Ensuring Impact Through Investor Engagement

- A Qualitative Study of How Asset Owners Can Ensure Positive Impact Through Engagements with their Asset Managers

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Abstract

Impact investing is a relatively novel field and has over the last decade seen an increasing demand. However, uncertainties still exist as one unified definition of impact investing is not established and standards for reporting do not exist, leading investors to face difficulties in ensuring positive impact of their investments. This is especially a challenge for asset owners who invest through intermediaries such as external asset managers, limiting their contact with the asset. Asset owners must, therefore, rely on their engagement with their asset managers to ensure positive impact. Engaging to ensure impact is a relatively unresearched field, in which this thesis is positioned, aiming to examine how asset owners seeking positive impact of their investments can engage with their asset managers to ensure that the positive impact is achieved.

The research consists of a literature review, an empirical analysis, and a discussion comparing the academic and empirical findings. The empirical study consists of interviews with 22 practitioners within the field of impact investing, including asset owners, asset managers, and service providers. Based on agency and stewardship theory, the three factors influencing the choice of engagement, *actors*, *expectations towards the asset manager*, and *situation,* are analysed with the application of relevant frameworks. The analysis shows that the relationship between the asset owner and the asset manager is influenced by several factors external to the relation, including, a variety in how impact investing is understood and a lack of measurement standards. Thus, it is found that the relationship between asset owners and asset managers is not best analysed in isolation, and therefore the systemic structures of engagements within impact investing are analysed.

The results demonstrate a paradox of engagements, as the identified theoretical optimal relationship, being a mutual stewardship relationship, is not the best way for asset owners to engage with their asset managers to ensure positive impact. Several factors within the identified system such as the lack of standard definitions and transparent reporting will through time create a perception gap of how the asset owner and the asset manager understand impact. This leads to the mutual stewardship approach not being achievable and creates a risk of unintentional opportunistic behaviour by the asset manager leading to an agency problem. Thus, the best option, given the current system, is for the asset owner, to treat the relationship with the asset manager as a mutual agency relationship.

The study concludes, that given the current systemic structures, asset owners must engage with their asset managers to continually align the perceptions of impact investing in two stages; 1) initially in terms of due diligence and setting up intentions, incentives and align expectations with their asset manager, and 2) on an ongoing basis with the objective to keep perceptions aligned by pursuing dialogues and asking critical questions.

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List of Abbreviations

ESG	Environmental, Social and Governmental
EVPA	European Venture Philanthropy Association
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Ratings System
IAIA	The International Association of Impact Assessment
IFC	International Finance Corporation
IRIS	Impact Reporting and Investment Standards
SDGs	Sustainable Development Goals
SROI	Social Return on Investment
UK	United Kingdom
UN	United Nations
UN PRI	The United Nations-supported Principles for Responsible Investment
USA	United States of America
USD	United States Dollars

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1. Introduction

In a dynamic world, where climate change, social issues, and health takes up greater focus, the investment industry is evolving to consider the impact of investments on society to a degree like never before. Wealth and asset managers have seen a significant[1] influx of client funds flow into sustainable investments and more positive impact products are offered across investment firms and pension funds (US SIF Foundation, 2018). The urgency of investments to do good, is further seen as several leaders within the field bring it to the agenda, such as Larry Fink, the CEO of the world's largest asset manager, Blackrock, who wrote in his 2020 annual letter to chief executives:

"And with the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward." (Fink, 2020)

As a result of the growing global interest on sustainability and impact, the field of impact investing was officially established in 2007 (Harji & Jackson, 2012) and has become increasingly popular in the last decades. The impact investment market was estimated in 2019 by the Global Impact Investing Network (GIIN) to have a size of USD 502 billion in assets under management (Mudaliar & Dithrich, 2019).

Although the impact investing field is growing with increasing demand, it is still rather novel, and several uncertainties still exist, as multiple angles are still undefined (Agrawal & Hockerts, 2019a). One key issue within impact investing revolves around the impact itself, as investors pursuing impact of their investments still need a way to ensure that their intended impact is in fact achieved. Especially asset owners investing through external managers need a reliable way to ensure that the impact promised by the asset manager is achieved (Agrawal & Hockerts, 2019b; Reeder et al., 2015). As the risk of greenwashing has increasingly been brought into the awareness of investors and the general public (Harji & Jackson, 2012), the need to ensure positive impact becomes even more pressing to further grow the interest in the field.

As the world currently faces changes in an unseen way, and the pressure on the investment industry for making a difference intensifies, the need to ensure positive impact from investments increases, and thus the relevance for this thesis. This thesis is relevant for investment practice and research as it combines the importance of engagements within the developing impact investing industry with relevant theoretical lenses and practitioner knowledge and perspectives.

[1] In 2018, USD 12 trillion of professionally managed assets were invested considering environmental, social and governance (ESG) factors according to the US SIF Foundation.

1.1. Research Question

The purpose of this thesis is to analyse how asset owners investing through asset managers can ensure positive impact[2] of their investments, on a strategic level. An analysis is conducted in three parts addressing how impact is defined, measured and communicated between asset owners and asset managers, which is further elaborated on in the methodology section.

Specifically, the thesis aims to answer the following research question:

How is impact understood and measured, and how can asset owners engage with their asset managers to ensure positive impact of their investments?

To fully understand and explore the above research question the following sub-questions have been laid out as a guideline, directing the research:

1. How do asset owners and asset managers understand impact investing and impact?
2. In which ways and to what degree is impact measured?
3. How do asset owners engage with their asset managers to ensure positive impact?
4. Going forward, how should asset owners engage with their asset managers to ensure positive impact?

1.2. Delimitations

To limit the scope of the thesis, several delimitations are worth mentioning. First, as the thesis will investigate how asset owners can engage to ensure positive impact, the research is limited to the premise of asset owners with an intention to ensure impact. Thus, the scope of the thesis is delimited from looking at investments that are not considered impact investments. Although this delimitation is set to the scope, the research will include data from investors[3] from the broader field of inving, to limit the risk of biases and ensure a holistic perspective on the research topic.

Second, the thesis will investigate the field of impact investing through a strategic and behavioural lens, hence the research is delimited from looking at the financial performance aspect of the investments. Thus, the research will investigate how investments are understood and measured not in terms of the quantitative outputs hereof but rather the qualitative aspects.

Third, as the existing literature is limited on the field of engagements to ensure impact of investments (Reviewed in Section 4), the thesis aims to provide a structured suggestion as to how asset owners can best engage to ensure impact. However, the aim is not to provide a detailed engagement strategy or action plan

[2] *Ensuring positive impact* means that the asset owner is assured that the asset managers achieves the asset owner's intended impact of their investment, which is assumed to be of positive effects. Due to the scope of the present thesis, the type of impact not specified, but left to the intentions of the asset owner.
[3] The term *investor* is used throughout the thesis to encapture both asset owners and asset managers.

for asset owners to pursue, and thus the thesis is delimited from examining how all possible engagement options may aid in ensuring impact for various asset owners. Rather the thesis is scoped to understand the mechanisms affecting engagements ability to ensure impact and present a solution which fills the present research gap in the literature of how asset owners can engage to ensure impact on a strategic industry level.

Finally, the thesis seeks to investigate the field of impact investing from a broad international point of view, considering several different regions. It is delimited from trying to capture a complete “global” point of view, as the goal is not to compare approaches across countries or regions. Rather, the thesis seeks to represent different countries to overcome biases in terms of country-specific regulations or cultures, while limiting to a few regions to keep the scope appropriate. Specifically, the thesis will cover Denmark, Sweden, the UK and the USA, yet, with outlooks and perspectives to other countries and regions.

1.3. Thesis Structure

The following sections of the thesis are structured as follows which is further illustrated in Figure 1. In Section 2 the theoretical foundation for the empirical analysis is presented, covering theories, frameworks and models applied to analyse the data. In Section 3 the selected methodology and research design is explained, justified and evaluated. In the following sections, the analysis is carried out in three parts. Section 4 will cover Part I of the analysis which consists of a thorough literature review, covering the existing literature on the understanding and definitions of impact investing, measuring of impact and actors involved. Section 5 will conduct Part II of the analysis through the empirical analysis of the interview data. This section presents the findings of the interviews, and analyses these through the application of existing theories and frameworks. In Section 6, the discussion, and thus Part III of the analysis, compares and contrasts the findings of the two preceding parts, and presents the inference and recommendations from the findings. Lastly, Section 7 brings the conclusion in which the main findings of the thesis are presented including managerial implications and suggestions for future research.

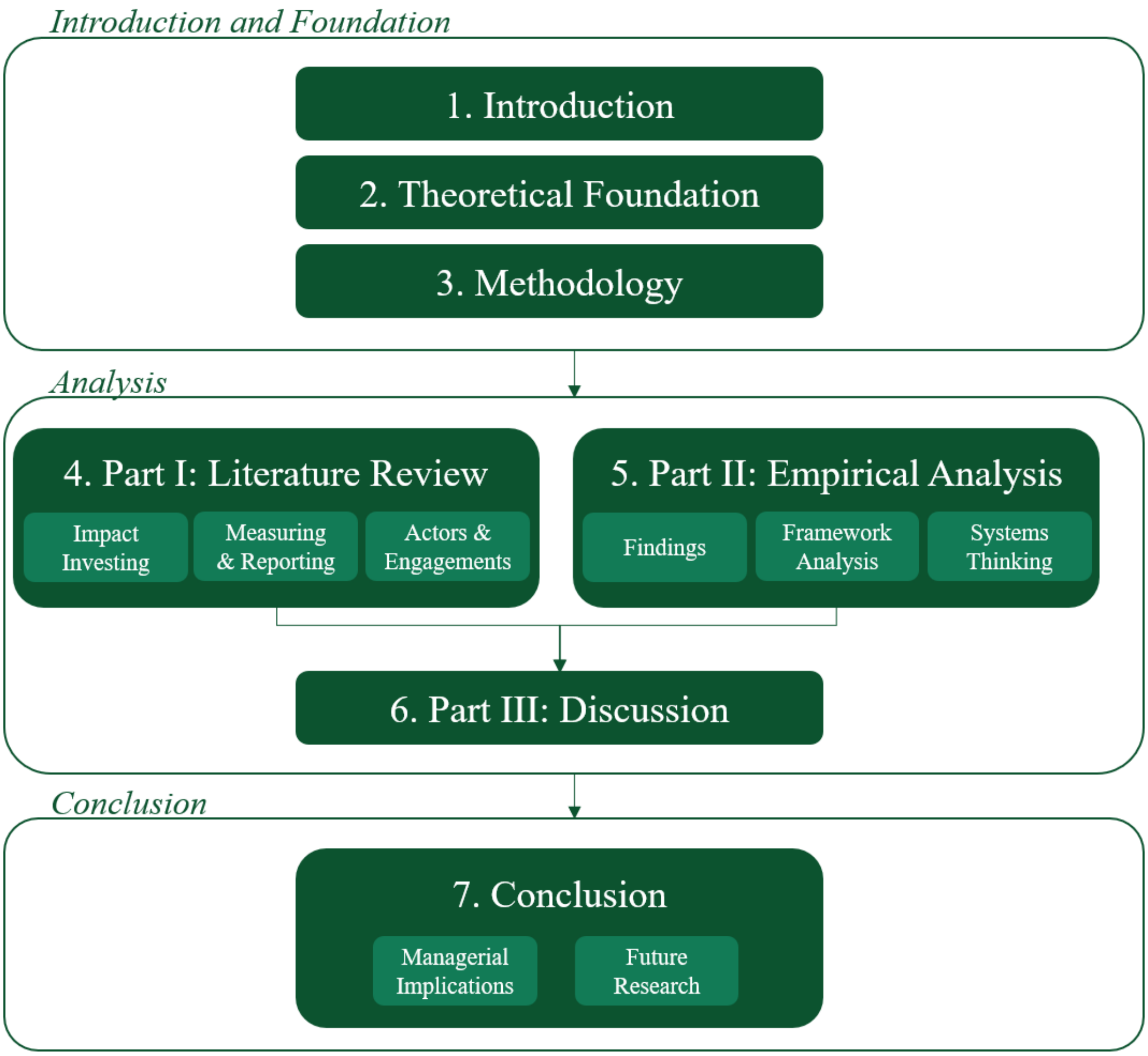


Figure 1: Thesis Structure. Source: Own construction.

2. Theoretical Foundation

This chapter introduces the theoretical foundation, used as a basis for interpreting and understanding the data findings in the empirical analysis. First, the principal-agency relationships will be presented, followed by systems thinking, and lastly specific frameworks and models to be used in the data analysis will be explained.

2.1. Principal-Agency Relationships

2.1.1. Agency Theory

Agency theory was first formulated in 1973 by Ross, who conceptualised the agency relationship. The agency relationship arises when two parties interact where one, the agent, acts on behalf of someone else, the principal (Ross, 1973).

According to Eisenhardt (1989), the agency theory seeks to address the core problems in the agency relationship; a state where there are divergent goals between agent and principal, and the principal cannot verify the work by the agent.

According to Hendrikse (2003), an interesting principal-agent model has three ingredients:

1. An available surplus
2. A conflict of interest
3. An information asymmetry

The last aspect, information asymmetries, may exist at different stages of the agency relationship, being either in the contract designing stage, i.e. ex-ante information asymmetry, or at the execution stage, i.e. ex-post information asymmetry. The ex-ante information asymmetry creates an adverse selection problem in which the agent has valuable information which the principal does not have before the contract is concluded. The ex-post information asymmetry entails a moral hazard problem, where important information for the execution of the task becomes available for the agent after the contract has been concluded (Hendrikse, 2003).

Agency Theory is based on *the model of man* where the agent will rationally act in its own best interest for economic gain in the principal-agency relationship (Hendrikse, 2003). As the agent and the principal may not enter the relationship with the same interests, their actions can lead to divergent results if both act as utility maximisers, where the agent may act in its own self-interest (Jensen & Meckling, 1976). The agency theory therefore promotes the importance of setting correct incentives to share information and developed a structure around contract governance to most efficiently manage the principal-agent relationship (Hendrikse, 2003).

2.1.2. Stewardship Theory

Donaldson and Davis (as cited in Donaldson, 1990) developed a view of managerial motivation as an alternative to the agency theory, terming it Stewardship theory, in which there is no conflict of interest, and therefore the goal of governance is to find a structure that allows for effective coordination.

The stewardship theory contrasts the view of agency theory where managers act as opportunistic agents, but instead present managers as good stewards that will act in the owners' best interest if the corporate governance structure will motivate them to do so (Donaldson, 1990). This is the most critical difference to the agency theory, as the Stewardship theory concerns the issue of the organisational structure and its possibilities to help motivate the steward's actions to create better results, and therefore also the shareholders' wealth (Davis et al., 1997; Donaldson & Davis, 1991). Strong relationships between the organisation and the principal's satisfaction are assumed in stewardship theory as the stewards are by definition not motivated by their individual goal but rather the objectives of their principal (Davis et al., 1997).

2.1.3. Agency and Stewardship Relations

Davis et al. (1997) states that when the agent and the principal decides on the choice of an agent or stewardship relationship it can be compared to the prisoner's dilemma where the psychological characteristics of each actor will influence their choice of relationship. This relationship shall fulfil the expectations of both parties and minimize costs that can occur due to misalignments in the engagement and expectations between the asset owner and asset manager (Davis et al., 1997). The outcome of the choice of relationship is further explained in the Principal-Manager Choice Model (Figure 2), where the principal and the manager will choose between a steward or agent situation.

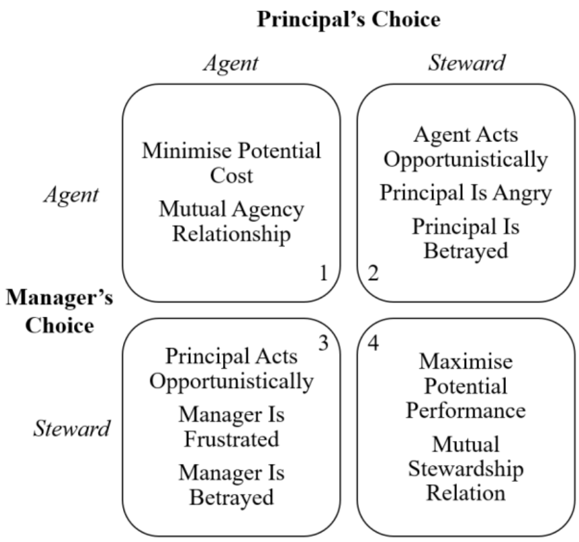


Figure 2: Principal-Manager Choice Model. Source: Davis et al. (1997).

Maximum performance will be achieved when both parties choose a steward-relationship, as the agent will seek to fulfil the purpose of the organisation and the principal will create an environment that empowers the agent to do so. In contrast, minimum losses will be achieved when both the agent and the principal choose an agent relationship, this constitutes a true principal-agent relationship with a high level of control in order to keep costs to a minimum (Davis et al., 1997).

The dilemma occurs when the asset owner and asset manager do not make the same choice (Davis et al., 1997). In the case, the manager chooses an agency relationship and the principal chooses a steward relationship, the manager will take advantage of the steward and act opportunistically. When the agent chooses a steward relationship, and the principal an agency relationship the relationship is identified with low levels of trust, as the manager easily feels betrayed by the principal and therefore compensates with high levels of control, making the principal feel low levels of self-actualization and therefore not behave as a steward (Davis et al., 1997).

According to Davis et al. (1997), the final principal-agent relationship will depend on what level of risk the different parties are willing to accept and how much they are willing to trust each other. Further, the decision of relationship will depend on the following three factors;

1. The *Actors* psychological characteristics will determine what each individual chose
2. The *Situation* and its characteristics along the underlying culture will affect the choice
3. The *Expectations* that each party has will guide the choice of relationship

2.2. Systems Thinking

Systems thinking is the process of thinking using systems ideas which emerged as a generalisation of ideas about organisms, first developed within biology (Currie & Galliers, 1999) and later spanning across diverse fields such as engineering, technology and management (Senge, 1994). Peter Senge (1994) evolved systems thinking as a management discipline of a framework for seeing wholes, interrelationships, and patterns of change. According to Senge (1994), systems thinking offers a language to explain the structures that underlie complex systems. Especially two core elements make up the essence of systems thinking:

1. seeing interrelationships rather than linear cause-effect chains, and
2. seeing processes of change rather than snapshots

A concept central to systems thinking, is *feedback* which shows how actions can reinforce or counteract (balance) each other, creating loops adding up to the processes of change and interrelationships making up the system.

To visualise a system, flows of influence and feedback are drawn into a systems diagram in which patterns that repeat themselves are seen, making situations better or worse. From any element in a systems diagram, arrows can be traced representing influence on another element, either in the same direction (shown with a plus, +) or in the opposite direction (shown with a minus, -). From the flows of influence, loops create feedback processes which can be reinforcing, being engines of growth, or balancing, acting as limitations to growth or serving as goal-oriented behaviour. Besides, many feedback processes contain "delays," or interruptions in the flows, due to the spacing in time of the causes and effects, making the consequences occur gradually (Senge, 1994).

2.3. Frameworks and Models

2.3.1. Model of Perception

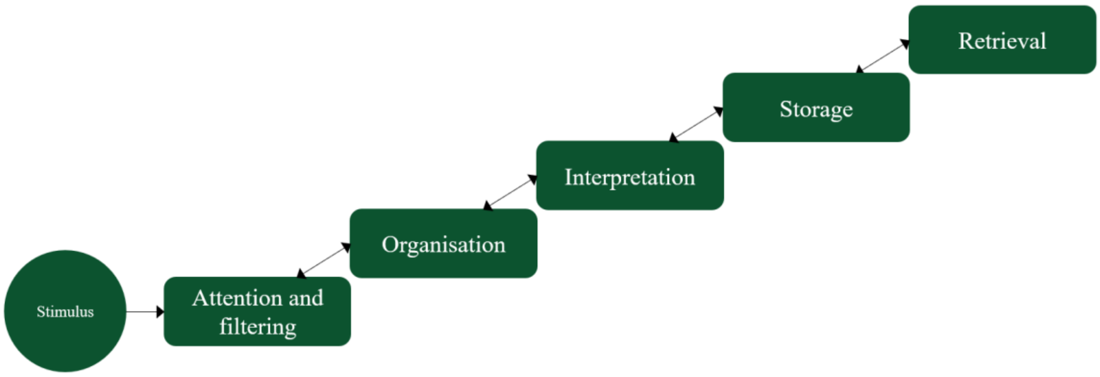
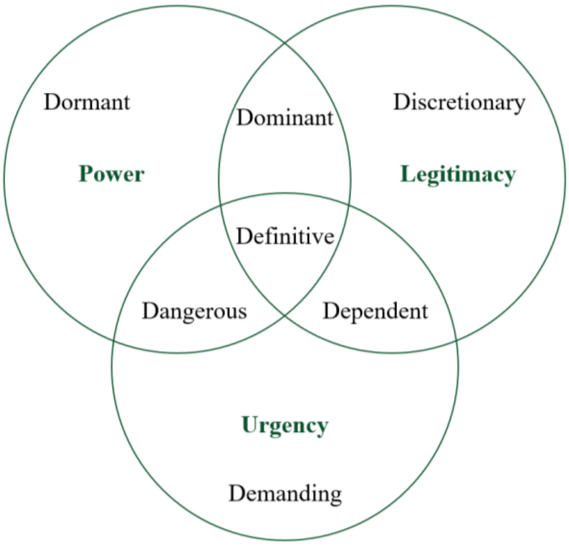


Figure 3: A Basic Information Processing Model of Perception. Source: Adapted from Clegg et al. (2016).

Clegg et al.'s (2016) Basic Information Processing Model of Perception, as adapted from Reeds' Perception Model of cognitive psychology, describes how individuals perceive and make sense of something based on various stimuli from their surroundings which is filtered and organised, leading to different interpretations. These stimuli can take many forms and will be factors from the surroundings of where the action takes place, will due to existing schemas of individuals be filtered and attention will be placed on certain elements, different to each individual. Schemas can according to Clegg et al. (2016) be thought of as sets of cognitive constructs developed through social interactions that organise our thoughts, feelings and attention. This filtering of attention consecutively leads to different organisations of the information selectively given attention to. Following the organisation of information, the actors will according to the Perception Model, interpret the information differently, which will be stored as information. Lastly, new stimuli will further lead to the retrieval stage, where the information is brought from storage to be reinterpreted in alignment with the new stimuli following the process again (Clegg et al., 2016).

2.3.2. Stakeholder Salience model

In the Stakeholder Salience Model by Mitchell et al. (1997) stakeholders are identified and categorised according to their salience to the organisation. According to Cornelissen (2014), salience is defined by the visibility and prominence of a stakeholder, based upon the stakeholder possessing one or more of three attributes: power, legitimacy and urgency. Depending on the presence or absence of those attributes the stakeholder will fall in one of seven categories varying in degrees of salience, where the most salient stakeholders will be prioritised highest and thus given more ongoing communication.



Category	Stakeholder group	Description
Latent	Dormant	Those who have power to impose their will, but don't due to the lack of a legitimate relationship and urgent claims.
	Discretionary	Those who possess a legitimate relationship based on interactions, but can't influence others due to the lack of power and urgency.
	Demanding	Those with urgent claims, but neither the power nor legitimacy to enforce them. The groups an be bothersome, but will not receive serious attention from the communication practitioners.
Expectant	Dominant	Those who have power and a legitimate relationship, giving them a strong potential influence on the organisation.
	Dangerous	Those with power and urgent claims, but lacking legitimate relationships. They are seen as dangerous as they may resort coercion.
	Dependent	Those who have urgent and legitimate claims, but lack power. They rely on others for the power to carry out their will.
Definitive	Definitive	The most salient stakeholder group, with power, legitimate relationships and urgent claims.

Figure 4: Stakeholder Salience Model. Source: Adapted from Cornelissen (2014).

2.3.3. Stakeholder Power-Interest

The stakeholder power-interest matrix, as explained by Cornelissen (2014), is based on the same principles as the Stakeholder Salience Model yet adds another variable to how stakeholders may be perceived. The framework categorises the asset owners according to their level of power and their level of interest, and hereafter shows the needed action of communication towards the stakeholder. The higher level of interest and power, the more important the stakeholder is perceived to be to the organisation. Figure 5 displays how these variables lead to four different categories of stakeholders.

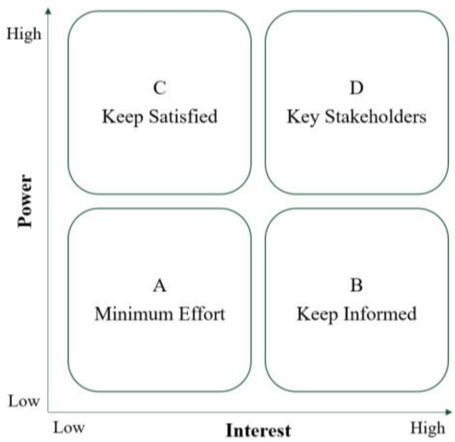


Figure 5: The Power-Interest Matrix. Source: Adapted from Cornelissen (2014).

2.3.4. The Model of Perspectives of Sustainability

The Model of Perspectives of Sustainability by Clegg et al. (2016), looks at why and how sustainability is carried out. This model asks the question of why actors address sustainability, which differentiates between two extremes, ethical concerns and instrumental concerns. Both relate to sustainability in terms of caring for various stakeholders. Actors following ethical concerns pursue sustainability due to it serving an ethical greater good. On the other hand, the instrumental concerns imply that sustainability and thereby caring for various stakeholders is done due to institutional perspectives as an efficient way to obtain legitimacy and thereby achieve economic results. Second, the model addresses the question of how sustainability should be approached mapping the objectives between a technological perspective and a political perspective. Although this model is originally thought as a model for organisations carrying out corporate social responsibility, it is deemed relevant for analysing the sustainability and impact of investments as well (Clegg et al., 2016).

