Impact Investing 101 with Charly Kleissner

It is hard to envision a better mentor for budding entrepreneurs than Charly Kleissner. The Silicon Valley veteran has lived through it all: a failed venture, a massive scale-up, an IPO capped at nearly $5 billion. Today he is one of the world's most forward-thinking impact investors. The mentor at the Creative Destruction Lab-Paris (CDL-Paris) recently enthralled the HEC Paris MBA Entrepreneurship Club during a Q&A session hosted by Professor Thomas Astebro.

Charly Kleissner's life has been a series of good decisions. He said yes immediately when Steve Jobs offered him a position at neXT, the oft-forgotten start-up that laid the foundation for Apple's OS X. Then came Ariba, a company considered one of the dot-com era's most successful unicorns. While negotiating to become Ariba's Vice President of Engineering, Kleissner opted for stock options over salary. As he describes it, "I chose equity in what later became a $10 billion company."

He admits that leaving Ariba was not easy. In 3 ½ years, Kleissner had worked his way up to CTO, expanded his team from 7 to 700 employees and helped scale the company's revenue from zero to $1 billion. Still, a conflict with Ariba's CEO convinced him to "step off the treadmill at the height of my career." But that turned out to be a solid decision—especially for our planet.

Charly Kleissner spoke via Zoom about impact investing

Today, Kleissner is a deep-impact investor, using his assets to bring systemic change to problems of injustice, inequality and climate change. He co-founded Toniic, a global network of investors with $6 billion in assets working to make meaningful change. He is also a mentor at CDL-Paris, where he counsels founders who are developing solutions to help preserve and protect the natural world.

Kleissner shared insights into his career path and his investment philosophy during a Q&A session organized by the HEC Paris MBA's Entrepreneurship Club. HEC Paris Professor of Entrepreneurship Thomas Astebro, Academic Lead for CDL-Paris, facilitated the discussion.

You can find the entire Zoom conversation between Charly Kleissner and our HEC Paris MBA students here.
Below is a short introduction to impact investing taken from his presentation:

Astebro: How is impact investing typically defined?

Kleissner: The Rockefeller Foundation published the traditional definition of impact investing in 2007. That definition has four characteristics:

1. It is an investment approach. Today it is possible to invest with impact across an entire portfolio, with cash, private equity and even through a few hedge funds.
2. It is intentional. The investor specifically wants to have an impact.
3. It is about generating social and environmental returns as well as financial returns.
4. Its returns can be measured.

Two additional characteristics have been added to the modern definition of impact investing.

5. The investment has to create the positive change. If the project wouldn't have shifted in a more positive direction without the infusion of capital, it's not impact investing.
6. The stakeholders and beneficiaries need to be involved in the decision-making process.

Entrepreneurship Professor Thomas Astebro facilitated the Zoom Q&A sesssion

Astebro: How can people be sure that the companies in which they are investing are actually socially responsible?

Kleissner: In the last three years, there's been a huge moment in the financial industry toward something called ESG: Environmental, Social and Governance criteria. All the huge players – Deutsche Bank, Goldman Sachs – are developing ESG products. They came up with proprietary criteria to define ESG, then we as investors can chose to do what they call 'impact.'

For me, that's not really impact investing. It has nothing to do with systemic change. Take the example of a weapons manufacturer. They could be using 'green' steel to produce their weapons, and because of that, they'll get a really good ESG score. If you care about inequality, social justice and climate change, then you need to do more than ESG.

Astebro: That brings up my next question. What is your definition of deep-impact investing?

Kleissner: All investments, including impact investments, have positive and negative impacts. Deep-impact investing wants to make sure that things solidly tip towards positive change. Another difference is that ESG has nothing to do with systemic change. It has nothing to do with injustice, inequality or climate change. If you truly care about these things, then you need to do more than just ESG investing.

My definition of deep-impact investing was inspired by deep ecology. Deep ecology is not human-centric. It doesn't pretend humans are at the top of the evolutionary chain, and that we have the right to control or destroy nature. It is an approach to invest for systemic change and with a conscious awareness that humanity has a non-invasive role to play in the environment.

At Toniic, we are working with researchers at Cambridge, Oxford, Wharton and other schools to create datasets based on 100+ portfolios to measure impact. Eventually, with enough data, we will be able to use AI to measure which investments create the most positive impact.

Astebro: Many of the MBA students participating in today's discussion will not end up as entrepreneurs. What is your advice about how they can make a difference?

Kleissner: People do not need to be wealthy to participate in the impact economy. All of us have bank accounts. Ask your bank how they invest the money that you deposit; they might not know. There are banks that are fully transparent are choosing to invest with impact.

If you are eligible for a pension, the same rules apply. Ask the administrators of your pension fund what they do with the money you will receive eventually. Are their investments of your money supporting a sustainable planet? They might tell you that you have to make a choice: to have a pension or to do good. I'm here to tell you that you don't have to make that choice — you can do both.

Another option is crowdfunding. Anyone with a just a few dollars to invest is able to participate in peer-to-peer lending and peer-to-peer equity investing.

As consumers, we can all vote with what we consume. Consider your lifestyle choices: where do you go on vacation? What transport do you use? Are you willing to pay more for something knowing that it was sustainably produced?

Happily, we are slowly getting to the point you can make a good living in the impact industry.

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