastly, good governance can be achieved through the implementation of fair and reasonable business practices. This might include adopting policies to address anti-bribery and corruption, anti-money laundering, anti-terrorist financing and anti-slavery.

Whilst the prospect of building these approaches into daily business practice might seem daunting, business owners and managers will be pleasantly surprised at how swiftly the implementation and management of these processes can smoothly become part of their day-to-day operations.

How is ESG relevant in corporate investments and M&A?

Impact funds often undertake thorough ESG-focussed due diligence when considering an investment or acquisition opportunity.

Parts of that approach to due diligence can be undertaken by non-impact focussed businesses when considering investments or acquisitions. For example, at the very least, an acquiring business should check whether the target business has in place the types of policies mentioned above.

Adopting core ESG principles into daily practice can go a long way to ensuring businesses create positive impact without requiring a total rewrite of their normal business playbook.

Get in touch

Nirav Patel
Partner
T: +44 745 8034 692
E: n.patel@bateswells.co.uk

Nirav Patel is a new corporate partner at Bates Wells and has experience advising on Corporate M&A (including with deals featuring international/cross-border elements), Corporate Real Estate M&A, corporate structuring and general corporate advisory. In recent years, he has also had a particular focus on advising impact investment funds on equity investments and disposals usually focussed in Emerging and Frontier Markets.