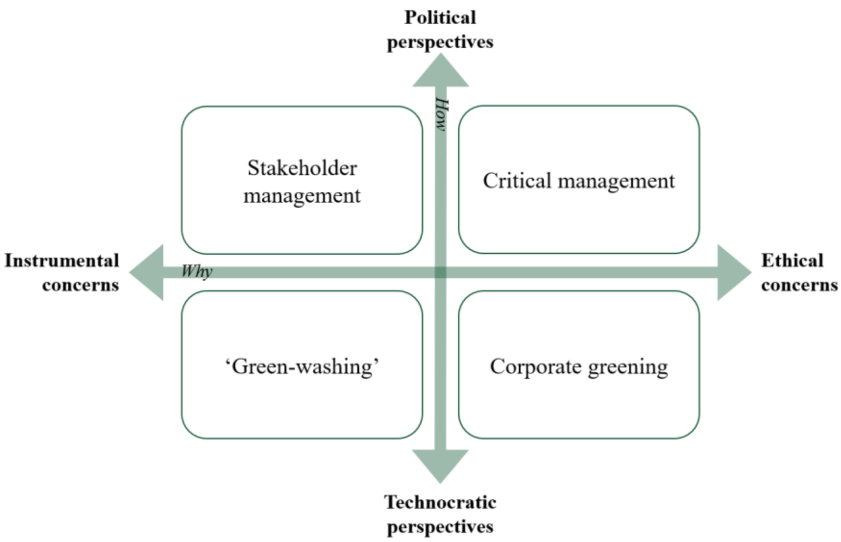


Figure 6: Perspectives on Sustainability. Source: Adapted from Clegg et al. (2016).

2.3.5. Stakeholder Communication Model

The Stakeholder Communication Model addresses who the stakeholders are and depending on whether they are key players or are not considered as business crucial, the communication strategy to be conducted will differ, on a span from Awareness to Commitment. When applying the Stakeholder Communication Model, awareness is the first step which follows an informational communication strategy. The informational communication strategy implies a one-way dialogue of informing someone of something. In the next step of the model, understanding is an intended effect achieved by a more persuasive strategy, where interaction, additional to reporting, takes the form of discussions, meetings and educational campaigns, where the goal is to create a favourable understanding of one's firm. The persuasive strategy is a two-way asymmetrical model of communication because the effects of communication are unbalanced in favour of the organisation (Cornelissen, 2014).

The last two effects of the communication model, namely Involvement and Commitment are obtained from a dialogue strategy. This strategy mainly targets the key stakeholders that are perceived as the most important stakeholders to the organisation. As these stakeholders have a large influence on the organisation it is in the organisation's interest to listen to them actively consider their opinions (Cornelissen, 2014).

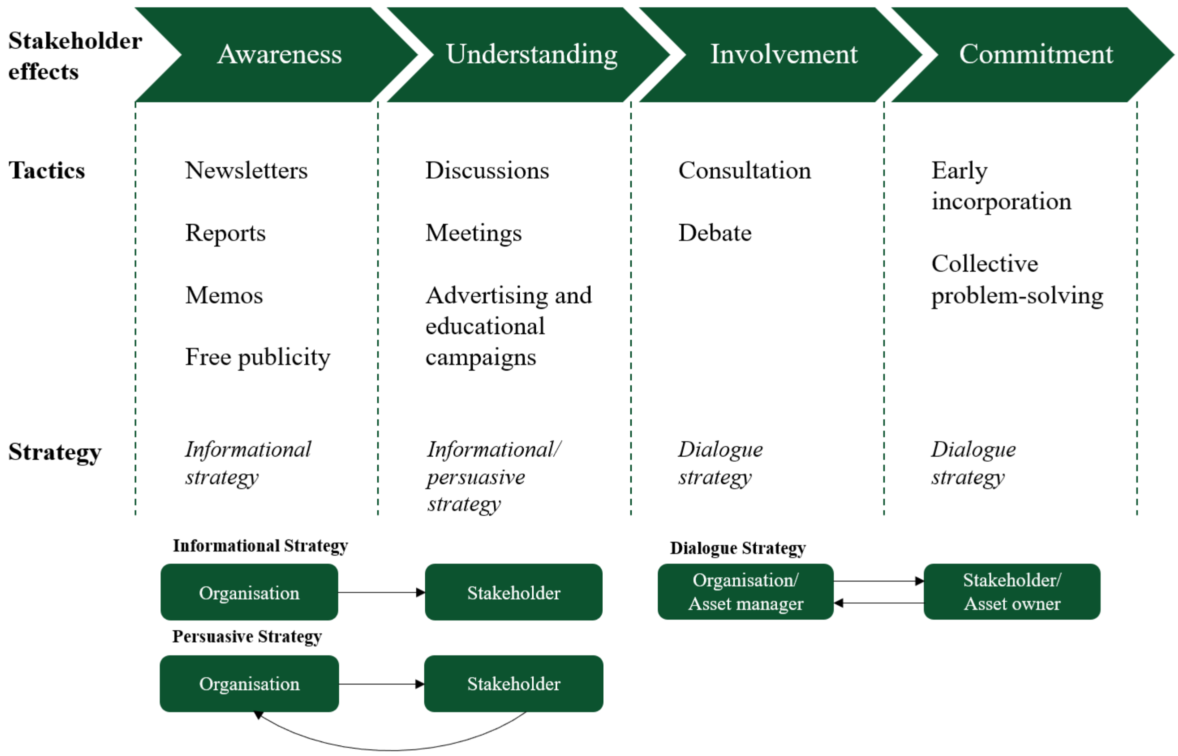


Figure 7: Stakeholder Communication: From Awareness to Commitment. *Source: Adapted from Cornelissen (2014).*

3. Methodology and Research Design

This chapter will explain the methodology. First, the research philosophy and reasoning will be explained. Second, the research design will be presented to elaborate on the methodological approach of the research and the methods used will be explained and discussed, including the gathering of data. Finally, the research quality of the study will be discussed and evaluated.

3.1. Research Philosophy

This section will present and discuss the paradigm of science and logical reasoning of the research.

3.1.1. Interpretivism and Critical Reasoning Philosophy

According to Kuhn (1962), a research paradigm can be defined as "the set of common beliefs and agreements shared between scientists about how problems should be understood and addressed". The paradigm entails the assumptions which underpin the scientific approach (Gray, D. E., 2019) and according to Guba & Lincoln (1994), positivism and constructivism are two main opposing paradigms. Positivism employs an objectivist epistemological view and constructivism employs a constructivist or subjectivist epistemological view (Guba & Lincoln, 1994).

The paradigm of science is based on Ontological, Epistemological and Methodological Assumptions (Guba & Lincoln, 1994). The ontology answers the question of reality, epistemology answers the question of the nature of knowledge and the relationship between the one that has the knowledge and the knowledge itself, and the methodology defines how the researcher can obtain knowledge (Guba & Lincoln, 1994). Additionally, Crotty (1998) identifies the theoretical perspective and methods as elements of the research process.

Within epistemology, different theoretical perspectives can be applied, and from here the appropriate methodologies and methods can be chosen (Crotty, 1998). Epistemology has two perspectives; the positivist perspective which assumes that the objective of truth can be attained, whereas the constructionism perspective assumes that meaning is not discovered but constructed as a result of social relations amongst other things (Crotty, 1998).

Within constructivism, the theoretical perspective interpretivism exists which amongst others includes symbolic interactionism (Gray, D. E., 2019). In interpretivism, the world is interpreted through the schemas of the mind and is culturally derived from the social world, and particularly within symbolic interactionism, meanings are revised based on experience (Gray, D. E., 2019). Grounded Theory is a method which is often employed under symbolic interactionism. (Gray, D. E., 2019).

Due to the complexity of the research question, this research will not be solely based on either of the above extremes of paradigms. The present research will apply a research approach which is mainly influenced by interpretivism, however, complimented with critical realism, in which the researcher admits that it is hard to come to complete truth as facts can be limited by our perceptions since they depend on our expectations and beliefs (Bunge, 1993). The main reason for basing the research on the paradigms on critical realism and interpretivism, relates to the nature of the topic as well as the questions researched. In order to understand the engagements between asset owners and asset managers, especially the interpretive perspective is valued appropriate, while critical realism seems invaluable in terms of understanding the measuring of impact.

3.1.2. Reasoning

As outlined by Dewey (1933), the logical reasoning comprises deduction and induction, where the deductive approach moves toward hypothesis testing to explain relationships by inferring conclusions from systems of premises. The inductive approach comprises the formation of generalizable explanatory concepts and theories from observable data (Dewey, 1933). Additionally, the logic of abduction is distinguished as "reasoning in which explanatory hypotheses are formed and evaluated" (Thagard & Shelley, 1995).

In this thesis primarily the logic of inductive inference will be employed to perform a literature review combined with the inductive approach to empirical data. The deductive approach will not be used as the research does not seek to carry out theory testing nor the deductive empirical approach. Additionally, the abductive approach will complement the induction, when evaluating the literature with the empirical findings. This usage of mainly inductive inference combined with the abductive reasoning is deemed appropriate, as it is in coherence with the above-discussed research philosophy (Gray, D. E., 2019).

3.2. Research Design

This section presents the methodological approach employed in this paper. The research design is constructed to apply the most optimal methods to answer the constituting research question.

3.2.1. Qualitative approach

As the aim of the research is not concerned with the measurement of quantity or amount, but rather phenomena of human behaviour and intentions, a qualitative research design is employed. It is here important to elaborate on the notion of *'measuring of impact'* as part of the research question and clarify that this research seeks to uncover and elaborate on shortcomings and challenges within the measuring of impact rather than establish and quantify said measures.

3.2.2. Exploratory and Interpretive Research

Research designs can be classified in broad terms as exploratory, or conclusive, where the latter is further divided into descriptive or causal research (Malhotra et al., 2017). Due to the nature of the research question, in combination with the above-discussed interpretive research philosophy, a combination of descriptive and exploratory research design has been elected to provide insights into and understanding of the researched phenomena. Gray (2019) argues that the exploratory research design is particularly useful when not enough is known about the phenomenon, which is arguably the case for impact investing as a field. The interpretive nature of the employed exploratory research design will prove particularly useful, as the research seeks to explore peoples' experiences and perspectives, when engaging to ensure positive impact of their investments.

3.2.3. Research Structure

To best answer the complex research question, the research of the thesis is designed in three parts; first a comprehensive literature review, second an empirical analysis and lastly a discussion including a comparative analysis. As Glaser and Strauss (1967) argue, secondhand data can unfold findings that are as important as what the researcher can find by gathering and analysing her own empirical data. They highlight the importance of adopting a comparative approach to qualitative data to develop valid results, Glaser and Strauss (1967) bring forward this method as comparing primary and empirical data and writes,

"Various procedures, or tactics, available to the field worker for gathering data have their analogues in library research" (Glaser & Strauss, 1967).

The research design of this thesis will make use of the comparative method and first analyse the two data sources in isolation, and further compare the two, to combine the findings from the literature and the empirical data and close emergent gaps. In the following section on methods, the design and methodology of each of the three parts of the research will be further elaborated.

3.3. Research Methods

In this thesis the data is collected from two main sources; primary data, constituting interviews with asset managers, asset owners and service providers, and secondary data, constitution relevant academic and practitioner literature. The following section will introduce the methods by which the data in the thesis has been selected, gathered and analysed.

3.3.1. Part I: Literature Review

The first part of the analysis consists of a literature review, discussing and comparing relevant secondary data sources to each other, aiming to unfold gaps or concerns presented in the literature within the field of impact investing. The combination of an inductive and abductive approach is the core of the literature research as it is based on findings and discussions from the most relevant research already conducted in the field, which is then analysed, compared and discussed.

As Grounded Theory Methodology has been adopted in the empirical study, the literature review needs to be done in separation from the collection and analysis of the primary data to not influence the empirical data from existing literature (Glaser, 1992).

The secondary data used to construct the literature review consist of published academic articles, practitioner reports and books within the field of impact investing. To ensure that the literature review is based on high-quality research, several factors were considered and criteria for relevance were set forth for locating and selecting the relevant literature to construct the review. The main part of the literature search was based on keywords, which were tested against the number of relevant results. The relevance and quality of the article results were evaluated based on the journal in which it was published, the number of times it had been cited and year of publication. The initial keywords were developed based on existing knowledge of the overall topic as well as taken from syllabi from courses in impact investing and were then expanded upon with additional terms or related topics discovered from articles as the literature review progressed. To ensure saturation, synonyms and words with similar meanings were included in the search to mitigate divergence of expressions. As an example, several articles were studied which reviewed the understandings of the terms *impact investing, socially responsible investing, ESG investing, sustainable investing* as all terms were used interchangeably or similarly, they were included into the search as keywords. Similarly, varying conjugations of main keywords such as *investing, invest, investments* were also all included. However, the keyword search cannot be seen as fully comprehensive, as it is practically impossible to ensure complete exhaustion by searching across all possibly relevant keywords.

To expand the search further, multiple literature from the same authors were assessed and the sources of the reviewed literature were consistently assessed with the keyword search, and relevant sources were included in the literature review. Further, the findings from one source were compared to other independent data sources suggesting similar results to cross-check the conclusions and increase the validity of the data.

3.3.2. Part II: Empirical Study of Qualitative Interviews

Second, empirical data were gathered and analysed, with the aim to capture the perspective of practitioners and experts within the field, in accordance with the employed qualitative research design. Below the methods for interviewing and data analysis are laid forth.

3.3.2.1. Interviews and Interview Guide

To best answer the research question, explorative, semi-structured and in-depth interviews were conducted, which opened for unexpected answers. Semi-structured interviews further made it possible to fully grasp the interviewees' stories and discuss the matters that they found the most important and at the same time make it possible to narrow the discussed subject following the topics in the interview guide (Kvale, 2007). Interviews were deemed the most relevant as other alternative research methods such as observations or surveys would not allow to fully explore the views of the practitioners.

To create the interview guide, Kvale's (2007) approach was followed, by determining given research questions and further designing the interview questions so they would answer these primary questions. Following the research question, the interview guide was divided into six topics to be addressed; *Impact, Measure, Relation and Engagement between asset managers and asset owners*, *Challenges* and *Outlook for the future*. The topics were used to guide the research questions, to determine that all dynamic aspects of the questions and themes would be addressed (Appendix A).

Given the perspectives of the research question, namely the relation between asset owners and asset managers, interviews with institutional investors such as asset owners, and asset managers such as pension funds and wealth management firms, were deemed crucial to provide insights and point of views from both perspectives. Additionally, service providers, such as organizations working with the impact investment industry or impact measurements, were selected for interviews for a comparably objective perspective from outside the investments. In this way a more holistic view and several perspectives were included in the analysis, allowing for more nuanced findings. Further, this allows for some degree of mitigation to exaggerations and biases, as asset managers may exaggerate the objectivity of their measures used, and most likely asset owners and service providers will not share this bias.

In total, 21 interviews were conducted, with 22 industry practitioners, from 20 organisations. The 22 interviewees are presented in Appendix G, and their current organisations are presented in Table 1 below. All voiced opinions reflect the personal opinion of the individual interviewees and may, therefore, include their experience from their role at their organisation but does not necessarily represent the opinion of the organisation. The interviewees had various roles including CEO, CFO, Investment Director, Sustainability Director, Research Manager, Senior Business Analyst and Independent advisor. Throughout the present thesis, the interviewees will be addressed by pseudonyms according to whether they have impact investments on a product level or as a company-wide approach, seen in Table 1[4].

[4] The identification key for the anonymised pseudonyms is presented in confidential appendix F.

Table 1: Overview of Interviewees. Source: Own Construction.

Category	Impact through entire portfolio?	Organisation	Anonymised Pseudonym
Asset Owners: Pension funds	No	ATP	Asset Owner 1-2
		PKA	
Asset Owners: Foundations	No	Novo Nordisk Foundation	Asset Owner 3-4
		Faerch Fonden	
	Yes	Bestseller Foundation	Asset Owner 5-8
		Lankelly Chase	
		Leksell Social Ventures	
		Norrsken Foundation	
Asset Managers	No	BankInvest	Asset Manager 1-4
		C Worldwide	
		Danske Bank	
		Maj Invest	
	Yes	Den Sociale Kapitalfond	Asset Manager 5-8
		Federated Hermes	
		Merkur Andelskasse	
		Swedfund	
Service Providers	N/A	GIIN - The Global Impact Investing Network	Service Provider 1-4
		Independent advisor on sustainable investing, impact investing and ESG	
		NIIN - Nordic Impact Investing Network	
		UN PRI	

The interviewees were from Denmark, Sweden, UK and USA in order to gather a global understanding of impact investing and decrease the possibility of cultural barriers influencing the results.

According to Malhotra et al. (2017), speaking the interviewee's technical language may make him/her open up more to the interviewer and assuming this also applies to the interviewees' native language although they may be proficient in their second language (e.g. English) it was deemed appropriate to conduct the interviews in the interviewees preferred language in order to decrease any language barriers. The majority of the interviews were therefore conducted in Danish and Swedish for native Danish and Swedish speakers respectively. For non-Danish or Swedish speaking interviewees, the interviews were conducted in English as this is a common business language.

When quotes are used in the thesis from the interviews translated into English, some of the linguistic subtleties may be lost. Yet, any of such subtleties could still be covered by the coding and were further explained by the researchers in writing and it is thus not seen as a significant problem for this thesis. Additionally, all quotes were sent for review with each interviewee, and their comments were included, to ensure that the intended meaning was captured by the quote. In this process, the reviewed quotes were checked against the original transcript to ensure coherence in the meaning of the quotes.

Given the time constraints of the interviewees, the interviews were limited to around one hour each, with the longest being 01:16 hours and the shortest 00:28. This limits the in-depthness which may be achieved of each interview, in that the time spent discovering unexpected findings as well as diving into nuances of each answer may be shortened. However, the interview guide was constructed and adapted to best accommodate the timing available, and further, the analysis proved that timing of the interviews was sufficient to cover the set forth research question to a moderate degree of nuance as well as still discover some unexpected topics.

3.3.2.2. Data Analysis

The complexity of the research question suggests a methodology that allows the data to present and explore a variety of solutions. Further, the breadth of the research question requires a methodological framework that can process large amounts of data from different sources. Hence, the empirically sourced data is analysed based on steps form Grounded Theory. As semi-structured interviews are conducted to fully capture the interviewees' opinions, the chosen methodology will allow for comparison of the interviews by means of codes and categories.

In 1967, Glaser and Strauss created the Grounded Theory, that is based on a comparative methodology which allows the researcher to use the gathered data to build theory without being restricted from previous findings (Glaser & Strauss, 1967). Today, parts from the Grounded Theory framework is widely used as a methodology to analyse data as the Grounded Theory Methodology brings validity to the data and results (Urquhart, 2013).

Grounded Theory Methodology moves away from the existing literature and takes the stand that the data shall generate the results and highlight the importance of not applying any preconceived knowledge from the field of research. Therefore, when analysing the data, the researcher needs to stay open to all possible directions that the data brings and codes and categories are to be defined by the collected data, instead of using predetermined categories (Charmaz, 2006). The codes allow the researcher to attach conceptual labels to the data, facilitating the data analysis (Urquhart, 2013). As Grounded Theory Methodology can handle various types of data, the coding technique used in Grounded Theory Methodology is applied to analyse the empirical data. The aim of this thesis is not to build theory and the use of Grounded Theory Methodology is therefore limited to apply the two first steps in Grounded Theory, ending the analysis before the theory-building shall be applied. The methodological framework applied starts with open coding and further creating categories with selective coding to find links between the different empirical data sources (Glaser, 1992).

In this thesis, open coding is conducted by line-by-line coding, where both researchers first code the transcribed interviews (Appendix H) alone and then compare the coding to ensure that an open approach is taken. Additionally, the comparative approach ensures that the codes that have been applied reflect action and are not descriptive (Charmaz, 2006). In total 506 codes were created (Appendix B).

The second phase of the data analysis consisted of selective coding where the open codes were grouped to categories important for the research problem, this process occurred until variations in patterns were saturated (Glaser, 1992). This process added up to 56 category groups (Appendix B). From the categories, the most relevant categories for Impact, Impact measurement/reporting and Engagement were selected. The selected key-categories (Appendix C) were deemed the most relevant to directly answer the research question of the present thesis.

The third phase of the analysis consisted of finding patterns between the codes. First, all codes were cross-referenced to find all potential overlaps throughout the interviews. This was done by creating a matrix of all 506 codes, by all 506 codes, where the number of times any two given codes overlapped, across all interviews, was identified. The code overlaps were identified to indicate relations between the selected key categories and related codes. Then, the selected key categories were examined and the cross-referenced codes making up the top 50 % of the distribution of overlaps with the chosen categories were identified. This means that for any given key category, the total distribution of overlaps with other codes was considered, and the codes making up the top 50% of these overlaps, were thus deemed the most relevant patterns for the given category. These overlaps were mapped for each of the three categories (Appendix C). Further, the most relevant sub-codes of the categories were selected and mapped according to the method of the first set of maps (Appendix C), in order to examine the patterns to a greater level of detail. Following, the maps were used to analyse the data by examining patterns and connections between the categories and sub-nodes that emerged from the cross-reference mapping. The identified patterns and connections were then examined by returning to the transcriptions to ensure that the meanings of the interviews were kept intact through the coding process. The findings from this process will be presented in section 5.1.

Analysing the data in the conducted steps decreased the risk of the researcher applying biases towards any interviewee. The use of the distribution of the codes allowed for grouping of the interviewees' replies and thus explore the most relevant codes for the selected categories, across the entire data pool of all interviews.

Following the coding analysis, models and frameworks from the relevant fields of corporate communication, cognitive psychology and systems thinking, were applied to the interview findings, to bring the analysis to the level in which the research questions can be answered, as will be presented in section 5.2. The selected frameworks are presented in section 2 and justified when applied in section 5.2.

3.3.3. Part III: Discussion

Lastly, in the third part, the findings of the literature review and empirical analysis are discussed as a comparative analysis, carried out in a discussion that seeks to answer the research question of this thesis. In this part, the results of the empirical analysis are discussed, compared, and contrasted to the existing literature. Thereafter, based on the result, suggestions for how asset owners should in the future engage with their asset managers to ensure positive impact is laid forth. The contributions to academia and the limitations of the empirical findings will here be discussed in light of the findings from the existing literature.

3.4. Critical Evaluation of Methodology and Research Quality

This section will review the research design and elaborate on its limitations. The research quality has been examined with regards to the validity and reliability considerations, which are core concepts when evaluating the credibility of research findings (Malhotra et al., 2017; Saunders et al., 2006). *Validity* is concerned with “whether the findings are ‘really’ about what they appear to be about” (Robson, 2002). Whereas *reliability* concerns “the consistency or stability of a measure” (Robson, 2002) i.e. the extent to which the analysis will yield consistent findings (Saunders et al., 2006).

3.4.1. Validity

Several steps have been included in the research design to mitigate the threats to validity, identified by Robson as *History, Testing, Instrumentation, Mortality, Ambiguity about causal direction* (2002).

First, the research question must be seen in the light of the timing. As terms such as *impact* and *sustainability* are changing and evolving at present (Section 4), the aspect of history is a genuine concern of limitation to the current study. Due to the interpretivist perspective, and qualitative approach of exploratory interviews, the findings are indeed related to the time of history. Whether the research validity will stand the test of time, is still unknown, yet that the findings are deemed valid in terms of history due to the scoping of the research question, in consideration of the scientific research paradigm.

Second, the interview guides were developed to avoid any negative interference of the testing in terms of result. Given that an interpretivist philosophy is followed, the conclusions arise as a result of the research and are in part constructed in the interview setting, however, the fact that the participants are being interviewed should not have any other outcome than to contribute to the research. One limitation in this aspect relates to the public view and current importance of the studied topic, as the participants, therefore, may be inclined to exaggerate their positive actions and impacts and lessen their comments on lack of work within the field. To avoid such bias and misdirection of the study, the interview guide was developed accordingly, and the interpretation was focused to enlighten such biases in the coding and analysis. The development of the interview guide was centred around the research questions and was thoroughly examined for biases. Practitioners from the field were involved in the process to ensure a common understanding and that the researchers’ involvement in the topic did not interrupt the communication or install biased questions.

Third, the introduction to the interviews followed the steps laid out by Robson to increase validity of interviews, where the purpose and nature of the interview is explained, confidentiality and sound recording is discussed, our interest in their opinions and experiences is indicated, and personal introductions are shared to build rapport (2002). Additionally, open questions and probing techniques were used to uncover hidden responses and unfold answers to avoid biases in inferences.

Fourth, the interviewees were selected to ensure participants sufficiently knowledgeable on the topic. Since the field of impact investing is in a developing state, questions open for interpretation were followed by clarifying probes to ensure elaboration by the interviewees and minimise the risk for misunderstandings.

Fifth, as the study conducted had a cross-sectional design, the mortality, i.e. the disadvantage of participants dropping out (Robson, 2002), was not a concern in the present study. However, maturation, which is the occurrence of events which may affect the interviewees during the interviewing process (Robson, 2002), were taken into account as the pandemic of COVID-19 changed the circumstances for some of the conducted interviews to be over phone or video rather than face to face. Although it is not considered a limitation, it has been taken into consideration that interviewees' answers could be different if conducted in person.

Sixth, the ambiguity about causal direction must be addressed. To ensure validity of findings, the ambiguity about causal direction was addressed early in the establishment process of the research question, and it was determined that neither direction could be determined. Hence, the interview questions, and the literature review were designed to examine both parts in isolation and in coexistence, without assuming a relationship.

Lastly, as the Grounded Theory approach of Glaser and Strauss (1967), is followed to a certain degree, verification is, according to Kvale, “built into the entire research process with continual checks on the credibility, plausibility and trustworthiness of the findings” (2007). Considering the founding research philosophy and approach, enough measures were considered to deem the research validity fairly high.

3.4.2. Reliability

The reliability of the research findings can be assured by asking the following questions, according to Saunders et at. (2006):

1. Will the measures yield the same results on other occasions?
2. Will similar observations be reached by other observers?
3. Is there transparency in how sense was made from the raw data?

To increase the reliability in terms of above points 1. and 2., a sample size of 20 interviews was deemed sufficient, with which a certain level of consistency in replies was attained and both researchers were part of conducting and transcribing the interviews. As was further elaborated with regards to the research design, the exploratory design of semi-structured, in-depth interviews were chosen to best explore the complex and dynamic topic. Accordingly, Saunders et al. (2006) state that the value of this method is derived from the flexibility to explore the complexity of a topic, and that an attempt to ensure that such research could be replicated by others would not be realistic without undermining the strengths of this type of research.

In terms of point 3., transparency was assured by employing the Grounded Theory as a method for data analysis.

Further, measures were taken to minimise the potential limitations of errors and biases in terms of reliability. First of all, interviews were, when possible, conducted in person, however, due to geographical distances, lack of resources, and the social distancing following the COVID-19 pandemic the following interviews were conducted as video or phone calls, potentially limiting non-verbal cues and the personal connection that would lead the interviewees to open up more. However, this is not deemed to weaken the reliability of the interviews substantially. Lastly, the comparable approach adopted in the present thesis, allowed for comparisons between secondary data and empirical findings, to validate the reliability of the conclusions. Although discrepancies and gaps were sought for, the magnitude of difference was considered, and similarities were investigated to avoid biased results. The reliability of the research is accordingly argued to not be a limitation.

3.4.3. Robustness

The overall robustness of the findings is based on the validity and reliability of the research. The validity and reliability are deemed fairly high as several steps have been taken in carrying out the study, to ensure that both are coherent throughout the study. However, a few limitations are present, primarily due to the selection of interviewees and biases in opinions. Due to the chosen methodology, the reliability in terms of consistency across occasions and researcher cannot be assumed as individual biases can occur. Although the interviews may be subject to biases the research is deemed appropriately robust, since the Grounded Theory used in the data analysis seeks to limit these biases when coding the interviews.

Further, as the analysis is based on established frameworks, a limitation is present due to the reliability of the chosen models. The models applied have not been tested and are thus expected to hold. However, as all frameworks are well-recognised and thoroughly used in literature, this is not seen as a major threat to the research.

4. Part I: Literature Review

In this chapter, a thematic literature review is carried out to present relevant literature. The literature review is presented in three parts covering first the understanding and definition of impact investing followed by a section on the measuring of impact, and lastly a section on the actors and engagement.

4.1. Impact Investing

The below section will explore relevant literature discussing impact investing, with regards to how impact and impact investing are defined and understood as well as which challenges are present in the field. First, literature on the definitions and terminology of impact investing and impact will be covered. Second, literature on challenges to impact investments will be presented.

4.1.1. Definition and Terminology of Impact Investing and Impact

The term *impact investing* was coined and formally used for the first time in 2007 when the Rockefeller Foundation convened leaders in the fields of finance, philanthropy, and development, at the Bellagio Center in Italy, with the aim of building an industry of investing for impact (Harji & Jackson, 2012). Although the term was not officially framed prior to 2007, the concept of using investments to yield positive social and environmental effects already existed (Höchstädter & Scheck, 2015; O'Donohoe et al., 2010). Due to the rapid growth of impact investing over the last decade (Osili et al., 2018) combined with the similarity to other fields of investing, many scholars and practitioners still confuse *impact investing* with previously established terms such as *Social Responsible Investing, Social Investing* and *Venture philanthropy*, which Agrawal & Hockerts title definitional and terminological ambiguities (2019a).

4.1.1.1. Definition of Impact Investing

Many scholars and practitioners have embarked to define impact investing throughout time (e.g. Bugg-Levine & Emerson, 2011; Harji & Jackson, 2012; Morriesen, 2018). Agrawal and Hockerts (2019a) found through their extensive literature review that impact investing is usually mapped as a function of social and commercial performance, and that all definitions point towards social value creation. They also found that definitions have evolved through time, that great definitional ambiguity exists, and that the level of complexity, as well as components within the definitions, vary - especially the expectations towards financial return (Agrawal & Hockerts, 2019a).

At the first Bellagio meeting in 2007, leading thinkers discussed an appropriate definition of the term impact investing, and consequently defined it as "using profit-seeking investment to generate social and environmental good" (Freireich & Fulton, 2009)**.** A few years later, the Rockefeller Foundation released a modified version, being "investments intended to create positive impact beyond financial returns" (O'Donohoe et al., 2010, p. 7). According to O'Donohoe et al. (2010), this definition specified the intent of the investment, to generate positive social return while expecting a financial return of least nominal principal. The modified version accentuates that it is not merely "profit-seeking" investments, but rather that the positive impact goes beyond the necessary financial return, as well as does it include the aspect of intentionality. Additionally, O'Donohoe (2010) argues that impact investing should be considered an asset class of its own.

Harji and Jackson (2012), further built upon the definition by O'Donohoe, not by changing the definition itself, but by specifying the underlining key elements. They argue that an impact investment occurs in the intersection of the two core definitional elements of intent and effect*;* First, the intent of the investment must be to create an impact, and second, there must be evidence of a tangible effect on environmental and social causes. Further, they state that whereas the previous usage of the definition widely held the perception that impact investing primarily focuses on direct investments, Harji and Jackson (2012) argue that they can occur across a range of asset classes and sectors.

A further element is included into the definition by Jackson (2013), who builds on the two underlying elements from Harji & Jackson's work. Like Harji & Jackson (2012), Jackson (2013) includes intent as a core element, additionally, instead of using Harji & Jacksons term effect, Jackson (2013) points to the importance of having a tangible impact of the investment, although, without specifying any definitional differences. Further, core to his argumentation, he brings up the theory of change as a third essential element of impact investments, as it enables investors as well as other parties involved in the investment to understand the process of change as well as maximise and align expectations to the results (Jackson, 2013).

Other scholars likewise included intentionality into their definitions, such as Bugg-Levine and Emerson (2011) who slightly changed the wording and defined that impact investing is "to pursue financial returns while also intentionally addressing social and environmental challenges". However, the wording of Bugg-Levine and Emerson's (2011) definitions, does not seem to be set in stone as they also describe it as "investment strategies that generate financial returns while intentionally improving social and environmental conditions". These definitions differ, in placing a higher emphasis on the financial returns. Further according to Bugg-Levine and Emerson (2011), the sole purpose of an impact investment is not a new concept, instead, it is the awareness and intent of achieving both social and financial goals which is new.

Akin to how Bugg-Levine and Emerson's definition places a higher emphasis on the requirements to the financial return, Brest and Born (2013) directly incorporate the range of returns into their definition of "actively placing capital in enterprises that generate social and environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market.".

According to Rangan et al. (2011), some of the infrastructure needed to support the growing impact investment marketplace is facilitated by networks such as the GIIN, who ensure dialogue and collaborations as well as promote the development of the industry and its definitions. Although the early definitions by the GIIN may still be used, the GIIN has modified their original definition from 2010 to: “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return” (GIIN, 2019). The primary alteration to the definition is found in the word *beyond* being changed to *alongside*, and further GIIN (2019) elaborated on the four practices that they found to define impact investing, namely 1) intention, 2) use of evidence and impact data in the investment design, 3) management of impact, and 4) contribution to the growth of impact investing, which includes transparency. Other practitioner networks also utilise the revised version of the GIIN’s definition, such as the International Finance Corporation (IFC) which is part of the World Bank Group and not a dedicated impact investing network. However, IFC recently made the change from using the word *“generate”* to instead say *“contribute to”* the positive impact (IFC, 2019). The IFC (2019), further distinguishes the key importance of the investor contributing to achieving impact by contrasting to value-aligned investing, where the investor, for example, buys stock in companies that sell products that improve the environment. However, this does not mean that an investment in stocks cannot be an impact investment, according to the IFC (2019), as they are not defined by their membership in an asset class, but rather by the approach of the investor, which can, therefore, be within the full range of public and private assets.

The definition by GIIN is further used in the UN PRI Impact Investing Market Map, identified to only be a definition of the specific type of impact investments namely *illiquid or early-stage impact investing* which are considered the traditional forms of impact investing (Morriesen, 2018). Additionally, Morriesen (2018) defines *mainstream impact investments* as investments in companies that generate revenues from products or services that deliver positive impact, i.e. the impact investment refers to the organisations’ output and outcomes rather than inputs such as Economic, Social and Governmental (ESG) practices and policies.

To summarise the findings from the literature defining impact investing above, it is seen that although ambiguities exist, and the definitions have evolved, the majority of scholarly literature and practitioner literature agree on the fundamentals of impact investing. The main variety is present in terms of the level of emphasis on financial return, sophistication and degree to which measurements are included, as well as asset class distinctions. A noteworthy observation is that several scholars use the same definitions yet understand and describe them differently.

4.1.1.2. Definition of Impact

From the above section’s discussion of the definitions of impact investing in existing literature, it proves relevant to also assess the meaning of *impact* in isolation. This is further underlined by Reeder and

Colantonio (2013) who found that the definition and assessment of impact is central in gaining an understanding of impact investing.

In 2004, before the term impact investing was officially coined, Rosenzweig et al. (2004) set out to define impact in relation to social investments. They used the impact value chain, which is, in essence, the same as the logic model, to differentiate between output, outcome, and the added impact as the additional step from the outcome.

The logic model was first mentioned by Wholey (1979) where he showed how evaluators can help policymakers clarify and improve program efficiency. Logic models grant an investor the logical steps to the desired result and can, therefore, be displayed as a value chain. In research covering impact investing, the following steps presented in Figure 8, shows that the logic model takes into consideration the input and activities that come with the investment. Following the output and the outcomes, the logic model graphically presents that impact is a step further from outcome (Reeder & Colantonio, 2013).

Rosenzweig et al. (2004) defined impact based on social science as “the portion of the total outcome that happened as a result of the activity of the venture, above and beyond what would have happened anyway”, output as the measurable results, and the outcomes being the changes to the social systems (2004, p.7), depicted in Figure 8. This implies that in order to move from outcome to impact, the outcome needs to be adjusted for intervention of natural change that would have emerged even if the investment never took place to generate an impact (Rosenzweig et al., 2004). Rosenzweig et al. (2004) recognise that this is a rather sophisticated definition of impact, which may be costly to prove with certainty.

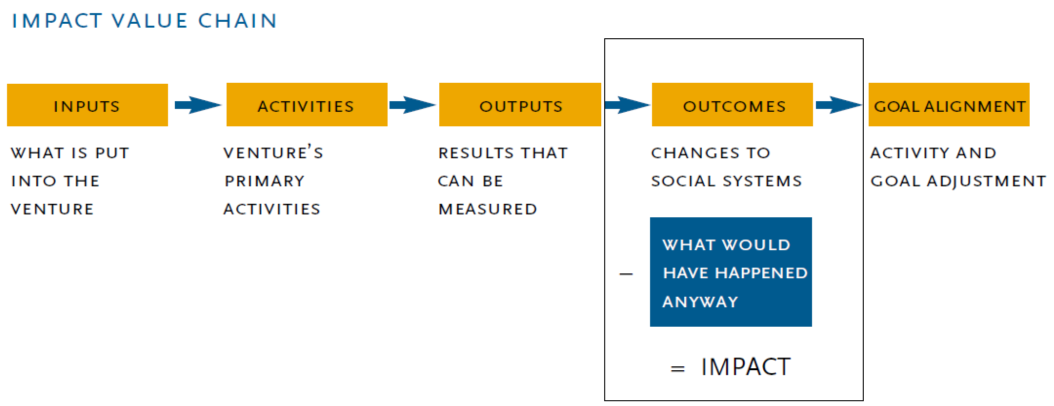


Figure 8: Impact Value Chain. Source: Rosenzweig et al. (2004).

As the impact investment market evolved, the notion of impact developed, and other scholars followed the example of Rosenzweig et al. (2004) by defining impact based on the impact value chain, amongst others the European Venture Philanthropy Association (EVPA) who extended the understanding of Impact

(Hehenberger et al., 2012). In their definition impact should not only be adjusted for natural interventions, but also for attributions (action of others) and consequences that were not intended, which could be both positive and negative (Hehenberger et al., 2012). This definition is very technical, and according to Hehenberger et al. (2012), there is, in reality, no tool or methodology to accurately measure these aspects.

Other scholars also use the impact value chain when defining impact, amongst others Reeder and Colantonio (2013) who further argue that impact and effect are often used interchangeably, as the assessment of impact involves discovering the difference of what happened due to a given action, compared to what would have happened without that action. In order to assess this, Reeder and Colantonio (2013) bring up the importance of both an *ex-ante* and an *ex-post* assessment, as the impact should be defined ex-ante to predict whether the actions will be able to have an effect. The impact of the action can only be known, by assessing the ex-ante state and comparing it to the ex-post state (Reeder & Colantonio, 2013).

One definition which is not tied to the impact value chain is the definition by The International Association of Impact Assessment (IAIA), where impact consists of "the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programs, plans, projects) and any social change processes invoked by those interventions" (Vanclay et al., 2015). IAIA's definition of impact is meant to be applicable to every type of project and be humble to the fact that impact does not only consist of positive effect, but that projects also can lead to a harmful change (Vanclay et al., 2015). Additionally, Grabenwarter and Liechtenstein (2011) stress that most human activities and virtually all activities financed through investments have some sort of impact on society, which is why many definitions of impact investing include intentionality.

Further, the impact definitions may include different types or degrees of impact. This is the case of the definition in the UN PRI Impact Investing Market Map, where Morriesen (2018) discusses primary and secondary impacts. With primary impact, Morriesen (2018) discusses the example of providing micro-loans to a small company, which is an allocation of new capital and a direct link from activities to impact. The secondary impact would be if the loan is then used to purchase solar panels, i.e. an impact which does not arise as a first link from the activities, but as a derived impact of the impact.

Yet another way to segment impact into several types of impact, concerns additionality, which according to Agrawal and Hockerts (2019b) construes the aspect of the impact of the specific investment, contrary what would have happened if the investment was never made. According to Agrawal and Hockerts (2019b), additionality can be grouped into two segments, when addressing impact investing, investor-level additionality and enterprise-level additionality. So and Staskevicius (2015) describes that the investor-level additionality, being the investor impact, will mainly contribute with capital, but also non-financial-benefits such as pursue activism in board meetings to pressure for a more impact-related structure, or contribute with strategic assistance and networks. Where enterprise-level additionality addresses the benefit that the firm the investor invests in has on the society, also called the real additional impact or company impact. The company can have an impact through what products they supply and how they operate their business (So & Staskevicius, 2015).

In their working paper, Kölbel et al. (2019) also follows the logic of investor impact and company impact, when they define impact through the investment impact mechanism, as depicted in Figure 9. As is seen in Figure 9 three mechanisms of investor impact are identified; Shareholder engagement, capital allocation and indirect impact, as well as two mechanisms of company impact; operations as well as products and services (Kölbel et al., 2019). Lastly, according to Kölbel et al. (2019), the overall investment impact describes the additional company impact that is due to the activities of an investor.

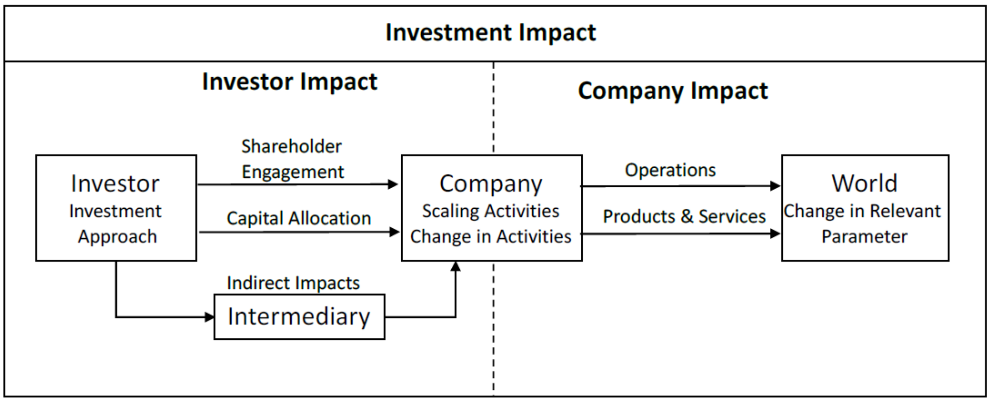


Figure 9: Framework Outlining the Components and Mechanisms of Investment Impact. Source: Kölbel et al. (2019).

To sum up, the literature defining impact often equates impact with effect or change on society. Many make use of the impact value chain to explain the difference between outcomes and impact, and some even apply theories of change to clarify the changes between the links of the impact value chain. Impact is often calculated as the difference between the outcome and external effects not due to the investment. Further, it is seen that there are several degrees of impact just as impact can be both positive and negative. Lastly, it is seen through the mechanism of the investment that both investor impact and company impact may exist in an impact investment.

4.1.2. Challenges to Impact Investing

From the above sections of the literature review, it is seen that several scholars have interrogated the field of impact investing, however, according to Agrawal and Hockerts (2019a) the empirical and theoretical knowledge does not match the practice, and that the growth in the number of studies on impact investing has been surprisingly very low, which they argue poses as a challenge and risk for the industry.

Another challenge which is often discussed in the literature (e.g. Agrawal & Hockerts, 2019a; Grabenwarter & Liechtenstein, 2011; Hehenberger et al., 2019) is the lack of standardisation. This lack of standardisation is impacting the robustness of the industry (Agrawal & Hockerts, 2019b). According to Hehenberger et al. (2019), the ambition for standardization is widely accepted and shared amongst actors within impact investing, however, as the field has grown in size and appeal, these ideas have not yet been pursued or enacted. Grabenwarter & Liechtenstein (2011) further addresses this as a reason why impact investing has still not become its own asset class as they state that "if impact investing has not yet become a genuine asset class, it is primarily because it has failed to define its industry standard" (p. 39). In relation to the standardisation of definitions, Harji and Jackson (2012) argue that the lack of a clear, tight definition may lead to "impact-washing"[5], which could pose as a large challenge in terms of the integrity of impact investments.

Rangan et al. (2011) looks beyond the lack of standardization of impact investments and addresses the external environment, arguing that the regulatory frameworks are not strong enough to encourage investors to engage in impact investing. Which Grabenwarter and Liechtenstein (2011) follows by arguing that clear guidelines are needed to provide specific metrics to rely on when monitoring investments and thereby ensuring the generation of both a financial and social return.

Namely the aspect of metrics and measuring is a further challenge brought up by many scholars (e.g. Agrawal & Hockerts, 2019a; Bugg-Levine & Emerson, 2011; Hehenberger et al., 2019), who argue that there is a need for metrics within impact investing, yet that one universal measurement does not exist, and that several challenges to measuring impact are evident. To the industry as a whole, scholars (e.g. Hornsby, 2012; So & Staskevicius, 2015) argue that measures of impact will aid in proving the value of the field.

Summarising, several challenges are addressed in the literature covering impact investing, however, three main categories of challenges appear:

1. Lack of standardisation in definitions and solutions
2. Lack of regulatory frameworks
3. Challenges to measure impact

4.2. Impact Measurements

The below section will explore relevant literature discussing measurements of impact. First, the motivation for measuring impact as laid forth in literature is covered. Second, the variety of measures are explained, and third, the challenges to impact measurements as presented in the literature are covered.

[5] Herein after the term *greenwashing* will be used to include both ESG-washing and impact washing.

4.2.1. The Relevance of Measuring Impact

As investing with social or environmental purposes and financial goals has grown in terms of interest and popularity, the need for measuring the social impact has also increased drastically over the past two decades (Agrawal & Hockerts, 2019a; Hehenberger et al., 2019; Hornsby, 2012). As is clear from the representation by Reeder et al. (2015) in Figure 10, impact investments create a need for measurements of both the financial return and of the social and environmental performance.

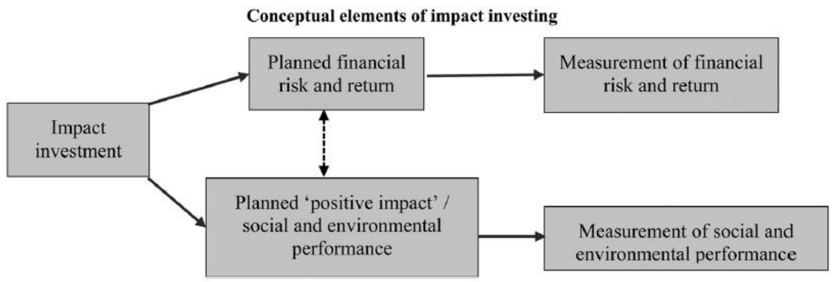


Figure 10: Conceptual Elements of Impact Investing. Source: Reeder et al. (2015).

Whereas, the planning, assessing and measuring the financial risk and return of investments has long-standing foundations, the parallel strand of measuring social and environmental performance lacks such historical pedigree (Reeder et al., 2015). In line with the historical pedigree, generally accepted principles of accounting and legal infrastructure exist to report on financial returns, yet there is no comparable unified standard for measuring social impact (Agrawal & Hockerts, 2019b; Rosenzweig et al., 2004).

Many scholars agree that measuring impact is an important element within impact investing (e.g. Bugg-Levine & Emerson, 2011; Höchstädter & Scheck, 2015; O'Donohoe et al., 2010). Grabenwarter & Liechtenstein (2011) explains by addressing the importance of reliable metrics within the field of impact investing, stating that "there is consensus that impact metrics are vital for this industry". Further, a recent survey by GIIN of 278 impact investors confirms this vitality as 100% of the respondents replied that impact measuring and management is important in order for them to understand whether they are making progress toward their impact goals (Bass et al., 2020).

After impact investing was coined (Harji & Jackson, 2012), an ecosystem began developing with a focusing on reporting and measuring impact investments, where reporting standards such as the Impact Reporting and Investment Standards (IRIS), and rating systems such as the Global Impact Investing Ratings System (GIIRS) were developed (Höchstädter & Scheck, 2015). In addition, the United Nations Sustainable Development Goals (SDGs) have had a huge influence on impact investments as they set goals to work towards, and are currently the most used guidelines when reporting on impact (Bass et al., 2020).

To underline the importance of measuring impact, Mook et al. (2015) discuss measuring impact in comparison to measuring financial return. They state that both the financial and social status of a company are vital indicators of a company's health and that complementary measures of both factors should, therefore, exist for investors to present to stakeholders and board of directors (Mook et al., 2015).

Grabenwarter & Liechtenstein (2011), lay forth a list of reasons to measure impact, basing the rationales on the expectations of stakeholders, which include consumers, company managers, direct investors (investors investing directly in the asset) and indirect investors (investors investing through external asset managers). Especially one of the reasons is relevant to the present thesis, namely that indirect investors outsource the investment process to asset managers (Grabenwarter & Liechtenstein, 2011). Grabenwarter and Liechtenstein (2011) argue that a reason to measure impact is to ensure the indirect investors how effective their asset managers are at executing impact-relevant investment as well as how successful they are at meeting both the investors' impact and financial return expectations.

In line with the above stakeholder perspective, Hornsby (2012) argues that it is the parties involved in the investments who will make the real difference when it comes to impact investments, since it is the stakeholders' engagement that will make it possible to change the perspective of how impact investments are measured and turn it into something valid. Likewise, the GIIN's most recent survey found the top three reasons of motivation for measuring and managing impact was, "to better understand whether our impact demonstrates progress toward our goals", "improving their impact performance" and "proactively reporting impact to key stakeholders" (Bass et al., 2020).

Yet another argument is laid forth by Tracey and Jarvis (cited in Agrawal & Hockerts, 2019b) who take the agency perspective that the agency costs of understanding the social impact potential is very high, being the main driver for measuring and communicating the social impact created. According to O'Donohoe et al. (2010), measuring impact is an integral part of the definition of impact investing, and they further argue that a measurable positive impact should be an integrated part of the investment strategy.

Contrary to the above scholars who primarily attribute a single purpose to measuring impact, So & Staskevicius (2015), say that the objectives of measuring impact change during the impact investment process. They lay forth a cycle of four objectives, being *estimating, planning, monitoring* and *evaluating impact*, as depicted in Figure 11, which shows the different purposes of impact measures.

Figure 11: Continuous Cycle of Measurement Objectives. Source: So & Staskevicius (2015).

Additionally, the GIIN found that in the impact investment process the impact measurements are primarily used as part of the due diligence and investment screening processes (Bass et al., 2020). Impact measuring was found to be employed less during the process of designing the investment strategy, and as part of the exit or post-exit part of the investment process (Bass et al., 2020).

According to the conducted literature review, no scholars have been found arguing for measurements to be inessential nor showing a negative attitude towards impact measuring. Several arguments are put forth for why measuring impact is important, including stakeholder management, overcoming potential agency costs, and aligning the process of the investment. However, according to Agrawal and Hockerts (2019a) some articles about impact investing do not mention or discuss the measures of impact, though the literature addressing measures of impact, presents a consensus, along with a range of arguments that reporting and measuring impact is highly relevant for impact investments.

4.2.2. The Variety of Measures

Several ways to measure impact of investments exist (e.g. Jackson, 2013; Rosenzweig et al., 2004), and as Jackson (2013) explains it “While building sector-wide measurement systems for the impact investing industry is underway, there has also been a flourishing of customized or decentralized metrics and tools at the level of individual institutions or organizations”.

In an attempt to structure the variety of existing measurement techniques some scholars set out to analyse and group ways to measure impact investments in several different ways. In the report by Rosenzweig et al. (2004) prepared with support from the Rockefeller Foundation, several existing ways to measure impact investments are included. The measurement techniques are grouped into three categories according to their purpose; Process, Impact and Monetization (Figure 12). Process Methods covers tools used to track and monitor efficiency and effectiveness of outputs to track the ongoing operational processes, including for example Theories of change and the Balanced scorecard. Impact Methods relate the outputs and outcomes of the impact investment and attempt to prove incremental impact, including for example the Social Return on Investment (SROI) and the Balanced scorecard. Monetization Methods monetize outcomes or impact by assigning a dollar value to them, including for example the SROI and Benefit-Cost Analysis (Rosenzweig et al., 2004). Rosenzweig et al. (2004) proves that there is a variety of metrics that needs to be addressed in order to measure impact, however, they also show that there is not one existing way to measure all three purposes, instead different measuring techniques cover different purposes.

				PRIMARY APPLICATION TO DATE	
METHOD	PROCESS	IMPACT	MONETIZATION	NONPROFIT	FOR-PROFIT
Theories of Change	●			●	
Balanced Scorecard (BSc)	●	◓		●	
Acumen Scorecard	●			●	●
Social Return Assessment	●				●
AtKisson Compass Assessment for Investors	●	◓			●
Ongoing Assessment of Social Impacts (OASIS)	●	●		●	
Social Return on Investment (SROI)		●	●	●	
Benefit-Cost Analysis		●	●	●	
Poverty and Social Impact Analysis (PSIA)		●	●	●	●

Figure 12: Summary of Measurement Key Characteristics. Source: Rosenzweig et al. (2004).

Another approach was taken by So and Staskevicius (2015) (Figure 13), who identified patterns in the measures and grouped them into the following four categories; Expected return, Theory of Change, Mission alignment methods, and Experimental & quasi-experimental methods. In comparison to the above categorisation method, So and Staskevicius (2015) use the Theory of Change as a categorisation instead of a way to measure impact investments. As seen in Figure 13, So and Staskevicius (2015) adds a second dimension to their categorisation, namely what part of the purpose cycle the measurements contribute to.

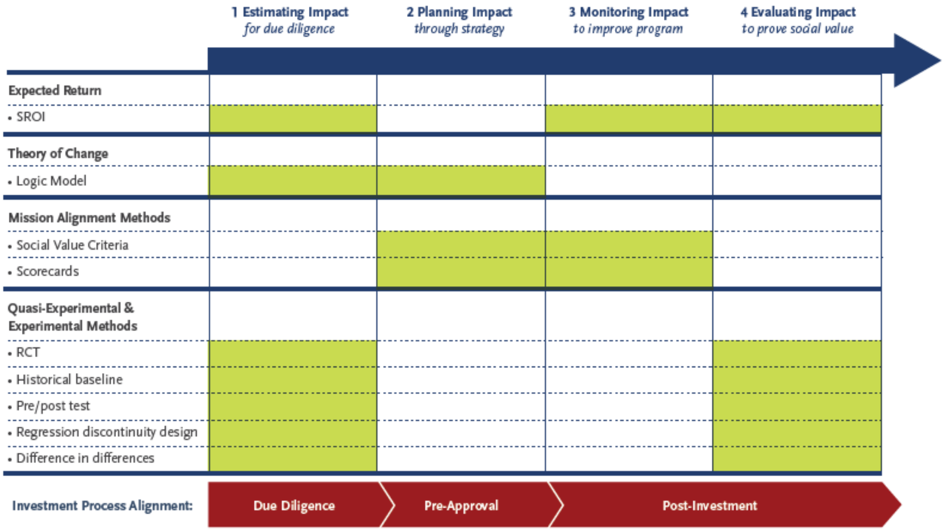


Figure 13: Map of Measurement Methodologies to Measurement Objectives. Source So & Staskevicius (2015).

The above-covered literature, analyses and categorises measures, frameworks and metrics from literature and practice, however, tells little about the extent to which these methods are in fact employed by practitioners. The survey published by GIIN in January 2020, asked the respondents which tools and frameworks they used to measure and manage impact, and found, as depicted in Figure 14, that in the top of the list were the UN SDGs, IRIS and IRIS+ (Bass et al., 2020). Notably, measurements such as the Theory of Change and the SROI does not figure on the list but is however used in the literature and in all the above-mentioned categorisation methods.

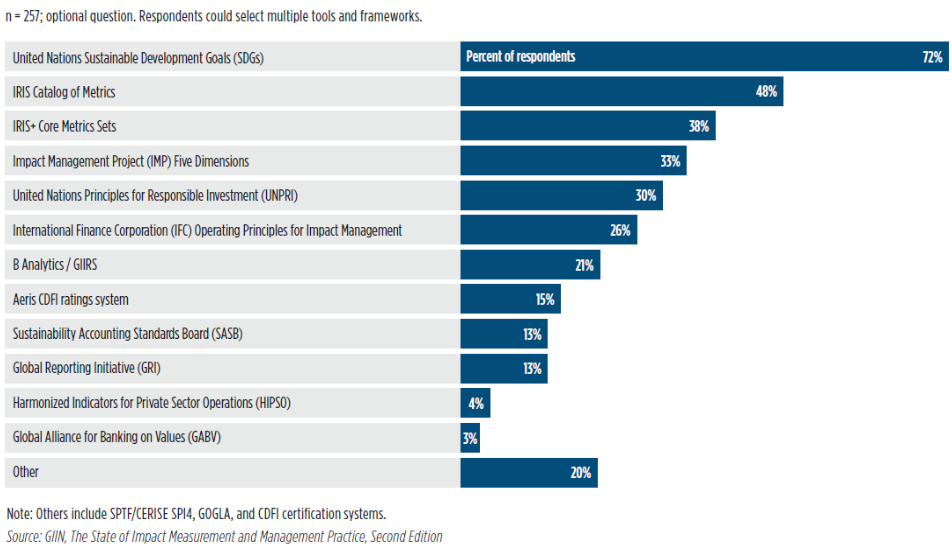


Figure 14: Tools and Frameworks used in Impact Measuring and Management. Source: Bass et al. (2020).

The discussed measurement techniques are focused on the impact itself, or the process of ensuring impact, however, several measurement techniques exist which take an ESG perspective. The ESG rating providers rate companies, which are usually publicly traded companies, according to their specified framework along the dimensions of ESG impact or performance, and give the companies a score as to how well they are doing, which may be used part of impact evaluations (Dorfleitner et al., 2015).

Another measuring technique that is not directly related to impact are the SDGs, as their main focus is sustainability, however, as they are the most commonly used measure for impact investments today there is a strong rationale to bring them up (Figure 14) (Bass et al., 2020). The SDGs are developed by the United Nations and are not explicitly a measuring technique but instead sustainability goals laid out to encourage companies to minimize their negative impact while maximizing positive impact, by incorporating sustainability into their business strategy and thereby also ensuring sustainability of their investments and business practices (GRI et al., 2015). The SDGs provide goals that the organisation can work towards and therefore provide a set of common indicators (GRI et al., 2015).

To sum up, there are a variety of measurements for impact investments both discussed in practice and in the literature, and as shown above, several authors have set out to try and structure the measurements in the literature and create processes around it. However, existing reports show a discrepancy between what measurement techniques the literature brings up and what is used in practice, as practitioners use fewer measures that are less directly related to impact than what the literature provides.

4.2.3. Challenges to Impact Measures

As was mentioned above, one universal way of measuring and reporting impact does not exist. This section will uncover what the literature has found on the challenges to measuring impact and reasons behind why a standardized measurement approach is not in place.

According to Jackson, during 2013, impact investing was changing from "metrics-rich but data-poor" to include more and better data (Jackson, 2013). The aspect of impact investing being data-poor may have had or may still contribute to there not being standardised measures of impact. However, there being many different metrics may also create challenges to measuring impact. As Jackson (2013) further states "How the centralized and decentralized measurement systems can interact productively with each other is a key question for industry leaders.", underlining the importance of making all the established or proposed measures work productively compared to counterwork each other.

Adding to the notion of the many established metrics, Grabenwarter & Liechtenstein (2011) propose a different challenge in terms of a standardised, comparable and transparent measure, namely the lack of homogeneity in the expected purpose of metrics for various stakeholders. In this regard, they discuss the trade-off between individuality and comparability of KPIs as a key reason behind the failure to establish standardised measures of impact (Grabenwarter & Liechtenstein, 2011). Grabenwarter & Liechtenstein (2011) state that "despite the diverging requirements of various stakeholders, the focus when defining impact metrics has been on one-size-fits-all measures that have introduced more confusion than clarity into the debate" which poses the question of to whether *one*, unified measure is what should be sought for after all. Similarly, Hehenberger et al. (2012) argues that each investor needs their own report bringing a challenge to the social sector.

Additionally, Hehenberger et al. (2019) argue that not everything can be measured, and the need for storytelling is still a challenge in trying to implement a standardised measure. To overcome the need for one unified measure So and Staskevicius (2015) propose an integrated model for reporting impact based on the arguments that there are three main challenges to establishing a unified impact measure; 1) Investors vary in their level of maturity and resources, 2) asset companies vary in their level of impact measurement sophistication, and 3) impact investors are using various methods at different stages of their investment. Namely the aspect of varying maturity and resources is a challenge and Yates and Marra (2017) further discuss whether a measure such as the SROI is even worth it given its high cost in terms of data collection, preparation and calculation.

It is seen that many challenges are discussed in the literature to measure impact, amongst other things challenges are found relating to a lack of homogeneity in expected purpose, a trade-off between individuality and comparability, the fact that not everything can be measured and variations of maturity in investors and assets.

4.3. Actors and Engagement in Impact Investing

In this section, the literature on actors and engagement involved in impact investing will be reviewed. The first subsection covers the actors whereas the second investigates the literature on the stakeholder engagement that occurs in relation to ensuring impact.

4.3.1. Actors within Impact Investing

The actors of impact investing can according to the model created by Harji and Jackson (2012), be categorised into four different roles, by whether they own or manage the assets which are invested for impact. The four roles are *asset owners, asset managers, demand-side actors* and *service providers,* as depicted in Figure 15.

Figure 15: Actors in the impact investing industry. *Source: Harji & Jackson (2012).*

The first role, asset owners, include high net worth individuals, corporations, foundations, etc. who provide the capital to the investment. Second, asset managers act as intermediaries managing and deploying the capital and amongst others include banks, financial institutions and different types of funds. Third, the demand-side actors utilize the investment, and can include small social businesses or enterprises, these may also be referred to as assets. Lastly, the service providers ensure regulations and networks making the industry work, and the actors within this role are mainly governmental or market building networks and bodies (Harji & Jackson, 2012). Additionally, Harji and Jackson (2012), acknowledge that the lines sometimes blur across the first two categories of actors i.e. asset owners and asset managers as e.g. most corporations do some of their own asset management.

Jackson (2013), further builds on this division of actors, stating that an interesting aspect is what impact investors do and how they do it:

> *"Generally speaking, they design and execute private debt deals, providing loans, guarantees and other debt instruments, as well as equity and quasi-equity, to funds, enterprises and projects that aim to provide the poor and marginalized with employment, income and affordable products and services, including housing, food, health care, education, energy and environmental protection."* (p. 98).

With the above quote, Jackson (2013) explains that the role of the impact investor (be it asset owner or asset manager) is to design and execute debt and equity to asset managers and demand-side actors, who in turn aim to deliver a social effect towards the poor. Although this specific description by Jackson only considers the social factors, his overall definition also includes environmental impact.

Moreover, Jackson (2013) described the need for pooling investments from different investors as well as sequencing, or 'layering' of different types of capital, over time, in order to generate social as well as financial returns.

More recently, Rizzi et al. (2018) embarked on structuralising the actors in the industry, where they define all investments that make a social impact as Social Finance[6]. As also seen in Figure 16, Rizzi et al. (2018) present four categories of actors 1) mainstream financial elements, 2) typical social investors, and 3) the government, and 4) social ventures. The three first are all capital providers, however, the government also develops legislative frameworks fostering the market development, and the fourth, i.e. social ventures, then social ventures receive the investments for financing their projects that in turn generate social impact as well as financial returns (Rizzi et al., 2018).

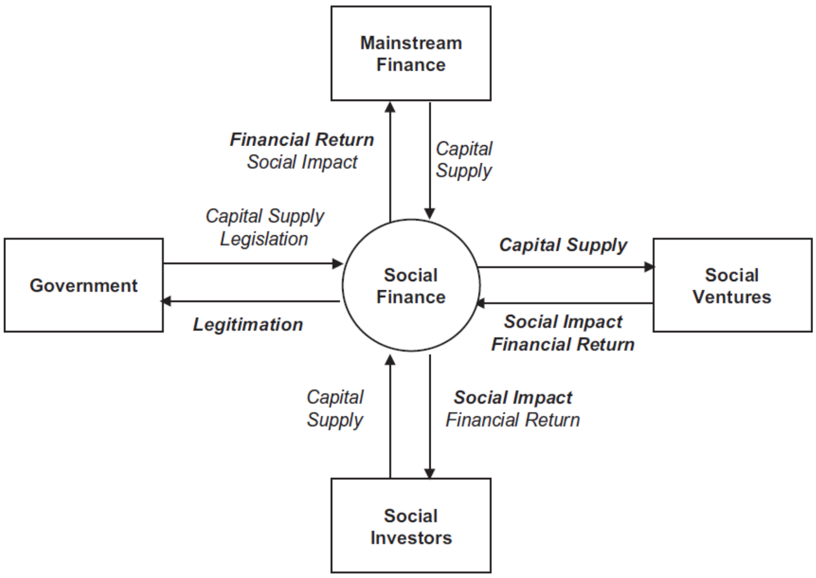


Figure 16: Main Categories of Actors in social finance. Source: Rizzi et al. (2018).

Comparing this model to that of Harji and Jackson (2012), the mainstream finance and social investors could fall under asset owners and asset managers, social ventures as demand-side actors and governments may be both service providers and asset owners. Due to the existence of various definitions and concepts (Section 4.1.1.) Agrawal and Hockerts (2019a) found the structure of the industry, including the structure of the actors within impact investments, to not be fully explored. However, within impact investing it is clear that there are several different stakeholders, such as governments, banks and private investors (Agrawal & Hockerts, 2019a).

[6] It is noteworthy that since there may be a slight difference between impact investing and Rizzi et al.'s social finance, more or fewer actors may appear, however it is still deemed relevant for the discussion.

Although the relationship between asset owners and asset managers may not be fully explored within the field of impact investing, Hawley and Lukomnik (2018) examined the purpose of asset managers in the greater field of investing, which is deemed relevant for impact investing as well. According to Hawley and Lukomnik (2018), the purpose of the asset managers and the finance industry as a whole is to provide for the outside world, which is often not the case as the industry operates as a black box. Hawley and Lukomnik argue that this may be due to the use of Modern Portfolio Theory as the single lens through which investment performance should be judged and suggest that these issues need to be addressed to generate better outcomes of managed investments. Asymmetry of information, transparency and trust are found as key obstacles, which must be overcome, either by asset owners developing their own levels of expertise or demanding the asset management sector to demonstrate an understanding on how the assets managed impact society (Hawley & Lukomnik, 2018).

To synthesise, many actors are present in the impact investing environment and can be presented in several ways. In essence there are the capital providers or asset owners, who may have either a more financial or a more social focus, and then there are asset managers, capital receivers and external actors such as service providers.

4.3.2. Stakeholder Engagement

As the above sections show, many different actors, definitions and understanding of impact investing are discussed in various literature, however, there is a lack of literature covering the extent to which the stakeholders engage and interact to influence the outcome of impact investments (Agrawal & Hockerts, 2019a). Agrawal and Hockerts (2019a) stress the importance to study the operational relations between actors to better understand impact investing.

Agrawal and Hockerts (2019a) bring up the discussion of where stakeholders can play a crucial role in the impact investing, and point out four aspects where the literature is not sufficient;

1. Relationships between different stakeholders
2. Different power dynamics
3. Who influences greater power on decision making?
4. Who influences performance? - especially socially

Agrawal and Hockerts (2019b) start addressing these gaps in the literature, presenting a number of high-level conclusions including the importance of common goals, reporting standards and a high level of engagement between the stakeholders.

However, few scholars (e.g. Bugg-Levine & Emerson, 2011; Grabenwarter & Liechtenstein, 2011) have addressed the need for engagements and interaction between the different actors in impact investing. Bugg-Levine and Emerson (2011) argue that the stakeholders in an investment all have different roles in order to generate a value that includes both a social and financial outcome of the investment. They bring up examples such as; Asset owners need to challenge their advisor when making decisions and asset managers need to take responsibility for the investment (Bugg-Levine & Emerson, 2011).

Additionally, Rizzi et al. (2018) explain that the fluidity in the market affects actors in multiple ways, including, the fluidity regarding knowledge sharing which will impact the actors. The knowledge sharing is important to create a common understanding of the market and can be both direct and indirect. Informal exchange and networks constitute the indirect knowledge that the actors share, and the direct knowledge concerns the discussion of what and how things shall be reported (Rizzi et al., 2018).

Due to the amount of uncertainty that exists in the field of impact investing, Agrawal and Hockerts (2019b) bring up the importance of cooperation underlying the inter-organisational relationship and engagement between stakeholders, especially the asset owners and asset managers. This engagement needs to be based on mutual interest and created from the willingness to reduce the uncertainty, manage costs and what resources are available (Agrawal & Hockerts, 2019b). However, according to Agrawal and Hockerts (2019b), the institutional logics for the investor and investee are not always aligned as their commercial goals for the investment might not equate, even if both have the same intention with the investment. This can lead to tensions, as the underlying intentions of the investment for the investor and investee could be competing (Agrawal & Hockerts, 2019b).

Agrawal and Hockerts (2019b) found that due to many different stakeholders contributing to the additionality of an investment and therefore also the impact, it is important that all the stakeholders align the expectations prior to the investment. This includes not only the goals with the investment, but also how and what should be reported on, and how the communication and engagement between the stakeholders will take place (Agrawal & Hockerts, 2019b).

Kölbel et al. (2019) utilises the mechanisms of investor impact to advocate for the relation between the actors. First, investor impact can be achieved through shareholder engagement which refers to influencing a company through various communication mechanisms that are open to investors, such as dialogue and shareholder votes. Second, indirect impacts can also lead to investor impact, when investors influence their intermediaries that are not direct agents of the investor, for example, the company’s stakeholders, rating agencies, or other investors (Kölbel et al., 2019).

To sum up, scholars generally agree that several ways of engagements are important between the actors to ensure investor impact, transparency, additionality and cooperation while avoiding friction. Yet, more literature is needed to fully understand exactly how these engagements take place.

4.4. Sub-Conclusion

When reviewing the literature on impact investing it is seen that impact investing is still a developing field, with variety in definitions and a lack of standards.

The existing literature on impact investing presents several findings covering the definition and terminology of impact and impact investing. Section 4.1., shows that the definitions of impact investing has evolved over time and that there today still exist many definitions for impact investing. Although ambiguities exist, scholars generally agree on the basic fundamentals of what defines impact investing, being the objective of attaining both a financial and social return. Overall, the existing definitions of impact investing are fairly similar, seeking the same achievements, however, scholars describe and understand them differently. The main variations exist in terms of emphasis on financial return, sophistication and asset class distinctions.

The impact itself is generally defined and discussed in the literature in a unified way. Stating that impact is an effect or change on the society and using the logic model scholars agree that there is a need to differentiate impact from outcome. Further, the literature addresses the notion that impact can be both positive and negative and that both investors and companies can have an impact on society.

The literature shows how the need for measuring impact has increased in the last two decades as it is becoming more important for the stakeholder rationale to understand if the investment is progressing or not. The literature expresses several ways to measure impact, however, the different measures have different focuses and it is therefore not possible to use one existing measure in standalone and therefore a combination of different measures is often needed. Further, a concern is found as to practitioners misinterpreting output and outcome as impact when measuring the result of their impact investment.

A variety of actors are identified to be involved in the process of impact investments, where asset owners are mainly described as contributing with capital, while asset managers are described as intermediaries deploying the capital. Further, different types of stakeholders are described as contributing with different functions to the additionality of the investment.

Scholars express that the industry for impact investing is not academically explored to its full potential and particularly indicate a need to further explore the engagement between the actors to fully understand how the engagement takes place and what each actor contributes with. Specifically, the literature points towards the relations, power dynamics and level of influence between the actors as shortcomings within academia. Overall, only high-level conclusions are made in regard to which aspects of engagements are key, including the importance of establishing common goals to align expectations, cooperation and standards of reporting. The literature stipulates that asset owners must challenge their advisors, while the asset managers should take responsibility for the investments, and further highlights the need for transparency as key in this relation. However, it is noted that institutional logics may differ, leading to competing intentions. Lastly, the notion of investor impact is brought up as a possible objective and outcome of engagements.

5. Part II: Empirical Analysis

In this chapter, the empirical analysis of the interview data is carried out. The analysis is presented in two parts. First, the findings are presented, showing the overall themes and trends from the interview data and second, existing theories and frameworks are applied to analyse these findings.

5.1. Findings

This section presents the findings from the interviews, explored through the codes and cross-references found when analysing the data in accordance with the chosen methodology based on Grounded Theory. The first section covers the findings in regard to the practitioners' overall understanding of impact investing and impact, the second section presents how the industry measures and reports on impact investing, and lastly the findings covering how the different interviewees ensure positive impact is presented.

5.1.1. Understanding and Definitions of Impact and Impact Investing

Below, the findings are outlined from the interviews on how impact investing and impact are defined and understood.

5.1.1.1. Impact Investing

When analysing the cross-references of codes, the most common overlapping themes relates to sustainability, ESG and financials. However, although there is a general consensus around sustainability and financial return being the key components, the data shows that ambiguities exist around the definition and terminology of impact investing. Both asset managers and asset owners, explicitly point out these unclarities, such as Asset Manager 3 stating,

> *"The definitions are just many - both when it comes to sustainable investments but also impact investments and responsible investments and ethical investments. There are many terms"* (00:01:29),

or Asset Owner 3 questioning,

> *"When is something an ESG responsible investment and when is it an MRI [Mission Related Investment[7]]? I actually think it is very murky."* (00:03:41).

Although the interviewees display various opinions and definitions of how the components of sustainability and financials constitute impact investments, the interviewees generally arrange the components in two distinct ways as a means to explain impact investing.

[7] Mission related investments are not covered by this thesis, however it is clear from the interview that Asset Owner 3 discusses impact investments as split between mission related investments (MRI) and programme related investments (PRI), where MRI expects market-level returns, and PRI does not. Asset Owner 3 considers their impact investments as PRI. Going forward, the term impact investments are used to cover both.

The first perception has the extremes of financial investments and philanthropy, with impact investments in the middle. This is amongst others expressed by Asset Owner 4, when explaining their different approaches from investing to philanthropy:

"We can support it with our financial resources where we can make some monetary donations. We can also support some of these purposes by a combination where we go out and support with investments and also use our own resources. [...] So that's really the way we work with Impact Investing." (00:03:13).

Similarly, Asset Manager 4 explains their microfinance investments using a similar spectrum:

"Our funds are what we call financial first impact investors. That is, our primary purpose is to create a financial return for our investors because that's what our strategy is, that's what they've hired us for." (00:10:21),

where financial first impact investing is more towards finance, and impact first would be more towards philanthropy. This first way of arranging impact investing is depicted in Figure 17.

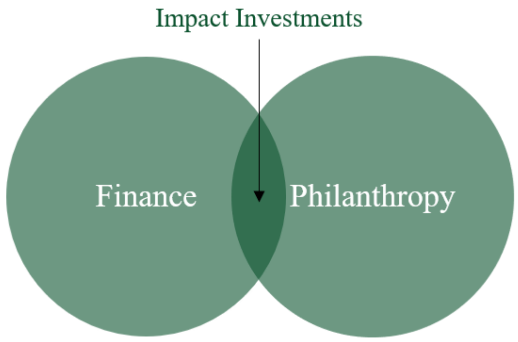


Figure 17: Impact Investing Arrangement - from Finance to Philanthropy. *Source: Own Construction.*

The second way of arranging impact investing is articulated by six of the interviewees, who see impact investment as the most ambitious investment with a sustainability aspect in a spectrum of investments. Several interviewees employ variations of this spectrum, however, the understanding of what distinguish the various investments from each other varies. According to Service Provider 4, the differentiator is time:

"Many terms have been used over time - ethical investments, responsible investments, sustainable investments. It has made me wonder, whether all other investments are to be considered unethical, irresponsible and unsustainable? [...] During my career, I have seen new terms being created all the time. At the moment, it is very trendy to use the term "impact investments" without necessarily being aware of, whether the bespoke investment activity has any actual impact." (00:16:36).

However, according to others, such as Asset Owner 7, the level of ambition is what takes an investment from responsible to sustainable to impact:

"We differentiate between impact investments, sustainable investments and responsible investments [...] to differentiate them we talk about, responsible investments as the least ambitious when it comes to impact, then we say that what defines responsible investments is that you do not invest in harmful activities [...]Sustainable investments is more on an ESG level [...] then on the next level of ambition, there somewhere you find impact investments, in order for it to be classified an impact investment, it needs to show measurable results on a prioritised social problem" (00:18:22).

The second perception generally ranges from Ethical investments, to Responsible Investments and Sustainable Investments, where the last step in the spectrum is Impact investments. This spectrum is seen in Figure 18.

Figure 18: Impact Investing Arrangement - from Ethical Investments to Impact Investments. Source: Own Construction.

One trend which is identified across the different articulations of impact investments, is seen when comparing the interviewees who self-identified as having sustainable or impact investments as a company-wide approach or on a product level. The understanding from the organisations carrying out impact as a company-wide approach, including service providers, generally proved to be of a more elaborate nature than to those with product-level impact, such as Service Provider 3 specifically distinguishing between responsible and impact investments:

"*Responsible investment is how ESG issues affect your portfolio. The SDGs/impact add the lens of how your portfolio affects the world"* (00:09:46)

As seen, different perceptions of impact investing exist both across categories of actors and whether the actors work with impact investments as a company-wide approach, from the use of different perspectives to general confusion. Additionally, a lack of consensus is observed regarding the expected and accepted levels of financial return from an impact investment. This is shown in Figure 19, where the interviewees are mapped as to whether they expect market returns or not from their impact investments and if they are willing or not to compromise returns.

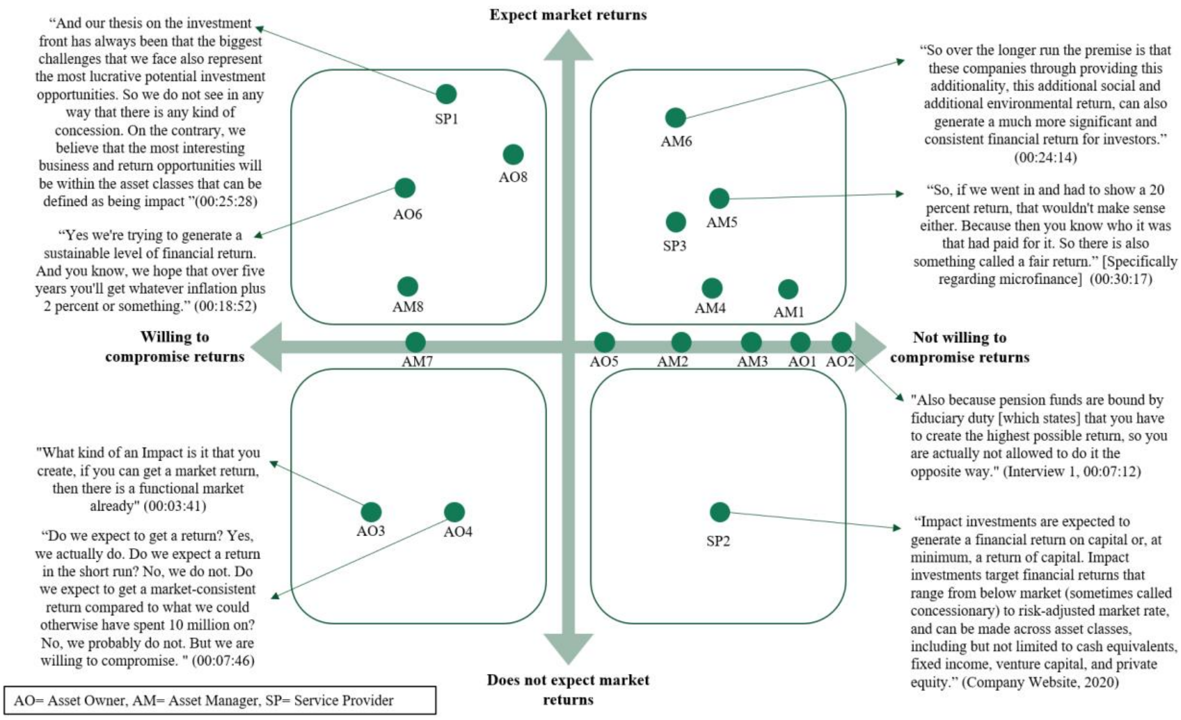


Figure 19: Accepted and Expected Levels of Returns. *Source: Own Construction.*

To add a layer of detail to the above-discovered core themes of impact investing, the codes *impact investing* and *definition of impact investing,* are examined in comparison of their respective top cross-references. It is seen that there are differences to when the interviewees are asked to define impact investing and when the interviewees are talking more freely and not explicitly defining the terms. The discussions above of Sustainability and Finance being the core elements of impact investing, were seen across both definitions and free talk about the topic, whereas other themes were used only for defining or only when talking freely about impact investments. These different codes are outlined in Table 2 and explained in the below sections.

Table 2: Impact Investing - Top Cross-Reference Codes. *Source: Own Construction.*

Definition of Impact Investing	Understanding of Impact Investing
Intention & Strategy Effect & Contribution	Engagement Asset Class Investment Process Challenges Impact investing Product Demand for Impact investing & Industry development SDGs

5.1.1.1.1. Understanding of impact investing

Especially the SDGs are often used to describe impact investments and the investment strategy but are not one of the top codes used when the interviewees define impact investing, as stated by Asset Owner 3:

"The Impact Investment Strategy we have made is built around the SDGs" (00:47:24),

or Asset Owner 2, who almost equates the SDGs with Impact investing:

"And you could say the SDGs have, in some way, cannibalized Impact a bit" (Interview 1, 00:13:25).

Additionally, the codes of asset classes, investment process and challenges, do not take form from definitions, but come up when discussing impact investments freely. This is noteworthy due to the potential for ambiguities in terms of which asset classes are considered impact investments. Similarly, the fact that the investment process is not specified in the definition may lead to definitions being applied in many different ways.

The interviewees are almost evenly distributed when discussing which asset classes can be invested into as an impact investment, with half perceiving publicly listed equity as possible impact investments, and the other half considering impact investments to be in solely unlisted assets. In this regard, a noteworthy observation showed that only one asset owner belonged to the group who regarded public equity as eligible for impact investments. On the contrary, none of the asset managers and service providers exhibited that they did not consider it possible to have impact investments within public equity. However, within all categories, several interviewees expressed doubt and uncertainty in this regard. One of the asset owners who think that impact investments must be in the unlisted space is Asset Owner 7 who states,

"The companies that they invest in might already be listed [...] it is not creating anything new or the additionality is not there, you are not solving anything, you are just investing in companies that already exist and already have capital and collect them in your portfolio and then you say that you have an impact portfolio, that is not really correct" (01:00:10).

However, others of the asset owners are more doubtful, such as Asset Owner 2 who discusses that the change in IFC definition from "generate" to "contribute" to impact, has led to investors consider investments in publicly listed equity as impact investments. Although Asset Owner 2 does not agree that publicly listed investments are clear impact investments, Asset Owner 2 does appreciate that with the change of the definition the understanding of impact is also altered. As Asset Owner 2 states,

"From the old definition, it had to [...] create a development that would not otherwise have happened if you had not made the investment, and you can say if you move into the listed space. [...] You simply can't do that. [...] And then banks and investment funds [...], they have also found that people want this. They

also start to create products that they call SDG or impact or something. [...] so then the original definition slides with regards to what impact is." (Interview 1, 00:13:32)

Service Provider 3, however, when asked “Given the definition of impact investments would you say that it is possible to do an impact investment in listed firms?” answers,

“I think it is. But you can't claim the impact as an investor. So, you've chosen to invest in a good company, and you've chosen to measure that company's impact. But you as an investor, if you buy a hundred shares in a very large listed company have not made a difference. So, it depends on what you're claiming with your impact. If you're claiming that you as an investor have changed the world, I would say no you have not. If you claim that I have chosen to invest your money in something good. Then yes.” (00:52:50),

using the argument that your investment has an impact through the invested firm, however the investment itself, i.e. *your* impact, does not have a claimable impact.

However, whether the interviewees consider impact investments to be in listed or unlisted assets, the common opinion is that engagement is a prerequisite for impact investments, as Asset Manager 6 states,

“I think it's very hard to actually have an impact investing product without any kind of active ownership. I think we investors need to be good owners of the company that we own. And especially if we are striving for impactful investing or impactful investments and impactful products, we still have to engage with these companies to keep up on this trajectory. So, I think it's really the prerequisite that you also have the engagement and active ownership dimension mentioned to your investment product.” (00:55:31).

Furthermore, in the interviewees’ understanding of impact investing, the impact investment process also plays a considerate role. First, the different interviewees appointed different steps of the investment process to be important in Impact investing, such as due diligence, screening, or engagement during the holding period. According to Asset Manager 7, the investment process of an impact investment is the activity of the logic model, and when doing an impact investment, a due diligence is needed to assess the potential impact:

“My team is responsible for conducting an Impact evaluation as a part of the due diligence, to describe and forecast the societal benefit that this project will generate. We call it as an ex-ante analysis for the holding period.” (00:14:06).

As is evident from the above findings, there are many different ways to understand impact investing, and the discussion regarding impact investments has increased the last couple of years as Asset Owner 1 states,

“And at least until 1 to 2 years ago, I think everybody is discussing it now in whatever form there are” (00:26:54).

Further, the many understandings may be a result of the industry not being fully matured and defined, and many of the interviewees pointed this out as part of understanding impact. One of these arguments was made by Service Provider 2:

> *"The impact investing industry is growing, and in many ways has the typical growing pains of adolescence. We're currently in a moment of rapid growth with new players entering the market frequently, which naturally leads to questions about impact washing, competition, fragmentation, collaboration, and other elements of a well-functioning marketplace. With such a diverse group of stakeholders at play, maintaining integrity in the industry is critical." (*written follow up, question 4)

Additionally, from Service Provider 2's comment, the notion of greenwashing was brought up by several interviewees as a concern to how to understand impact, as the lack of clear definitions, led to this uncertainty of whether claims of impact were in fact what one would consider impactful.

5.1.1.1.2. Definitions of Impact Investing

Whereas the above points are primarily brought up when discussing the interviewees' experiences from and understanding of impact investing, different points arise when the interviewees are specifically asked to define impact investing. Specifically, two themes of overlapping codes were found as common for definitions; Intention & Strategy and Effect & Contribution. Several of the interviewees defined impact investing as having intentional impact as part of the investment strategy. This was both described by interviewees who did consider their investments to be impact investments, such as Service Provider 1, who states,

> *"And some of that [...] which is also interesting is precisely this with the definition, and basically my or our thesis is that everyone, whether it is companies or asset managers or others has an impact, so what we look at is, therefore, one, the intention of, for example, deploying one's capital [...]. And the other thing [...] is then about the ability to define or measure an outcome and not just return [...] or output but an outcome over time."* (00:05:41),

as well as interviewees who may not think that that they carry out impact investments, such as Asset Manager 1 stating,

> *"We do not offer anything that we would call Impact investments [based on the classic definition], because we do not have the measurable goal and we do not have the intention of what we want to accomplish pre-defined"* (00:18:23).

The second recurring theme within the definition of impact investing, was regarding contribution and effect. This will further be discussed below as this is due to many of the interviewees defining the impact of the investment as an effect or contribution. An example hereof is Asset Owner 6 who has the definition of impact being,

"What is the change, positive or negative [...] in the real world? The results of our investment decisions." (00:14:58).

5.1.1.2. Impact

When focussing on the Impact, a similar pattern arose, as different codes appeared as the top cross-references when looking at specific definitions or broader free talk, respectively. The key codes which appeared specifically when defining and when talking freely about impact, respectively, are outlined in Table 3, and further explained below.

Table 3: Impact - Top Cross-Reference Codes. Source: Own Construction.

Definition of Impact	Understanding of Impact
ESG Effect Measure Engagement	Logic Model SDGs Net impact Strategy Investor Impact

5.1.1.2.1. Understanding of impact

When interviewees were not specifically defining impact, but instead discussing impact in various relations, themes such as the logic model, net impact and strategy, were discussed to explain what actually constitutes impact. Further, the SDGs were often used to explain how impact and the goals were aligned.

Additionally, the term investor impact appeared as a common trend. This will be further elaborated in section 5.1.3.2.1., however, noteworthy for how the interviewees understand impact, this showed that, although not specifically mentioned in the various definitions, some investors included the notion of engagement as an impact in itself, such as Asset Owner 6 who states,

"I'm engaging with a company with one of our fund managers and a few other investors which is around, [...] our hope and this is an ongoing engagement and we think that there will be some change. [...] So for me if we succeed in that that's an impact." (00:32:41),

thereby equating that successful engagement directly leads to impact. Similarity, Asset Manager 2, who does not consider their investments to be impact investments, reflect upon their engagement, and states, *"So what we can do now is, and here we are actually in a little bit of an impact [...] I can end my colleagues when they are travelling to Asia [...] out with 10 questions to Company X. [...] So that's the way we make a little impact. It is by encouraging them through some questions."* (00:09:24),

implying an investor impact. Further, Service Provider 4, simply equates impact with engagement when stating,

"so, the impact can only appear, if you either make direct, new investments (buying an existing share does not have an impact in itself), or actively try to achieve change, which could be done by engagement." (00:10:47).

Lastly, the aspect of catalytic impact was brought up by several interviewees when discussing investor impact as the possible deferred ripple effects caused by the impact. As one example Service Provider 1 explains how the catalytic mindset is being more and more present in the field of investing as a whole:

"it also gives rise to exciting conversations about a new way of thinking about investments and now we really see much of the catalytic and collective show up. So, this whole collective impact mindset is pretty interesting." (00:48:34).

5.1.1.2.2. Definitions of impact

Considering the specific definitions, general themes appeared of interviewees articulating impact as an effect on ESG-factors. Asset Manager 4 expresses this as

"If I start by defining impact. For us, impact is where we can have a positive effect or influence with our investments. That is, something that lies beyond just the financial aspect but where [...] our investment can contribute to a positive development." (00:10:21).

Additionally, the aspect of measuring was brought up when defining the impact, as some of the interviewees specifically stipulated that the impact of an impact investment had to be measurable.

The findings are summarised in Table 4.

Table 4: Summarised Findings on Understandings of Impact and Impact Investing. Source: Own Construction.

Section	Summarised Findings
5.1.1. Key themes	Sustainability, ESG and Financials: ▪ There is a general consensus around these being the key components of impact investments ▪ No clear trend appears between understandings by asset owners and asset managers respectively, but several interviewees speak in similar terms, and especially two types of spectrums appear as means to explain impact investing: 1) from financial investments to philanthropy (Figure 17) and 2) from ethical investments to impact investments (Figure 18) ▪ Several different perspectives towards and expected levels of expected financial return are seen across the interviews (Figure 19) Asset Classes ▪ A divergence concerned which asset classes the interviewees perceive can be invested in as part of impact investments. Namely the question of whether an investment in publicly listed equity can be understood as an impact investment shows conflicting opinions
5.1.1.1.2. & 5.1.1.2.2. Definitions	▪ Differences are found between definition and free talk regarding impact and impact investing ▪ Definitions of impact investments revolve around Intention & Strategy and Effect and Contribution, whereas free talk includes topics of engagement, challenges, SDGs, products and demand ▪ Definitions of impact include ESG, Effect, Measure, and Engagement, whereas free talk involves the Logic Model, SDGs, Net impact, Strategy, and Investor Impact

5.1.2. Impact Measuring and Reporting

This section presents the findings from the interviews on how impact investments are measured and reported. First, the reporting and measuring techniques by asset owners, asset managers and as explained by service providers are presented. Second, the challenges to measuring impact are brought up. Third, the findings related to the logic model are identified. Fourth, engagements related to measuring and reporting are covered.

5.1.2.1. Measurements

When examining the interviews individually with the aim of identifying how impact is measured, the main finding is that there are major differences and no common trends. Even though service providers show a common trend in their view on impact measurement, the asset owners and asset managers differ in ways which do not equate to what the service providers state.

All four of the service providers mention that it is important to try and find a common ground and create a framework for the industry to use when measuring impact, yet they mention different ways in which this should be done. The reasoning for a shared and common measurement system is based on the industry needing the ability to compare metrics in order to make well-grounded decisions.

Addressing the asset owners and asset managers, no common patterns are seen in how they measure impact, neither within asset owners and asset managers respectively nor across all of them. Nor are there any common patterns for how investors with impact as a company-wide or product level approach respectively measure impact. However, some common terms are used among the interviewees when they talk about measuring impact in relation to their investments, both the ESG factors and the SDGs are commonly used, along with the Impact Management Projects five guidelines and IFC's Operating principles for Impact Management. Some interviewees do not give clear answers to how the impact is measured and reported.

As the data shows no common ways to measure impact, further trends and patterns in the data were explored to find how the interviewees work with measuring impact to either ensure or prove that there is impact with their investment. The cross-referencing of the selected keycodes (Appendix C) showed that challenges, the logic model and engagements were core themes. The findings related to these themes are explained below.

5.1.2.2. Challenges

A general pattern emerging is that a number of challenges exist relating to measuring and reporting on impact. The challenges identified are mainly based on the difficulty to prove how much of the impact is in fact due to the contribution of the specific investment. This is further brought up as based on the concern regarding which aspects should be measured and reported on to prove the difference in impact. As an example of this concern, Service Provider 2 states this as a key concern for the industry:

"I think one of the big questions in the industry around impact performance right now is how do you actually determine what the contribution of an investment is to the overall impact, [so] into the company's impact." (00:12:12).

Although the data shows challenges relating to measuring and reporting impact, all interviewees seem in agreement that investments will have some form of impact. Further to this discussion, several interviewees bring up the argument that investments can have both a positive and a negative impact, strengthening the challenge regarding what to include when measuring and reporting on impact. Relating to this challenge of which elements to include, others also discuss, whether impact should be considered on a product level or should include the operations of an organisation, one of these, is Asset Owner 2 who states:

"Do you just measure the way the company behaves, or do you measure on their product. [...] Because you can say for the products, [...] there you can relatively easily go in and say so many of our Revenue Lines, they contribute [and] there is a positive impact, but when you consider how they [behave] - it starts to get a little harder, [...] to have some data that is valid and something that can be measured and something that has [relevance] in time also where there is a proper database."(Interview 1, 00:14:52).

From the concerns of what to include when measuring impact, the need for data in order to prove your impact is addressed. This challenge or concern regarding the data that is available today is expressed by nine of the interviewees[8], and these concerns span across a variety of arguments, from questioning the quality of data to doubting the amount of data that is needed. When examining the cross-references of the codes Data and Challenges, a common trend is found that the data available today will not be able to prove which part of the impact is due to the contribution of the investment. Therefore, it becomes difficult to link the data to a specific activity, decreasing the perceived level of quality of the available data and resulting in a need for large amounts of data. This need for large amounts of data is amongst others brought forth by Asset Owner 8, who explains it as being due to the individuality of each impact investment, meaning that different types of data are needed for each asset across the interviewees' portfolios. However, it is noteworthy that although four of the interviewees[9] talk about a lack of data, it is found that they do not perceive there to be a lack of data altogether, but rather that it is difficult to get hold of sufficient data of a quality providing insights into the impact which is due to the contribution of the investment. This in turn amplifies the challenges to measure the impact. The difficulty of obtaining sufficient data relates to both sourcing the data in-house, as well as the procuring of data from third-party providers which is explained by Asset Owner 4 as a grey area:

"Many of the data providers out there are also very different. Many data providers presume truth in what the companies write themselves on their website and do not really go into and investigate what the real conditions are [...]. It's a huge grey area." (00:25:14).

Five of the interviewees[10] bring up challenges in relation to being able to prove the performance of the investment, not only to report and measure impact. Expressed examples relate to proving the result of the investment to compete against competitors as it is difficult to prove what you do better than others. Asset Manager 5 discusses this, in terms of letting the data prove the performance of the investment when marketing budgets may not be as large as competitors

"Generally, it can be challenging to communicate why we are doing better [than others]. From an investor perspective, it can be difficult to navigate as there is so much greenwashing – stories hiding behind big marketing budgets. We are challenged by our size and small marketing budget when communicating the full and more complex story. We have to walk the talk and trust that people can figure it out too." (00:51:44).

[8] Service Provider 1, Service Provider 3, Asset Manager 4, Asset Manager 5, Asset Manager 7, Asset Owner 2, Asset Owner 4, and Asset Owner 8.
[9] Asset Owner 2, Asset Owner 4, Asset Manager 3, and Service Provider 3.
[10] Asset Owner 5, Asset Manager 3, Asset manager 5, Asset Manager 8, and Service Provider 1.

Since greenwashing exists and cannot exactly be proven by the reporting, proving the impact of the investment or evaluating your results is also tied to eliminating greenwashing. Several of the interviewees bring up the discussion concerning misleading numbers or marketing. There is a split view of how the interviewees address this challenge, as some tie it to branding and some to the quality in the reporting while some of the interviewees say that it becomes easy to generalise impact and use the term in a misleading way. Asset Manager 3, mentions the risk of greenwashing, while also stating that greenwashing is not only regarding the environment, but sustainability in general:

> *"But there is a very big risk of Greenwashing, meaning that you will be marketing something as green which may not be green. But it goes for sustainability in general, it's not just green."* (00:43:26).

The discussion on greenwashing, further amplifies the concern regarding how it is possible to ensure real impact of the investment when there is a challenge regarding what to include in the report and no standardized measurement process exists. One way in which the findings show the interviewees overcoming this issue is through goal setting, as the majority of the interviewees talk about goals and performance in relation to impact measuring and reporting. The interviewees express a common understanding that predefined goals and clarification of the intention of the investment will aid in facilitating the measurement process going forward and follow up on the results. Further, several interviewees mention different ways to overcome the challenges with ensuring impact with their investment, through setting goals and performance metrics upfront, including impact-tied bonuses, active ownership and the need for transparent reporting. This is, amongst others, explained by Service Provider 2:

> *"owners may embed incentives for impact targets into the terms of their investment into a manager to ensure that impact is achieved through the investment's life cycle [...]." (written follow up, question 1).*

5.1.2.3. Logic Model

Another key theme evolving from the discussions of measuring and reporting impact relates to the logic model, as several interviewees bring up the discussion of reporting on either output, outcome or impact and two of the interviewees further directly relate this to the logic model. The interviews show a common trend of not measuring the impact itself because of the mentioned challenges, instead, they measure the output or outcome of the investment, as stated by Asset Owner 5:

> *"It is still too difficult to look at real Impact, on the other hand, output and outcome, you can measure and observe, so we choose 1,2 or 3 parameters like that, that we then follow" (00:13:50).*

However, it is imperative to note that, although the terminology of what is being measured is comparable, the interviewees may still be measuring various elements, i.e. what one interviewee may consider to be outcome or impact, may vary from what others think. Yet, the key takeaway is the finding that the interviewees are aware that what they are able to measure may according to a logic model, not be the impact itself.

Further, the logic model is used to explain the above-discussed challenges to measure impact. Asset Manager 4 states that the more indirect the impact is to the investment, the more difficult it is to measure and therefore it is easier to identify what has actually happened due to your investment in the form of outputs. Further, Asset Owner 6 states that according to the logic model an important aspect to the measurement is to consider whether the impact would have happened without the investment, or whether the result is because of the attribution of new capital. This is further related to the difficulties in proving the causality of the investment, which is explained by Service Provider 4 as the challenges to prove the causality between the activity and the impact:

"To prove the causality is impossible. When talking about these kinds of measurements, you can explain what you did. Later on, you can see what happened, but whether the change was due to your actions - investments or engagements - is impossible to prove. Therefore, in my view, it is questionable how valuable those measurements are." (00:22:52).

Following Service Provider 4, and the above discussion of what is possible to prove, other interviewees also question whether it is necessary to measure the impact itself, arguing that by only measuring for reporting purposes one may miss the point of the investment itself, which is to do something socially or environmentally good. Service Provider 2 compares it to financial data, stating that impact data should be at the level of performance metrics and ingrained in the process and used as a steering tool, instead of a pure reporting tool. They further state that when considering the reporting of pure financial investments, one does not look at how the specific investment contributed to the performance, but instead the focus is on the overall result, which according to the logic model would mean measuring the outcome. Hence, Service Provider 2 indicates that proving the causality of the investment to the impact in reporting might actually not be more important than ensuring that there is an overall impact through the outcome,

"A lot of investors are looking at the amount of impact associated with their investment, beginning with the amount of impact that a company can create - and partially because it's just not necessarily feasible at this point in time to disentangle the role of every individual tranche of capital. [...] And it's similar to how you would evaluate a company's financial performance. You're not looking at the share of revenue growth, for example, that is specifically attributed to a given investment." (00:14:15).

5.1.2.4. Measurement Related Engagements

The code of Engagement is found as a central cross-reference to all the selected key codes and shows a key theme to reporting when further explored. Almost all interviewees talk about some form of engagement in relation to impact measuring and reporting. The intersection between the codes of Engagement and Impact measuring shows that the interviewees will engage in order to identify and set guidelines for how to work during the investment and how the investment would make an impact.

Engagement is related to the goal setting and the proof of performance. The aspect of engagement is found as these goals are often set up in collaboration between the asset manager and asset owner, or the company receiving the investment, indicating that an initial level of engagement is required from all parties involved in order to set metrics to measure impact to be able to prove the performance of the investment, as is explained by Service Provider 2:

"In some cases, asset owners and managers will work together to select impact metrics and set impact targets" (written follow up, question 1).

Especially the notion of engaging to set incentivised bonus schemes, is elaborated upon by Asset Manager 8:

"Like other fund managers, we have to reach a financial return target that has been agreed in advance. In addition, we must also achieve a pre-agreed target for our social impact goals, to be eligible for carry or bonus." (00:36:49).

Engagement is further found to relate to Verifying and Ensuring Impact. Several of the interviewees talk about engagement as a way to ensure the result of your investment and that there is an impact with your investment. As an example, Asset Manager 4 explains how their asset owners conduct ongoing engagements to verify the reporting:

"*They [the investors] ask how much we are in dialogue with the companies about the impact and the development of the borrowers' lives and the surrounding community. In particular of course at investor meetings. And then there are some of them, the pension funds, who also have to report to their beneficiaries."* (00:27:39)

The findings are summarised in Table 5.

Table 5: Summarised Findings on Impact Measuring and Reporting. Source: Own Construction.

Section	Summarised Findings
5.1.2.1. Measurements	▪ No common patterns are seen for how asset owners or asset managers report and measure impact, however common terms are used: SDG, ESG, IMPs five guidelines and IFC's Operating Principles for Impact Investment ▪ Service Providers say that it is important to find common ground and create a framework for the industry to use when measuring impact, however, they have created different ways for how this shall be done
5.1.2.2. Challenges	▪ There is a number of challenges that makes it difficult to report and measure impact: 1. A difficulty to prove causality and determine how much of the impact is due to the contribution of the investment 2. A concern of what to include when measuring and reporting 3. A difficulty to get hold of sufficient data ▪ There is a need to report and measure impact to be able to compare results and stay competitive ▪ To make it easier to report predefined goals are often set up
5.1.2.3. Logic Model	▪ It is too difficult to measure impact so many actors mention the logic model and that they look at output/outcome ▪ Some interviewees question how much is valuable to measure
5.1.2.4. Engaging in relation to measuring	▪ Engagement is a key theme in relation to measuring and reporting and is primarily seen in two ways: by jointly setting up goals in the beginning of the investment or engaging throughout the investment to verify reporting results

5.1.3. Engagement

This section will present the findings on how asset owners and asset managers engage. To present the findings related to engagement, the different engagement flows observed in the interviews must first be explained. As the present thesis seeks to answer how asset owners can engage with their asset managers to ensure impact with their investments, the focus is directed towards the engagement flows from asset owners to asset managers.

The following five flows of capital are identified corresponding to the engagements between the actors;

Indirect investments

1. Beneficiaries investing into a Pension fund or foundation
2. Asset owners investing through an asset manager
3. Distributors investing through direct asset managers

Direct investments

4. Asset manager investing directly in the asset
5. Asset owners investing directly in the asset

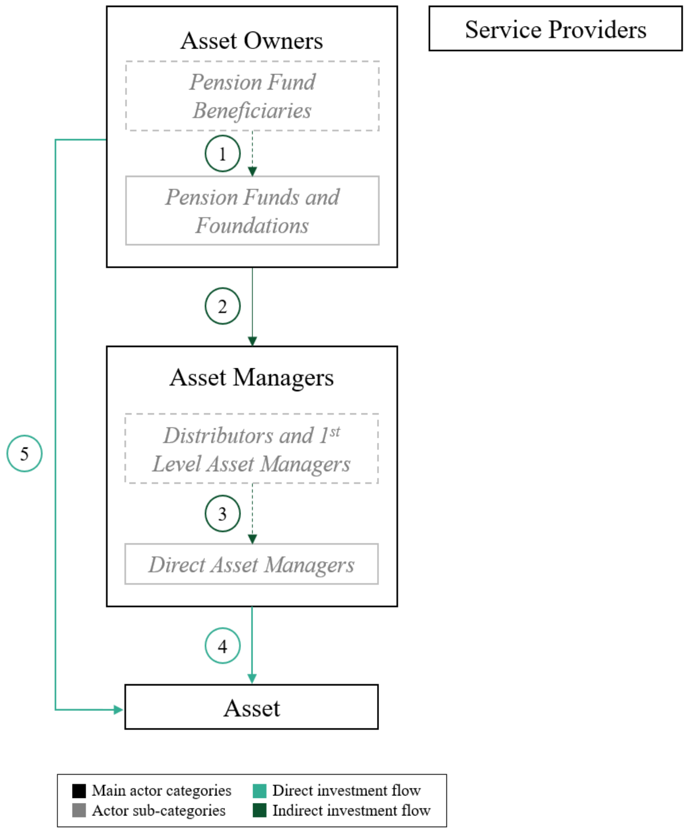


Figure 20: Capital Investment Flows Between Actors in Managed Investment Relations. Source: Own Construction.

As seen in Figure 20, two main categories of investment flows are identified; *direct*, being investments in the asset, either from an asset owner or asset manager (Flows 4 and 5), and *indirect*, being investments into an intermediary of any sort, e.g. a pension fund, distributor or asset manager, who then, in turn, makes further investments (Flow 1, 2 and 3). The main research question for this thesis relates to the engagements following the indirect investment flows and how asset owners can through engagement in flows 1 and 2 influence flow 3 and 4. However, the direct flows are also considered, as these prove valuable for comparison.

5.1.3.1. Overall Engagement Patterns

Examining the engagement cross-reference map, the key overlap relates to actors and engagement itself, where the links indicate that the engagements depend on the actors. The key trends are found related to ESG, Challenges and Measuring.

The trend of ESG showed that engagement is often centred around ESG factors and sometimes the investors' ESG teams, in fact, carry out the engagements. Asset Manager 6 further explains,

> *"And the fund managers are responsible for making the investment decision and also integrating the ESG information and this investment decision-making process"* (00:50:38).

Especially two relations between ESG and engagement are brought up; one being engaging to improve ESG performance and drive a transformation, and the other being engaging in order to ensure that your manager invests in top ESG performing companies.

From the link between challenges and engagement, a challenge to the size of the invested capital in relation to engagement appears, as smaller investments and thereby smaller ownership stakes, will lead to less influence. Asset Owner 2 states,

"It also has to do with size, because it is clear that we are much bigger. And we have a much bigger team. So, it's clear that we have the resources to go broader, and we can do it internally. [...] So I would never compare what we can do to places where they are fewer people." (Interview 2, 00:37:27).

Additionally, some interviewees bring up that it may be more difficult to engage in impact investing than under clear cut philanthropy or financial investments, where the objectives are more set. This further brings up an additional challenge as several interviewees bring up engagement in their explanation of challenges to measure impact, as discussed in Section 5.1.2.2.. One of them is Asset Manager 5, who states,

"It can be hard to measure the full effects of actions made to impact listed companies. But it is essential that managers measure their impact and publish reports documenting their actions. A good example of impact is active engagements and the documentation of such actions and what came out of it" (00:47:49),

and thereby implicitly describing how engagement is a way to overcome and compensate for lack of measuring.

The following three trends appear for all five flows;

1. Little engagement is generally governing a negative attitude
2. High engagement is connected with dialogue and due diligence
3. Ensuring impact is cross-referenced with critical investor questions

This shows an overarching attitude that engagements are generally found valuable. Additionally, the highlighting of critical investor questions as engagement from asset owners, shows to be a view shared by both asset owners and asset managers. The critical investor questions are additionally cross-referenced with the codes ensuring impact, high engagement and due diligence, showing how these forms of engagements are heavily carried out, and in fact would lead to some changes.

5.1.3.2. Actor engagement

In the below, the findings related to the different engagement flows in Figure 20 will be presented from the view of the different actor groups, meaning that asset owners will mainly cover flow 1, 2 and 5, while asset managers will mainly cover flow 3 and 4.

5.1.3.2.1. Asset owners

Regarding the asset owners, asset owner engagement is particularly cross-referenced with critical investor questions and impactful engagements. Following the above findings in section 5.1.3.1., this indicates that the critical investor questions will especially have an impact in flows 1 and 2. This is seen when Asset Manager 6 says,

"I think it's really important for asset owners to ask the right and tricky question to fund managers. It's really about getting an idea in terms of what the asset manager is really doing when it comes to ESG integration and just asking the question." (00:35:46).

Due to governmental structures, the findings show that the beneficiaries cannot choose their pension fund in Denmark in flow 1, as stated by Service Provider 4

"For many pension funds in Denmark, the members do not have the option to choose another pension fund because of the way the Danish pension system is constructed." (00:35:04),

implying that the entire flow of their pension investment will be decided for them (flow 1-5).

Further, investor impact is related to contribution and effect. Where the effect relates to how the asset owner can impact the asset manager in flow 2 in order to influence flows 3 and 4, as Asset Owner 4 states

"You can say that the definition of impact can have several degrees. So, of course, there is some impact in that process because we are actually employing our resources in [...] sitting and evaluating the investments that [anonymous asset manager] is making. And [...] what do they set of requirements to these companies to get a social positive bottom-line effect. And we actually spend quite a bit of time on that. [...] and it is actually also very relevant that we do it, because it is actually quite difficult." (00:33:14).

While the asset owners' contribution relates to what is different because of their engagement in flows 1 and 2. This is seen when Asset Manager 5 explains how their asset owners wanted to exclude an asset in the portfolio:

"We had some criticism about a company in one of the portfolios. And we returned this to [external asset manager] on behalf of our asset owners and it eventually got sold. It turned out to be a really good idea since it later dropped 50 % due to unethical practices" (00:36:00).

Asset owners' choice of asset managers in flow 2 is brought up in several instances in cross-reference with values, highlighting the importance of the due diligence in order to find an asset owner that holds the same values, when making an investment decision. Service Provider 4 states;

"I would like to know, based on which values, are you going to manage my money? It doesn't matter how many excel sheets or data crunching programs you use. On top of that, you will [...] need to gain my trust, and my decision will at the end be based on my gut feeling. [...] If I give you my money, it is important for me to understand, which values will be the base of your investment decisions." (00:20:46).

Additionally, the aspect of culture is brought up as a factor influencing flows 2 and 5, such as when Asset Manager 2 states,

"It is more difficult for my colleagues working with Indian equities and emerging markets and overall Asia [...] because the companies [...] have not come very far. [...] And the bigger the companies, the easier it is - it is more difficult getting the smaller companies to react." (00:02:41).

5.1.3.2.1.1. Asset Owners with Company-Wide Impact

When specifically considering the asset owner who do consider impact as a company-wide approach, the opinions regarding engagements are divided into two views, across both investment flow 2 and 5 where half of the interviewees employed heavy engagement as part of their due diligence, and thereafter depended more on reporting[11]. This is explained by Asset Owner 5's process:

"The process is that you sit down with the company and often we have a workshop together as the first thing we do, and then we spend half a day together and go through how we can measure this [...] No not really, we do not engage with them during that time [...] No but then the goal that we set up together with the company is reported on, they report on a quarterly basis to us" (00:16:53).

Contrarily, the other half[12] perceived themselves as more engaged through the day to day operations. Asset Manager 8 explains this relationship between formal and informal engagements:

"Then there are some forums [...] where the formal interaction between investors takes place. There is among others an annual partner meeting [...] where you review results, there is annual reporting, and there is a quarterly fairly detailed report, in addition to quarterly investor representative meetings, and the opportunity to call and ask questions." (00:41:15).

This can be through their own engagements as the employment of capabilities and knowledge, mainly seen in flow 5 e.g., which Asset Owner 8 describes as a more informal type of engagement:

"One being the more formalized having, [...] certain types of reporting metrics and attending board meetings [...] and some being the more day to day operations, supporting them on [...] substantiating their business model, [...] helping them create financial models to strengthen their management, or it

[11] Asset Owner 5 and Asset Owner 7.
[12] Asset Owner 6 and Asset Owner 8.

could be helping them with the impact model and making sure that they have a measurement framework where they can start slowly maturing." (00:35:46).

However, this can also be through joint engagement with other asset owners, adding a horizontal engagement flow between the asset owners. Here the asset owners will engage with other asset owners that do investments of the similar relative size as themselves, as Asset Owner 6 who states,

"So, if we team up with other clients and then what we've done is write a joint letter and say, we all have this view and we want you to do this." (00:23:52).

5.1.3.2.1.2. Asset Owners with Impact at a Product-Level

Considering the asset owners who either do not intentionally conduct impact investments, but instead talk about sustainable investments or have impact investments as specific products of their portfolio, besides from making use of third party engagement providers, these expressed a deep wish to conduct high levels of thorough engagements, both for investment flow 2 and 5. Especially visits, calls and critical investor questions are mentioned, further Asset Owner 3 and Asset Owner 4 described that they had a close relationship with their board of directors. Particularly the foundations expressed a desire to share their expertise by engaging and sharing knowledge and capabilities through flows 2 and 5. As an example this is seen through the statement by Asset Owner 4:

"Impact for us is to make a difference by actually going in and be project owners. And that is also typically how foundations will define impact investing, that you go in and [...] be the project developer and project owner on the specific project - so that is the overall way we work with impact investments." (00:03:13).

5.1.3.2.2. Asset Managers

For the asset managers, no overall trends appear but several patterns are found for the two groups of asset managers respectively, as will be elaborated upon in the below sections.

5.1.3.2.2.1. Asset Managers with Company-Wide Impact

One key pattern appeared when examining the asset managers, who identified as having impact as a company-wide approach, as they all express a high level of engagement along with investment flow 4, i.e. their direct investments. One of the ways which the high level is expressed is through contributing resources in the form of competencies and knowledge in an ongoing dialogue with the asset. Several interviewees mention carrying out heavy due diligences when deciding what companies to invest in and then continuing to work with the companies during the holding period. Asset Manager 7 describes this:

"We are an active investor and do a thorough due diligence and evaluate the investment opportunity from financial, sustainability, and impact perspectives. The due diligence ends with an ESG action plan or a value-creating action plan that becomes a part of the agreement with the company. [...] Once we enter the agreement, the hard work begins. During the holding period when we are owners, we follow up on portfolio companies that they do the activities that we have agreed on." (00:42:38).

Although Asset Manager 7 mentions the collaboration with local experts, the general opinions amongst these asset managers are that engagements in flow 4 are valuable, and especially when carried out by themselves, rather than through 3rd party providers. However, they even go beyond just doing the engagements to influence the assets, and further note the importance of also behaving in the same way that they expect from the assets, as explained by Asset Manager 6:

"Because if we engage with companies and ask them to become more sustainable and to try to actually generate this financial and additionality within the limit of the business model of course it's important that we do this ourselves as well" (00:29:34).

When this group spoke of their asset owners' engagement, i.e. with investment flow 2, generally they expressed that investor inputs such as critical questions are highly valued and that their asset owners generally are highly engaged. Asset Manager 5 mentions that their asset owners generally are engaged by asking questions to ensure that there is an impact development with their investment

"We get some very critical questions. We have a lot of [investors] who are like [Knocks three times in the table] 'Why is this [asset] included? Why such and such?' [...] So we have some very active investors for whom it is very important how things are done. We can see that at our events. We can see it at our meetings." (00:34:58).

5.1.3.2.2.2. Asset Managers with Impact at a Product Level

For the asset managers who do not have impact as a company-wide approach, but rather have specific impact products or consider their investments to be sustainable investments, the engagement in flow 4 is not carried out in house to the same extent as the asset managers with impact as a company-wide approach, instead third party engagement providers are utilised e.g. for proxy voting. Asset Manager 3 states that they need to make sure that the third-party providers reflect the demand of their asset owners in flow 2 when they vote in board meetings;

"As a starting point, we are following their [third party provider] standard recommendation [for voting on board meetings] which is tailored to the individual markets you are in. But it is always the portfolio manager's duty to go in and make sure it also meets what we want, i.e. that it is in the interests of the investors." (00:25:42).

Additionally, Asset Manager 4 mentions investing along with other similar investors so that engagements are carried out as collaborations. Especially for this group, the focus on the engagements of their asset owners, i.e. investment flow 2 is focused on the demand and subsequent creation for new products. One example would be Asset Manager 3 who created a sustainable product, based on the demand of a pension fund, and later modified the product to also be marketed at private investors. Further as an example Asset Manager 4 entered the industry of microfinance as a result of their asset owners requiring an impact product, as they state,

"The microfinance business area in [Asset Manager 4] was established in 2010 based on a request from [Asset Owner 1]. [...] They have a great social focus in general and had a lot of interest in the microfinance area and then asked if we wanted to be part of establishing a fund." (00:07:22).

This specific relation, is also described by Asset Owner 1, who mentions that this engagement was a result of engagement from their beneficiaries which trickled down

"That's actually one of the board members that years back [...] mentioned at a board meeting '[...] what about doing something for the poor for the women and also supporting the SDGs obviously'. And that's when [we] [...] started talking to [Asset Manager 4] and together they built a totally new branch and made this a very very good business case." (00:15:10).

A general consensus is found among these interviewees that pension funds are more engaged, and t hold a bigger claim than private investors and high net worth individuals. E.g. Asset Manager 2 mentions how private investors are not able to change much with their engagement, whereas Asset Manager 4 suggests that high net worth individuals may not be as interested in engaging as others since they invest more based on trust in the asset manager, and therefore do not find the need to engage to have an effect on the investment.

5.1.3.2.3. Service providers

The above findings show the engagements from the perception of the asset owners and asset managers, whereas the service providers stand outside the engagement flows, as seen in Figure 20. They will therefore observe the engagements from an external point of view. Overall the service providers brought four observations to the discussion of how asset owners engage with their asset managers. First of all, it is noted that impact investors are generally highly interested in engaging with their asset managers. Second, engagements are done for capacity building and to set up metrics for reporting. Third, the service providers note that the higher relative share an investor would hold, the bigger level of influence they would have on their asset manager or asset. Fourth, and lastly, some service providers brought up the notion of choosing an asset manager based on values, leading the asset owner to trust them more and potentially engage less, as Service Provider 4 discusses

"Deep down it is all about psychology [...]. You need to build trustful relationships. That is done best by demonstrating your own authenticity and integrity, by listening and by activating peoples' curiosity via engagement." (01:00:02).

The findings are summarised in Table 6.

Table 6: Summarised Findings on Engagement. Source: Own Construction.

Section	Summarised Findings

5.1.3.1. Overall engagement patterns	▪ Five flows of engagement are identified following the flow of capital
	▪ Some key patterns are seen for all engagement flows;
	  ▪ Engagement is often centred around ESG
	  ▪ Engagement is a way to compensate for the lack of measurements

5.1.3.2.1. Asset owners	Overall patterns for asset owners; ▪ The engagement in flows 1-2, is amongst other things to influence how the asset manager engage in flows 3-4 ▪ Critical investor questions are important to have an impact Asset owners who have impact as a company-wide approach ▪ The engagement is mainly split between either heavy due diligence and then rely on reporting or engage in day to day operations Asset owners with impact at a product level ▪ Highly value thorough engagement, through visits, calls, critical investor questions and close relationships with the board of directors
5.5.1.3.2.2. Asset managers	Asset managers who have impact as a company-wide approach ▪ Conduct heavy due diligence when choosing which firms to invest in ▪ Value critical investor questions from their investors Asset managers with impact at a product level ▪ Tend to use third party providers for flow 4 ▪ Bigger asset owners have a bigger claim on their investments

5.1.4. World Situation

Although the situation is not part of the interview guide, and hence had not been thought into the interviews, given that several interviewees bring it up, it is clear that the situation affects both asset owners and asset managers. Several interviewees (amongst others Asset Manager 1, Asset Manager 3, Asset Manager 8, Service Provider 1 and Service Provider 2) unsolicited bring up the current world situation of the COVID-19 pandemic. This leads to discussions of how the economical and societal effects of the pandemic will influence the demand for impact investments. One example of these opinions is how Asset Manager 3, explains that the virus is taking the focus from impact investments which would be related to for example climate change, however, that the focus will return afterwards:

There, it [COVID-19] just wins the agenda right away. And if this goes on, well, then the climate agenda can have a pretty hard time finding favour there, but in terms of definite Impact, I do not think [that COVID-19 will have much effect] because the climate changes will not disappear when this is over. And as soon as it's over, the climate agenda will return again." (00:30:38).

However, as seen from the above quote, it is an ambiguity whether COVID-19 or Impact will win favour. Which is in alignment with the considerations by Service Provider 1, who also discusses that the effects from the pandemic may either lead to myopic investing or an increase in the demand and need for impact investments:

"And this can scare me as it might focus solely on the short term. [...] But it can also speed it up. It may become clear that it is simply the way to go also to minimise risk even more." (00:55:11).

Service Provider 2 further takes a perspective that is more focused on the relationships in the industry, when the effects of COVID-19 on stakeholders are considered to potentially influence the investment and following engagement:

"Additionally, right now many investors are grappling with the effects of COVID-19, which is likely to affect their investees and end-stakeholders for years to come." (written follow up, question 2).

Besides from the COVID-19 pandemic, other situational factors such as governmental and political opinions, regulations and economic fluctuations, are additionally brought into the discussion as factors which influence the field of impact investing and its investors.

Asset Manager 3 comments on how the political opinion, such as climate goals, has great influence on the investors' decisions:

"It helps a lot when the prime minister announces something, then you push to make it happen" (00:37:32),

Many also mention regulation, and in particular the EU taxonomy as elements which affects the impact investing field, such as Asset Manager 2 who states,

"*I think unified standards and taxonomies will help in more and more bringing a relevant focus on it*." (00:49:31).

The findings are summarised in the below Table 7.

Table 7: Summarised Findings on World Situation. Source: Own Construction.

Section	Summarised Findings
5.1.4. World Situation	▪ The world situation affected both asset owners and asset managers' engagements ▪ Diverging views are found as to how the COVID-19 pandemic may affect the field of impact investing, from taking focus away from impact to increasing the need and demand ▪ Other factors such as governmental and political opinions, regulations and economic fluctuations, are also brought into the discussion as factors which influence the field of impact investing and its investors

5.2. Framework Application Analysis

This section will analyse the above findings by the application of existing frameworks and models. The first part of the analysis will analyse the factors influencing the choice of engagement in isolation and the second part will consecutively apply systems thinking as a conceptual framework to holistically analyse engagements within the complex systems of impact investing.

5.2.1. Factors Influencing the Choice of Engagement

In this section, the above findings will be analysed based on the factors influencing the choice of agency or stewardship approach, as the engagement will depend on where in the Principal-Manager Choice Model the relationship falls.

The potential for an agency problem is seen from the findings as the asset manager (agent) acts on behalf of the asset owner (principal). It is argued that the lack of existing definitions and standardised reporting frameworks allows for opportunistic behaviour by both parties, as there are no clear guidelines or ways to ensure the results of the investment. However, the potential for a stewardship approach is seen as some asset owners have attempted to set up organisational structures fostering collaboration, by setting up incentive systems or creating a common intention of the investment and a shared goal to work towards.

The three factors identified in the Principal-Manager Choice Model are deemed relevant to analyse based on the findings as

1. Section 5.1.3., shows that how the asset owner and asset managers will engage with each other will depend on their individual characteristics. (Actors)
2. Sections 5.1.1. and 5.1.2 show a variety in how impact is defined and understood and a number of challenges to reporting and measuring impact, making it difficult for the parties involved to assure what the other party has done or know the result of the investment. Hence, the parties' engagements will rely heavily on their expectations towards the other party. (Expectations)
3. Section 5.1.4. shows that the investment and thereby also the engagement will be influenced by situational factors. (Situation)

5.2.1.1. Actors

This section will analyse in which ways the factor of *who the actors are* will influence the engagement. First, the Basic Information Processing Model of Perception, will be applied as an actor's interpretations of a given relation will guide whether they follow the agency or stewardship theory. Second, the Stakeholder Salience Model will be employed to categorise the asset owners (stakeholders) according to their salience to the asset managers (organisation), as engagement of the asset owner will depend on how they are perceived by the asset manager. Third, the Stakeholder Power-Interest Matrix will be used to add another variable to how asset managers may perceive the asset owners and analyse the following engagement of the asset owner.

5.2.1.1.1. Perceptions

The findings section (Section 5.1.1.) covering the interviewees' understanding of impact and impact investing, shows that various perceptions of impact investing exist. The variety of perceptions are seen both through differing definitions of impact investing and through the numerous ways of explaining the concept. Further, the findings show that these different perceptions lead to a lack of consensus for how to report and measure impact investments, and difficulties in understanding what part of the impact is due to the investment itself.

Stimuli

From the interview findings, four conspicuous examples of stimuli emerge; 1) the reporting that asset owners receive from their asset manager, 2) the current societal or economic situation, 3) news from peers talking about impact investments and 4) exposure to formal definitions of impact investing.

First, the stimulus in the form of reporting provides some form of result of what the investment has generated. As seen in section 4.2. there is not a specific framework for reporting on impact, and as shown in section 5.1.2., asset managers report on impact in different ways. This shows that *who the asset manager is* will determine which factors are included in the report and how impact is reported. From these findings, it is extracted that various stimuli will arise from the differences in reporting. Additionally, the findings (Section 5.1.2.) show a concern regarding the data that serve as inputs for reporting, where both asset owners and asset managers question the quality of the data available. The issue is found to lie not in the amount of data available, but in identifying the right data which will prove the impact of the investment. This brings a variety of stimuli which are difficult to verify, and as seen in the findings, this variety in data and reporting methods increases the possibility of greenwashing which in turn can lead to misleading stimuli.

Second, stimuli arising from the current situation will influence the importance of the investments and therefore also how information is filtered and prioritised. Most interviewees brought up a discussion of the current situation concerning COVID-19 and its effect on the economy, although the interview questions did not prompt such a discussion nor ask how current events affected their investment. From these discussions, as seen in the findings (Section 5.1.), it became clear that the current situation shifted the focus of the investors' mindsets.

The third stimulus, how peers in the industry talk about impact investments, is seen from the findings to be a dominant factor in affecting the demand for impact investments, as well as influence how actors engage with each other. As an example, this is seen when Asset Owner 6 talked to peers to collaborate to come to a joint agreement and understanding with other asset owners and thereby have a bigger influence in board meetings. However, this stimulus may also be of a less direct manner, such as when Asset Owner 1, explains the "buzzing" in the industry as an influencing factor.

Lastly, the stimulus from exposure to formal definitions, is seen through the interviewees' description of how they perceive the definitions, as well as showing their attitude towards the definitions. First, the fact that many different definitions exist, is in itself an expression of several stored perceptions, and second, as others are exposed to these, they serve as stimuli for those who did not establish a particular definition. An example from the findings include how Asset Owner 2 altered their perception of impact investing as a result of IFC changing their formal definition and thereby also changing Asset Owner 2's stimuli. The exposure to formal definitions, depending on how the investor perceives the specific definition, may therefore further affect their focus and perception of impact investing to some degree.

Filter and attention

The existing schemas will vary for each individual, however, in alignment with the findings the various categories of actors may share some common groupings of schemas. Three examples of schemas arise from the findings: 1) pension funds and most asset managers are obligated by their fiduciary duty towards their beneficiaries, creating a set of schemas, rooted in maximising returns, for how to understand impact investing, 2) foundations with a philanthropic origin will have a set of schemas more prone to filter attention towards the positive aspects of donations, and 3) whether an investor identifies as having impact investments as a company-wide approach or on a product level, will affect how much attention the field of impact get. From these three characteristics, the attention and filtering will vary in regard to where focus is put on the stimuli.

Organisation

One example, seen in the findings, of how the filtering of attention leads to different organisations of information, appears from actors organising impact investing into different arrangements. Although no clear trend arises in the findings section with regards to who applies either way of arranging the terms, the application of the perception model, explains how this will depend on which of the above stimulus the actor has been exposed to and how it is filtered and given attention to. Hence, how the actor will organise the information, will depend on how they filter the stimuli, where attention is focused and how this information fits to existing schemas of e.g. fiduciary duty, philanthropy or a company-wide approach to impact. Since this is an equation of many factors, various different organisations will appear, and the two ways the interviewees arranged impact investments identified in the findings, are just two common approaches in which the interviewees expressed an organisation of some inputs (Section 5.1.1.1.).

Interpretation

Following the above steps, the actors will interpret the information differently, which is consistent with what is seen through the interview findings. First, the differing perceptions are seen from the findings (Section 5.1.1.1.) in the variety between defining and talking about impact investing. This divergence shows how the process from stimulus to interpretation led to the various perceptions of impact investing.

As shown in the findings section (Section 5.1.1.1.1.) many differences appear as to how impact investing is understood. Three specific examples are included from the findings, showing the differing perceptions of impact investing; 1) understanding of impact, 2) understanding of asset classes eligible for impact investing, 3) expected and accepted returns.

The first way in which the differing interpretations are shown, is the understanding of impact as either capital allocation impact, investor impact through engagements, or both. This goes to show how although most of the interviewees equate impact with effects related to ESG-factors when defining impact, the underlying perceptions of how this impact is achieved varies. All stimuli and schemas described above, are directly inferred to affect this perception of impact.

Second, the understanding of which asset classes belong to an impact investment is an example from the findings of how the different organisation of stimulus leads to different understandings of impact investing. This can be seen in the divergence of asset owners perceiving impact investing to be of new capital allocation, i.e. that public equity does not qualify for impact investments, whereas asset managers generally perceived that public equity is eligible for impact investing through engaging. Due to the different roles of asset owners and asset managers, it is in alignment with the above analysis that their stimuli, schemas, filtering and organisation differs, leading to differences in perception of how impact investing is understood.

Third, the findings section presents great differences in the levels of returns expected and accepted by asset owners and managers (Figure 19), which further demonstrates how the variety from stimuli, schemas, filtering and organisation of information leads to differences in perceptions. Although many formal definitions impose specific levels of expected returns, a perception gap of how impact investments are understood is appearing in the industry, which in turn is seen to affect the definitions.

Retrieval

Applying the stage of retrieval to the findings above, shows how engagement can be done as a way to give stimulus to bring the retrieval and reinterpretation into play so that the interpretations of two actors, specifically the asset owner and the asset manager, may be brought closer together. An example from the findings is when Service Provider 2 explains how they can see that asset owners and asset managers in the impact investment industry collaborate and set up predefined targets to share a common goal and intention of the investment, thereby making it easier to follow up on the result of the investments. Hence the application of the perception model displays a need for engagement to affect the stimuli, as seen in the findings, how asset owners will engage with their asset managers to influence the engagement in flow 3 and 4 (Figure 20). This suggests that engagements or investor impact can create the possibility of decreasing the perception gap. It is therefore imperative that the asset owner is able to provide this stimulus. It will be further analysed, in section 5.2.1.1.2.1., which factors are crucial as to whether an asset owner can provide this stimulus to effectively reach the step of reinterpretation and thereby reduce the perception gap.

Furthermore, the SDGs developed by the UN are, as seen in the findings (Section 5.1.), often used to describe impact investments as they provide a common language for understanding and measuring sustainability. The SDGs are according to the findings not implemented in formal definitions but rather utilised to set up goals and metrics for reporting. Hence, it is inferred that the SDGs are a tool to bridge the perception gap by adding a common language and framework, which may lead to interpretation of stored information when used by multiple actors. Notably, however, is that due to the lack of consistent, reliable measuring, there is a major risk that the SDGs may lead to greenwashing.

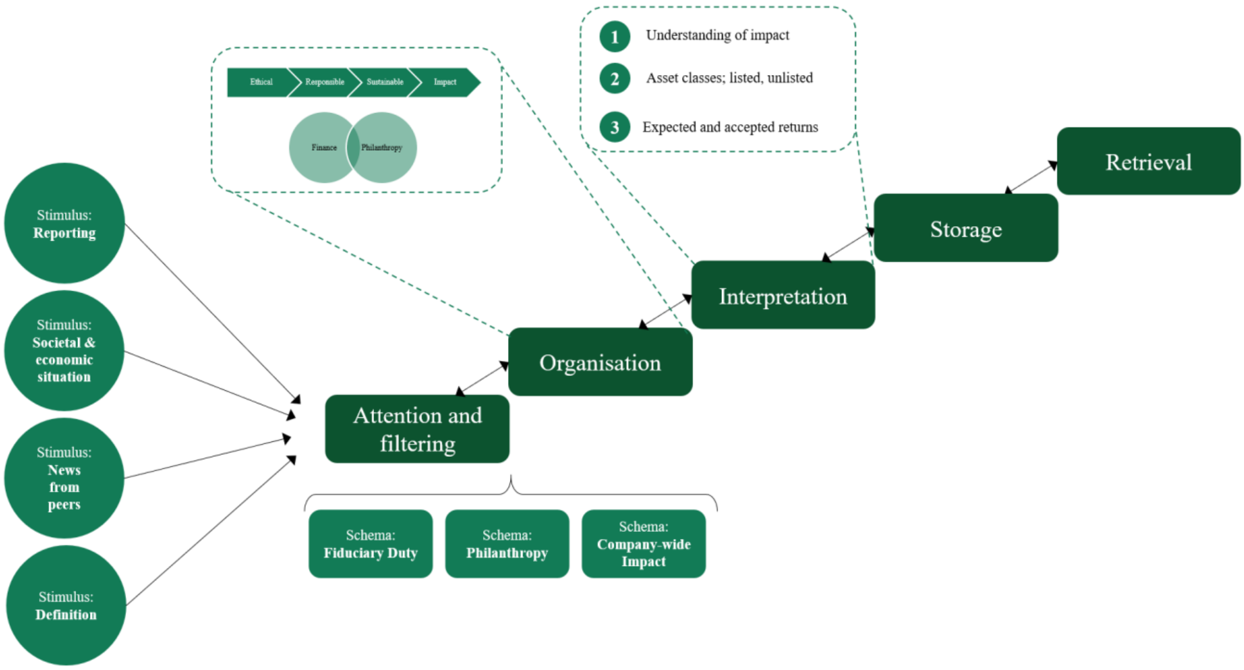


Figure 21: Perception Analysis. Source: Own Construction, compiled based on Clegg et al.'s (2016) Basic Perception Model.

The application of the perception model, which is depicted in Figure 21, shows how various factors constituting stimulus towards and schemas of an individual, will result in differing interpretations of impact investing amongst all actors within the field. It is seen that the lack of clear definitions and standards for reporting, provides a variety of stimuli, which is interpreted and perceived differently, and in turn is stored as reality.

Since individuals will act according to their interpretation, it can be inferred that engagements will depend highly on how each of these links unfolds, which is why the understanding of impact may be more or at least as important as the definition itself. This is important as it highlights 1) that the novelty of the field, and hence the lack of standards is reinforcing the variety of perceptions of impact investing and 2) that engagements will be influenced by these perceptions, meaning that engagements will vary on an individual basis rather than across categories of actors. The perception, or understanding of impact, is, therefore, a key aspect of how engagement will be carried out.

The application of the perception model brings forth three key conclusions 1) the lack of clear definitions and standardised reporting amplifies the potential for a perception gap, 2) an actor's perception will influence their engagement, and 3) that engagements are key to bring perceptions closer.

5.2.1.1.2. Asset Owner Categorisations

In order to better understand which factors will affect whether the engagement will be impactful and hence lead to reinterpretation of information and thereby reduce the perception gap, the Stakeholder Salience Model is applied.

5.2.1.1.2.1. Asset Owner Salience; Power, Legitimacy and Urgency

When applying the salience model to the asset owners of an investment, including both the asset owners who are interviewed as well as those mentioned by asset managers, it is seen that especially the power aspect plays a role in engagements. As seen in the findings section 5.1.3.2.2.2., especially asset managers with impact on a product level mention the difference between engagements from pension funds and private investors. Several interviewees mentioned how the size of the asset owner's investment affected the influence of their engagement. Through the salience model, this can be viewed as the *power* coming from the amount of capital invested. Relating the power dimension to the perception model, this will naturally depend on how the input, i.e. the amount of capital invested, is organised into the existing schemas. This means that it will depend on how this amount compares to the existing amount of assets under management.

To an even higher degree, the two other dimensions, *urgency* and *legitimacy*, may be prone to differ depending on how the asset manager will interpret the input from the asset owner. The legitimacy, being how much the asset manager values the relationship, almost entirely depends on the asset managers perception of their relation to the asset owner. From the findings, it is seen that especially the asset managers having impact as a company-wide approach viewed engagements from all their asset owners as valuable.

With regards to the last dimension of the salience model, urgency, this will depend on the perception of the asset manager, however, it will also relate to how the asset owner communicates their claim. As sustainability and impact of investments relate to long term goals, the perspective of urgency for immediate action must be present from both the asset owner and the asset manager for the asset owner to be perceived as urgent with their claim of impact. This perception will arise from several inputs, and as many of the interviewees state, there is a buzzing in the market creating a sense of urgency to be part of this "trend".

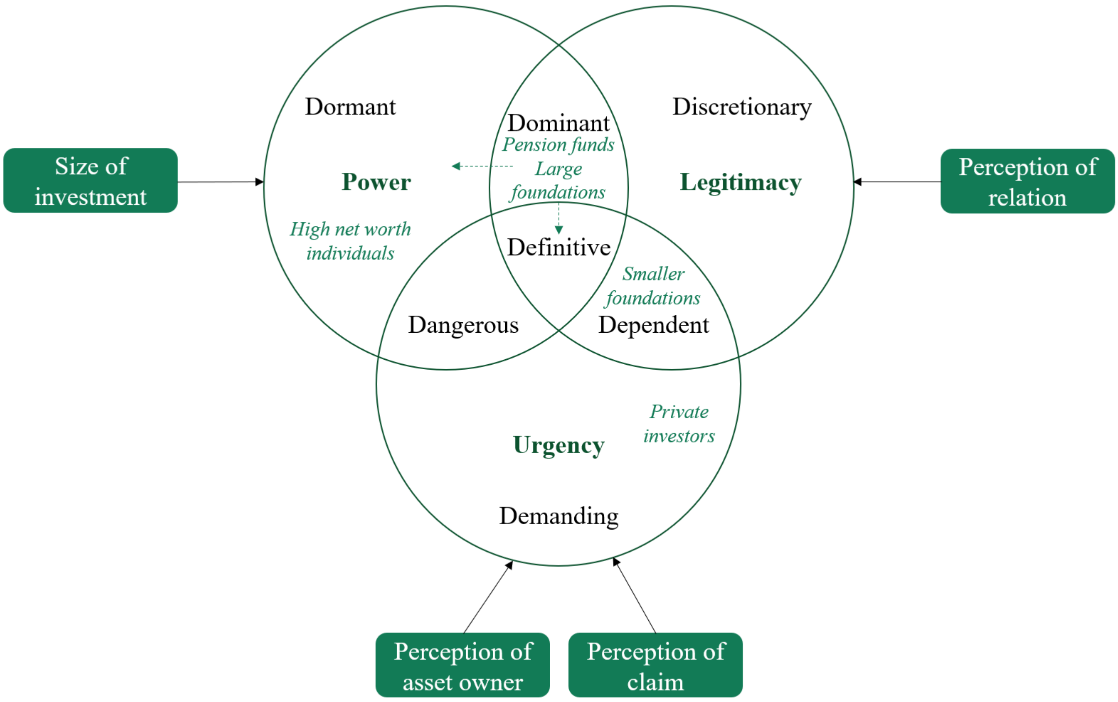


Figure 22: Stakeholder Salience Analysis. Source: Own Construction, compiled based on Cornelissen's (2014) Model.

Powerful Stakeholders

Dormant stakeholders would as an example be the high net worth individuals. Although they may have power through large investments, it is seen in the findings that they do not engage or establish a relationship, but merely invest and then trust the asset managers' reports. Even though most of the findings point in the direction that pension funds and larger foundations often establish a legitimate relationship based on engagement, placing them in the dominant stakeholder category, if they would not create this relation, they could also fall under the dormant category. This is due to their relatively large investments, making them a powerful stakeholder. However, because of the heavy engagement seen from pension funds and large foundations, both through their own statements as well as through asset managers' descriptions, they would indeed end up in the categorisation of being *dominant stakeholders*. The lack of urgency is primarily seen from the interviews with the pension funds themselves, who refrained from using the term impact investing due to the possible contradiction with their fiduciary duty. However, as seen in the findings, whenever the pension funds would perceive some aspects as urgent, they would then move into the category of *definitive stakeholders*, where the asset managers will then prioritise giving them attention. Examples from the findings include Asset Manager 3's experience with a pension fund who sought a sustainable product, which Asset Manager 3 then established, and will further roll out to private investors as a result.

The last category of stakeholders with power, are the *dangerous stakeholders* who are powerful stakeholders with urgent claims, yet without the legitimacy. Through the interviews, it did not appear that any of the actors perceived themselves or their asset owners to fall in this category.

Stakeholders with limited Power

Asset owners who are not perceived as having power, due to smaller investments, may find themselves as *dependent stakeholders*, such as Asset Owner 6, who describes how they may collaborate to jointly collect the power needed to enforce their claims.

Other stakeholders who are not perceived as having power, are the private investors with smaller capital amounts invested. In the above example where Asset Manager 3 established a new product as a result of pension fund engagement, a demand for this product is seen arising in the general market, i.e. the private investors have the urgent claim for it. However, due to lack of power and legitimacy, the smaller private investors fall under the category of *demanding stakeholders*, meaning their claims may not be enforced. This is seen as the product was only rolled out for the private investors after the pension fund had engaged, and not as a direct result of the private investors demand or claims. The urgent claims of private investors are seen through the growing demand for impact investments.

Overall, the application of the Stakeholder Salience Model demonstrates three main results. First, building legitimacy through ongoing engagements and relation-building, is imperative. Second, power is needed in order to enforce one's claims, either obtained by large investments or through collaboration. Third, only by demonstrating an urgency of the topic, in combination with power and legitimacy will the asset owner move to be a definitive stakeholder, where the claim is prioritised and given attention. Hence, it is crucial for the engagement of the asset owner to first understand how they are perceived by the asset manager and ensure that all three of the dimensions; power, legitimacy and urgency, are expressed.

5.2.1.1.2.2. Stakeholder Power-Interest

The notion of having to express urgency, relates to the Power-Interest Model, adding a second layer to the Stakeholder Salience Model, by including the concept of interest as well as how asset managers will engage with the various asset owners.

By applying the Power-Interest Model in combination with the above stakeholder salience analysis, it is seen how the perception of the asset owner will vary depending on their level of power and interest, leading to the communication from the asset manager to change. When considering the main research question of this thesis, namely how asset owners can engage to ensure positive impact of their investments, the dimension of interest can be seen as a prerequisite for the research question, due to the notion of *ensuring impact*, implying that the asset owner has a relatively high level of interest. The asset owners displaying a high level of interest will, depending on their level of power, either fall in quadrant B and be *kept informed* or be in quadrant D considered *key stakeholders* by the asset managers.

The asset owners considered *key stakeholders*, are given the key consideration and are involved in communication (Figure 23). Thus, the asset owners who are perceived as key stakeholders will have all attributes needed to ensure the impact of their investments, as they can use their position to conduct ongoing dialogue with their asset managers, according to the power-interest model.

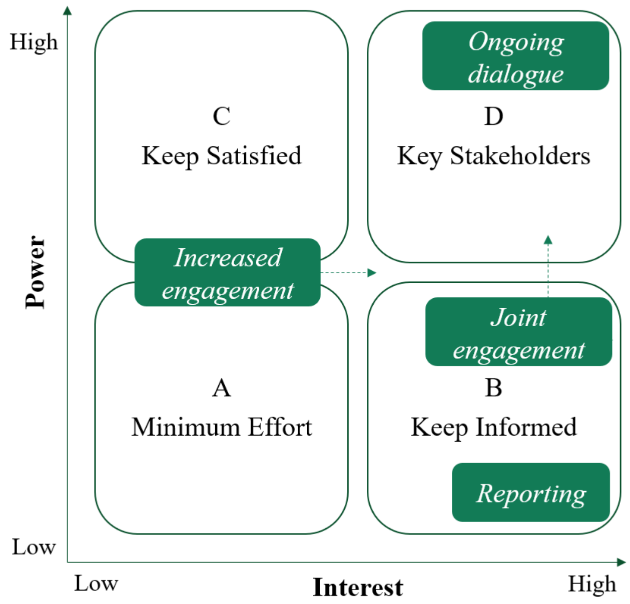


Figure 23: Power-Interest Analysis. Source: Own Construction, compiled based on Cornelissen's (2014) Model.

For the actors with high levels of interest but low levels of power, being *kept informed*, could relate to asset owners having to rely on reporting, since the asset managers will not perceive them as powerful enough to have an influence and therefore not having to engage with the asset owner through dialogue. However, as is seen in the findings, one consistent way to report and measure impact does not exist and in many cases, the reporting may further be rather non-transparent. Additionally, as is seen by applying the perception model to the findings, due to the various perceptions of the reporting stimuli, engagements are needed to bring information into reinterpretation to ensure reduction of the perception gap. Hence, especially the asset owners in quadrant B, with a low level of power, but a high level of interest, will, therefore, need to engage with their asset managers to ensure that the information they receive corresponds to the impact they wish to have. As seen from the salience model, due to their lack of power, this may need to be through collaborations for it to be valuable to the asset manager.

On the other hand, the stakeholders in quadrant A and C, who show little interest, will need to employ more engagement to make their interest visible and create urgency, assuming they hold a latent interest[13]. This is similar to how the dormant stakeholders above in section 5.2.1.1.2.1., would need to develop legitimacy and display urgency, the power-interest matrix shows that engagement to express interest may be needed to be ensured of one's impact.

The application of the perception model shows how the lack of clear definitions and frameworks for reporting creates a perception gap that in turn will influence the engagement between the asset owners and asset managers. However, engagements are further found to be key to reducing the perception gap. Yet, whether the engagement will be impactful in leading to reinterpretation of information and thus reduce the perception gap, is seen to depend on the level of power that the actor holds and interest they display concerning impact investments. This will influence how the asset owners will be perceived by the asset manager and thereby how they will be able to engage with the asset manager.

5.2.1.2. Expectations Towards the Asset manager

This section will analyse in which ways the second factor, asset owners' expectations towards the asset manager, will influence their engagement. First, the model of perspectives of sustainability will be applied to analyse how the interviewees different objectives for sustainability, and thus positive impact, may lead to various expectations towards each other. Second, the Stakeholder Communication Model will be applied to further analyse how different ways of communication will lead to different interpretations and thereby different expectations towards the asset manager.

5.2.1.2.1. Objectives for Sustainability

When applying the framework of perspectives on sustainability, the axis of *why* is first considered. By examining the responses from the interviewees with this lens, it is argued that investors who carry out impact as a company-wide approach have different objectives than those with impact on a product level, as to why they carry out sustainability or impact of their investments and therefore have different concerns related to their investments.

The investors who carry out impact on a product level tend to have objectives that are drawn to the instrumental concern, where impact or sustainability products are created to please the stakeholders by accommodating their demand and thereby obtain legitimacy and thus achieve economic results. Examples of this are seen in the findings as Asset Manager 3 and Asset Manager 4 created sustainable or impact products as a result of the engagement from their asset owners. Based on the opinions expressed by the

[13] The notion of "latent interest" relates back to the notion of interest being an implied prerequisite for this study, as the research question is concerned with asset owners who want to ensure impact of their investments. Not all asset owners in quadrants A and C will hold a latent interest, though this study is concerned with those who do.

individual interviewees, one may instead argue that ethical concerns are shown. However, this is deemed a matter of positive deviants, in which the individuals express a more ethical concern than what is the case for the organisation where that person worked.

Especially the pension funds and asset managers who carry out impact on a product level displayed instrumental concerns. Relating this to their expected and accepted returns, (Figure 19) they expressed that they are not willing to compromise their returns, which is in line with the instrumental concerns of pursuing sustainability as a means to generate economic returns. The foundations who invest in impact on a product level, such as Asset Owner 3 and Asset Owner 4, are slightly more mixed between ethical and instrumental concerns, as they express that they do not expect market returns from their impact investments and that they are willing to compromise the financial returns.

When addressing the firms that had a more ethical concern for investing sustainably, these are mainly the investors who carry out impact as a company-wide approach. However, it is worth noticing that due to this ethical motivation, many further believe that the sustainable investments in the long term will also be the investments that reap the high financial returns as seen in Figure 19 in the findings. This is in alignment with the findings on expected returns (Section 5.1.1.1.) as these investors varied with regards to whether they are willing to compromise their financial returns. This implies that sustainability is not sought for as a sole means for returns, but instead, it is seen that sustainability is ethically believed, and as a result, the investors believe in the returns following. This relates to the findings in section 5.1.3.2.2.1., that the asset managers carrying out impact as a company-wide approach valued engagements in both investment flows 2-3 from their asset owners and flow 4 directly to the asset. The intrinsic motivation expressed for high levels of engagements indicate that they consider engagements to be done because they think it is the right thing to do.

This distinction, which is shown in Figure 24, of investors with a company-wide approach to impact, primarily showing ethical concerns, and investors with impact at a product level, showing instrumental concerns, further presents the differences in schemas, as found in Section 5.2.1.1.1.. Having impact as a company-wide approach, may result from the schemas of ethical concerns, or vice versa.

Considering the second axis for the objectives of *how* to approach sustainability, differences can be seen both within the investors carrying out sustainability or impact as a company-wide approach, and within those who have impact on a product level.

All investors with impact on a product level presented themselves as carrying out stakeholder management in various ways. For the actors carrying out stakeholder management, impact investing along with sustainability is viewed as a means to enhance shareholder value and thereby do well. This is for example seen through the engagement flows in the findings and especially flow 1 to 3, where the pension funds and asset managers communicate with their asset owners to inform them about the impact of their investments. However, it is here very important to be aware of the potential for greenwashing and several interviewees expressed a concern for this. As there is not a specific definition or a standardised reporting framework, it is difficult to know what has changed because of the investment, and the chance of greenwashing will therefore increase. Further, the interviewees would engage with their stakeholder as a way to follow up on their investments as seen in section 5.1.3.2.1.2., however, it could be argued that the objective for engagement is based not only on stakeholder management but also to ensure that the investment is not exposed for greenwashing.

Across the interviewees who carry out impact as a company-wide approach, both political and technocratic perspectives are observed. As examples, Asset Owner 5, Asset Owner 8, and Asset Manager 6, although having different ways of investing, are all three identified as carrying out corporate greening and try to adopt the sustainable principles in as many facets as possible. This is seen through Asset Manager 6 mentioning how they as an investor must act in accordance with how they expect the asset to act (Section 5.1.3.2.2.1.). Contrarily, actors such as Service Provider 1, Asset Manager 5, and Asset Owner 7 fall into the category of critical management, by not focusing on their investment in isolation, but instead looking for radical revision, the consideration of catalytic effects by these actors further point towards critical management.

In Figure 24, the different investor groups are placed within the framework of perspectives of sustainability, and it is seen that the objective of the investment will result in differences in how the investment is managed.

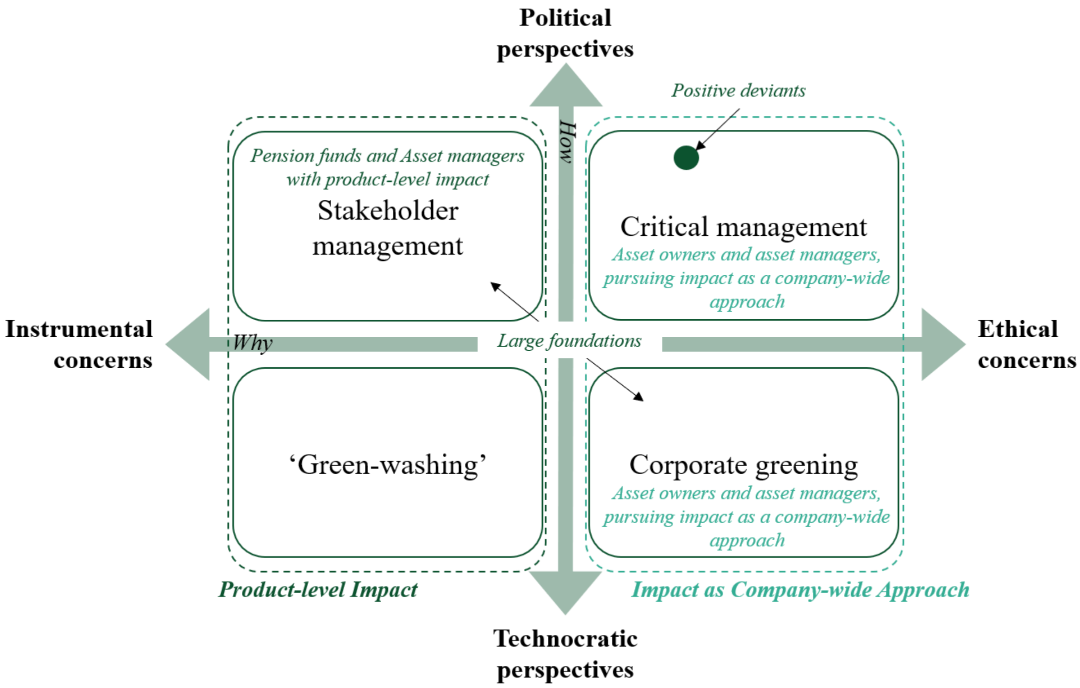


Figure 24: Sustainability Perspective Analysis. Source: Own Construction, compiled based on Clegg et al.'s (2016) Model.

Focusing on the asset owners, the above analysis shows that asset owners who carry out impact on a product level tend to pursue sustainability more to ensure stakeholder management, which is interesting since these asset owners are mainly pension funds who are obligated by the fiduciary duty towards their own beneficiaries (Section 5.1.3.2.1.2.). As was seen from the findings (Section 5.1.3.2.1.) it is not possible for people to choose their own pension fund in some countries such as Denmark. Potentially this could lead to 1) the members of the pension fund being more active increasing the need for stakeholder management, or 2) the members not being able to switch pension funds and thus give the pension fund having more power in this relation. Although this relation is not further analysed, this potential shift of power-dynamic is considered through the analysis.

Contrarily, it is seen that the asset owners with impact as a company-wide approach mainly consist of foundations and direct investment firms that do not have to report back to their own asset owners and can more freely be critical towards the impact of their investments. Regarding the foundations who carry out impact on a product level, these are seen to be in between objectives, potentially due to their board relationship. Both Asset Owner 3 and Asset Owner 4 mentioned strong ties to please the board, which may provide the stakeholder management objective, whereas their intrinsic motivation and pursuance of catalytic impact, potentially arising from their philanthropic core, may pull in the direction of ethical concerns.

The above analysis shows that the objectives for investing sustainably are found to relate with whether impact is carried out on a product level or as a company-wide approach. Generally, the investors considering themselves to do impact as a company-wide approach have a more ethics-concerned motivation. This will then further influence how the impact investments are managed and what the underlying objectives of the engagement will be.

5.2.1.2.2. Communication Strategies

When applying the Stakeholder Communication Model, the expectations of the asset owner to the asset manager, is analysed based on the objectives of communication. The analysis will build on the application of the Stakeholder Salience Model and Power Interest Matrix (Section 5.2.1.1.2.), where it is seen that the characteristics of the actors will affect how asset owners can engage with their asset managers.

As became clear from the above section, an actor's objective for engagement may differ according to which categorisation the asset owner falls under, how they perceive the motivation for sustainability, as well as whether the engagement follows a direct or indirect investment flow. Through applying the Stakeholder Communication Model, these aspects will influence the asset managers engagement towards the asset owner, which in turn will influence the expectations that the asset owner holds towards the asset manager, and thus influence their choice of engagement.

Low Power Leading to Awareness

In relation to the Power Interest Matrix, creating awareness through an informational communication strategy is appropriate for the asset owners with low power, i.e. within quadrant A or B, being *minimum effort* and *keep informed* in Figure 23. Through the Stakeholder Salience Model, the interviewees in these groups were primarily the *dependent* and *demanding* stakeholders, being the smaller foundations and private investors. Due to the one-way dialogue from asset manager to asset owner, strictly following the model from the asset manager's point of view, would not indicate a motivation from the asset owner to engage. However, as seen in the findings, the reporting and measurement of impact investments is not consistent (section 5.1.2.) and due to the above-discovered perception gap (Section 5.2.1.1.1.) a strategy of solely relying on reporting would essentially not be very valuable in isolation for the asset owners, as their expectations to the asset managers cannot transparently be based hereon. Due to this strategy primarily being carried out towards the asset owners with low power, it is seen (Section 5.2.1.1.2.1.) that these smaller foundations will try to collaborate to increase their power to be able to engage more heavily with their asset manager. The motivation for these types of joint engagements seems to be either to have impact through engagement, e.g. by making changes to the portfolio or to close the perception gap by influencing the reporting. By collaborating, these dependent asset owners will accumulate power and consequently be able to momentarily move to a strategy of more involvement.

Higher Power Leading to Understanding

According to the above analysis (Section 5.2.1.1.2.), the actors who hold a higher level of power but show a lower level of interest, such as the *dormant* stakeholder groups in Figure 22, including the high net worth individuals, will need to conduct a higher level of engagement to emit greater interest, in order to be definitive, key stakeholders. In alignment with the above analysis, when applying the communication framework, these asset owners may receive the persuasive strategy from their asset managers with the goal of understanding the investments. This is due to the asset managers' aim at keeping these asset owners satisfied as they have a larger claim due to the size of their investment. As this strategy of communication follows a two-way asymmetrical model, where feedback from the asset owners is sought for, yet where the asset manager does not change as a result hereof, there is again a potential for a large perception gap.

In this strategy, the level of feedback sought for, is seen to depend highly on the power of the asset owner as well as the displayed interest. In the findings, many of the relationships are described more as the persuasive strategy, where asset manager's information was trusted, however where asset owners through attending board meetings and asking critical investor questions would provide feedback. Many of the asset managers who carry out impact investments with a company-wide approach described this relationship of how they sought feedback from their asset owners. However, when tying this back to the objectives for sustainability, this strategy relates primarily to the stakeholder management, where feedback is sought as a means to please the stakeholders while optimising returns.

Important to this communication model is latent interest. If the asset owner, in fact, holds a higher level of interest than is understood by the asset manager, the asset owner will need to engage heavily to move towards a dialogue strategy.

High Power and High Interest Leading to Involvement and Commitment

The last two effects of the communication model, namely Involvement and Commitment, obtained from a dialogue strategy, mainly target the key stakeholders in the Power-Interest Model that both hold high power and have a high interest. As these asset owners can have a large influence on the asset managers it would be in the asset managers interest to keep the asset owners in dialogue and have an ongoing consultation with them. The analysis of the salience model (Section 5.2.1.1.2.1.) found that especially the pension funds, and large foundations are dominant stakeholders with high power and legitimate relations, with the potential to move into the definitive category. Additionally, as these asset owners hold high power, they would expect that the asset managers would prioritise giving them attention.

It is found that especially the asset managers who have impact as a company-wide approach, seek to carry out dialogue strategies with their investors, and generally found their investors to be highly interested and highly engaged. These asset owners would, as seen in the findings, engage through ongoing dialogues, with the objective to be involved and ensure that the engagements themselves are impactful. This relates to the analysis in section 5.2.1.2.1., as these would primarily be the actors whose objectives for sustainability are of an ethical concern, who show an intrinsic motivation for having investor impact through engagements and engage to ensure impact as this is believed the right thing to do.

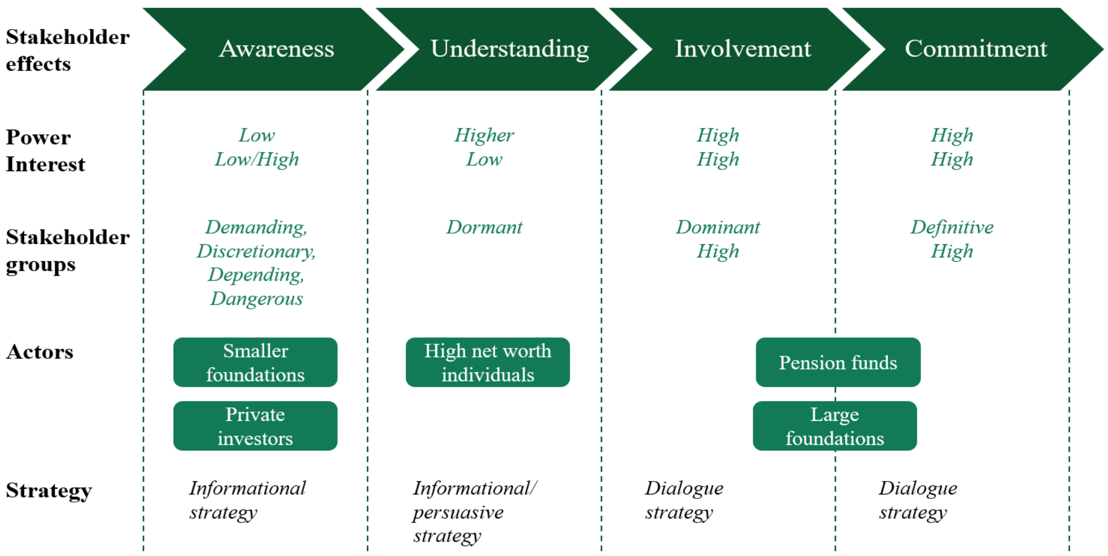


Figure 25: Asset Manager Communication Analysis. Source: Own Construction, compiled based on Cornelissen's (2014) Model.

5.2.1.2.2.1. Interrelations between communication strategies

Having analysed the communication models in isolation, another interesting aspect arises as the findings show dynamics between the different strategies. An example is seen through the above analysis of the awareness effect where asset owners would still engage to move towards a dialogue strategy momentarily, i.e. these communication flows are not seen to be static, but rather that asset owners would use engagement in an attempt to shift between communication strategies.

The findings (Section 5.1.3.) show that several of the asset owners would engage heavily with their asset managers in the beginning of the investment to align expectations and set up common goals and intentions. Further initial engagement would aim to create a way to report throughout the investment. This may lead to an informational strategy. The employment of heavy due diligence and engagement in the beginning of the investment can be seen as the asset owner expressing high interest and therefore obtaining a dialogue strategy in the early stage to set up a system where the perception gap is reduced. This would create a setup where the expectations towards the other player is based on the trust initially built and both parties thereafter can rely on the reporting. Hence, it is argued that these asset owners are content with the *awareness* effect as they rely on their due diligence process and screening of companies to obtain involvement in the early phase and use the reporting as a means to ensure that their intentions are carried out.

However, it is also seen that several asset owners would try to endorse a dialogue strategy throughout the investment to follow up on the reporting. It is argued that the lack of reliable and consistent reporting (Section 5.1.2.), creates an objective for asset owners to engage throughout the investment to ensure that positive impact is achieved. In the findings section, the logic model is seen to be used by several interviewees, and especially the discussion of defining impact as the final step is brought up, however, it is found that it is only feasible to measure outcome or even output, which leads to the asset owner not being able to solely rely on the asset manager' reporting, as in the informational strategy. The findings show a consideration of whether one can defeat the purpose of achieving positive impact by measuring too much. Particularly, a discussion arose around whether the impact directly attributable to the investment is worth measuring or whether the outcome or total impact is sufficient.

This provides an incentive for engagement, in a dialogue strategy, to bridge the gap between what can be measured and what is needed to be proved to ensure positive impact, as displayed in Figure 26. Additionally, the notion of investor impact brings up the aspect of ensuring impact by engaging to have impact. In this way, the expectations towards the asset manager leads to the asset owner engaging to influence several of the steps in the logic model, and not solely bridge the measurement gap.

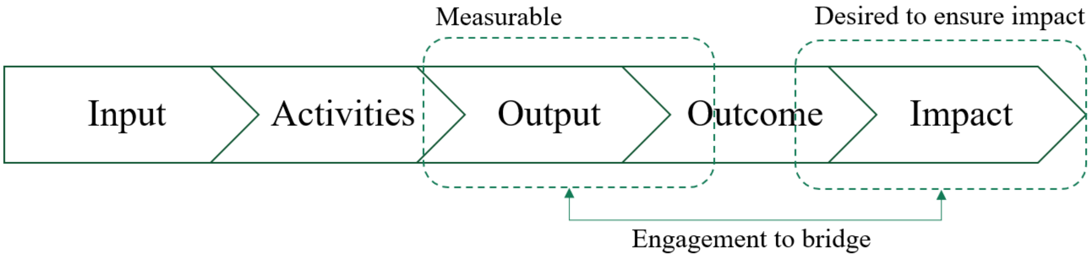


Figure 26: Engagement Bridging the Logic Model Gap. Source: Own Construction.

Further, the findings show examples of pension funds who have been incorporated into their asset managers' decision making, as the asset manager created a new impact product as a result of the involvement, which could be argued to be engagement through the dialogue strategy, although the above analysis indicates that these asset owners may ordinarily be receiving the persuasive strategy. This again, shows a movement from one strategy to another, as a result of increasing levels of interest and urgency, where the strategy can then return to its natural state after the engagement ends. In section 5.1.3., it is shown that especially the pension funds and large foundations had an ongoing dialogue with their asset managers, which could be argued to be based on their fiduciary duty towards their own beneficiaries, to ensure that there is impact with the investments.

Lastly, the findings (Section 5.1.3.) show differences in how the direct engagements between the asset owner and the asset (flow 5, Figure 20), and the engagements between the asset manager and the asset (flow 4, Figure 20) are carried out. Given the factor of individual perception, it is not fair to assume that each asset owner would seek identical engagement if they were to engage directly with the asset. However, it is inferred that the asset owner would want their asset manager to engage with the asset according to the interest of the asset owner. This divergence shows how the asset owner through their engagement will influence the engagement of the asset manager (Flow 3, Figure 20) to match their own objectives, according to whether they expect this to be the case or not.

The above analysis shows a clear link between power, interest and communication strategy, where asset owners may shift between the desired communication from asset managers. The communication from the asset manager will further influence the asset owner's expectations of the asset manager and will then affect their choice of engagements. Especially three main objectives for engagements are identified from the analysis: 1) initial engagement to establish a common ground and reduce the perception gap upfront in order to trust future reporting, 2) engagement to understand the results of the investment as a continuous process and result of reporting inconsistencies and 3) engagement to have investor impact.

5.2.1.3. Situation

This section will analyse in which ways the situational factors will influence the engagement. The perception model will be discussed along with a SWOT analysis to capture both the internal and external factors.

5.2.1.3.1. External Situational Factors

When adding situational factors to the perception model, these can be seen both as stimuli as well as existing schemas. When the situation changes, new stimuli appear, which will be interpreted and stored accordingly, or lead to retrieval and reinterpretation of existing perceptions. However, after a while, the current situation may store into new existing schemas, and all subsequent stimuli will be interpreted in the light of the situation. Following the SWOT framework, external factors can pose opportunities as well as threats, depending on how they are perceived.

First and foremost, the current world situation is seen to be a factor, as COVID-19 is brought up by all interviewees. Although the situation may be considered rather extreme and accordingly was initially planned to not be taken into consideration of the analysis, it did become apparent that situational factors influence engagements. The situational factors which arose with COVID-19 are new inputs which had not yet been stored into schemas. Whether these new inputs influenced the interviewees' perception of the world varied greatly, however it is clear that these inputs had the ability to bring stored information into retrieval and consequently reinterpretation. Whether the factors from COVID-19 pose a threat or opportunity in terms of impact investments, would depend on the perception and following focus of the individual, and opinions of both threats and opportunity is seen in the findings.

Further, as is seen in the findings, long term consequences of COVID-19 were brought up, which potentially indicates the anticipation of a shift from stimulus to schema following COVID-19. The economic and political focus are effects which have an influence on engagements and can be seen mainly as opportunities and threats. The opportunities following political factors can be seen in the findings when Asset Manager 2 mentions how the EU Taxonomy leads to an increased focus on impact investments. Hence, it can be inferred that opposite effects, such as lack of political support, would lead to threats. Economic or political factors will later become stored information and schemas which further influence how future stimuli is filtered, leading to new perceptions and in turn affect engagement.

5.2.1.3.2. Internal Situational Factors

The internal factors of a SWOT commonly refer to the organisational level, it is here applied to the relation between asset owners and asset managers. As these factors are the strengths and weaknesses perceived by the actors themselves, in this context, the internal factors relate to all aspects of the relation which each actor will perceive as strengths or weaknesses for the investments. The internal dimension relates heavily to the above analysis of who the actors are, yet brings in factors not related to the actors' individual characteristics. Several factors are mentioned, posing as both strengths and weaknesses, which influence the engagements between asset owners and asset managers. First, proximity and similar culture is brought up as a strength leading to higher levels of ongoing engagement. Second, choosing an asset manager based on similar values is expressed to strengthen the relationship between asset owners and asset managers (Section 5.1.3.2.3.).

Additionally, the above-analysed factors of actors and objectives, feed into the internal factors, as who the asset owner and the asset manager are in relation to reciprocal perception, power, and interest as well as what their objectives are, will both be internal factors affecting the relationship and in turn the engagement. However, as seen in the external factor analysis, the perceptions of all internal factors will be affected by external factors as well, providing yet another argument of a current lack of consistency and an argument against a one-solution-fits-all in terms of engagement.

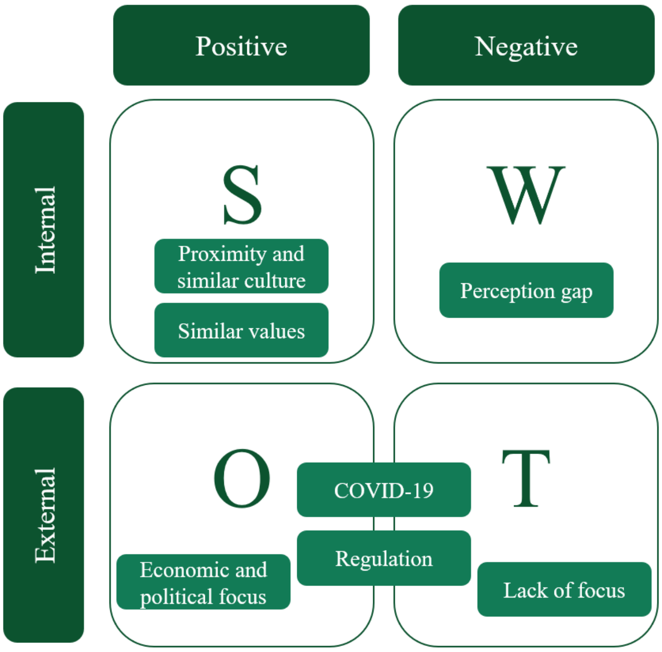


Figure 27: SWOT Analysis. Source: Own Construction.

5.2.2. Systems Thinking Analysis

From the above analyses of the factors; *actors, objectives and situation*, an interrelatedness is found, as all components affect each other. Due to the identified patterns of interrelationships, the systemic structures identified through the findings and framework analysis, are examined holistically in the following sections, in order to best assess the research question. First, the need for a holistic and systemic analysis is justified, second, the identified system is presented and analysed with the application of the Principal-Manager Choice Model, and third, the implications of the systemic structures for engagements are analysed.

5.2.2.1. Rationale and Justification

It is seen in the analysis that factors within the relation between the asset owner and asset manager will affect the engagement, such as the expectations from the asset owner to the asset manager, and their relative power. However, the analysis shows that factors external to the relation also affect both the engagement itself as well as the internal factors of the relation. Particularly, the relation between the asset owner and asset manager will be influenced by the variety of definitions, lack of standard measuring and societal factors. This suggests that the engagement and relation between asset owners and asset managers cannot be examined in isolation.

As the relation between asset owners and asset managers is influenced by several external factors, this leads to the need to examine the system in which these factors operate. This includes analysing how the factors are connected and over time continually affect each other towards a common purpose.

Especially for the field of impact investing the approach of systems thinking is found important from the above analysis, as having an impact is found to be perceived as having an effect on society or the environment. Considering the discussion around the logic model, the aspect of outcome, which is often time referred to as catalytic impact on society or the environment, directly relates to affecting a larger system. It is further important to note that the system of impact investments affects the greater systems of, not only society, but the capitalist system and the systems of investments and asset management. Due to the scope of the thesis, the examined system will be the system of the components which affects engagements made deliberately to ensure positive impact of investments. However, it is deemed valuable to note that this system is placed within the greater systems of investments and asset management.

In order to understand how asset owners should engage to ensure positive impact, the system must be taken into account as:

1. The systemic structures around the relation between asset owners and asset managers, will affect the engagement
2. The engagement will in turn affect the system, as is seen from the application of the perception model that engagements work as stimuli (Section 5.2.1.1.1.)

The above analyses showed many examples of causes and effects leading to causal loops, adding up to a systemic structure, when considered as a holistic whole. Interrelationships are identified both within each of the factors and linking them together. Although causes and effects will be discussed, it is worth noting that the exact causal relationships will not be implied, but rather the contribution to the effect will be considered.

An additional reason why systems thinking is crucial when analysing engagements to ensure positive impact arises from the above analysis of expectations. When interviewees, who conduct impact investments motivated by critical management, discuss impact investments, the focus is not on the investment in isolation, but rather the catalytic effects are considered. This objective leads to the actors within this category pursuing a systems thinking approach, and some of the interviewees even directly bring up the need for a systemic view, such as Service Provider 1 stating that,

"And the biggest I think, the biggest obstacle right now is the system itself. [...] The existing system helps maintain the status quo. And then it has to be pried open and it has to change, increasingly from the inside, I think. After all, there has always been someone standing on the outside shouting for things to be done differently. But something has to happen from the inside [...] So that is back to this, with the capacity of the existing systems and the ability to make a transformation." (00:25:28).

It is argued that the system must be considered holistically, due to both the above analyses showing systemic complexities as well as the internally identified need from the actors pursuing critical management.

5.2.2.2. Identified Systemic Structures

The analysis is conducted through mapping out the systems diagram (Figure 28) which provides a visualisation of how the key factors of the above analysis are interrelated and create patterns (Appendix E provides a step by step explanation of the systems diagram). These systemic structures provide only a part of the greater system of impact investments, as it solely considers the elements provided by the empirical findings and data analysis. This system is further part of the entire investment system, however, as it is a dynamic system in development, whether it will evolve as an integrated part of the greater investment system or its own subsystem, is yet to be seen, and beyond the scope of this thesis.

The systems diagram is a causal loop diagram, where a positive link moves the two related components in the same direction, i.e. if one factor increases the second factor also increases and vice versa, and a negative link moves the two related components in opposite directions. A time delay between two components is identified with two parallel lines.

One key observation from the systems diagram is how all components from the above analyses are interrelated in various ways, indicating how crucial it is to consider the entirety of the system when considering how asset owners can engage with their asset manager to ensure positive impact. Considering the system holistically, identified based on the above findings and analyses, several subsystems are found.

The first subsystem comprises the components from the analysis of how, who the actors are, will affect engagement. Here, the components from the salience and power interest models; power, interest, urgency and legitimacy, and their analysed causes and effects are present. As seen in Submap 1, interest for impact investments is likely to increase with increased urgency. Although urgency may stem from various factors, one key link is depicted in the map, being that an increase in the demand for impact investing will lead to a sense of urgency in the industry. As the interest increases, the above analysis shows that the likelihood that you want to engage with your asset manager or asset owner also increases. This is amongst other things seen in section 5.2.1.2.2. when pension funds want to engage as a result of increasing demand from their beneficiaries and hence alter between a persuasive communication strategy and a dialogue strategy. The loops in Submap 1 visualise how an increase in power and legitimacy, in combination with urgency and interest, will influence how the asset manager values the asset owner's engagement and thereby the likelihood to take action as a result of the engagement. The reaction of the asset manager then has the potential to loop back and affect the demand for impact investing as the findings show that the creation of new products may be the result of the engagement. This, in turn, will lead to an increased awareness of impact investments and following an increase in demand for impact investing. However, it is noteworthy that several loops in the system will further be influenced by situational factors, outside the actors' control. This is seen in the systems diagram (Figure 28, enlarged in appendix D) as situational factors may influence both demand and the likelihood of asset managers to take action as a result of the engagement, which can have both positive and negative effects as found in the SWOT analysis in section 5.2.1.3..

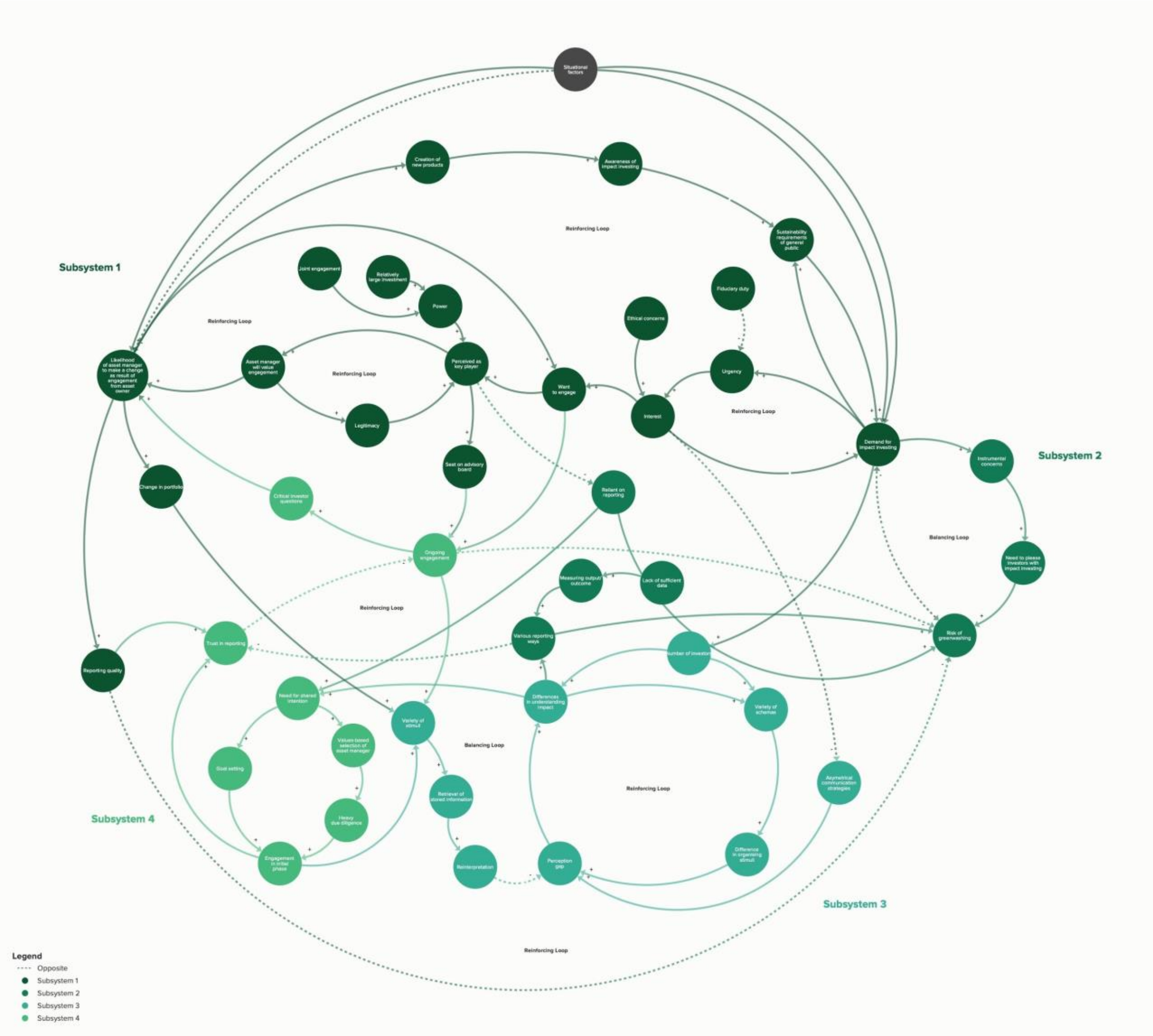


Figure 28: Systems Thinking Diagram. (Consult Appendix D for larger version) *Source: Own Construction.*

The second subsystem further presents how an increase in demand can lead to an increased risk for greenwashing. From the Model of Objectives for Sustainability, it is seen how the instrumental concerns are related to achieve positive economic results, and hence more actors with instrumental concerns will get involved in impact investments as a way to achieve returns when the demand increases. More instrumental concerns will imply a higher need to please stakeholders, as a means of the stakeholder management. The Model of Objectives for Sustainability in the above analysis shows how this provides a risk for greenwashing amongst other factors due to there being no general standards to report on impact investments and it, therefore, becomes easy to (potentially accidentally) distort the results of the investments. Greenwashing creates a negative connotation to impact investing and will in turn potentially decrease the demand for impact investing. As the causes and effects are not closely related in time, there is a time delay to the link, which is why the presented loop may be difficult to observe or experience in reality.

The entirety of the systemic structures need to be taken into consideration, and as the above analysis shows there are further causes that can lead to greenwashing and as a result have an impact on the demand for impact investment, such as the perception gap which was explored in section 5.2.1.1.1..

The components of the perception model are all included in subsystem 3, however, as became clear from the above factor analyses, these were interrelated with various subsystems and components. If the demand for impact investing increases it will lead to an increase in the number of investors within the field, which according to the perception model presented in section 5.2.1.1.1. lead to a larger variety of schemas. Due to the variety of schemas, this will lead to a greater difference in how various stimuli is organised resulting in an increase in the perception gap and ultimately create differences in how impact investing is understood. The need for a shared intention, between the asset owner and the asset manager, increases, as the understandings of impact investing differ.

The need for a shared intention, therefore links subsystems 3 and 4, as the findings show that the shared intention is mainly created by the asset owners setting up common goals together with their asset managers prior to the investment in order to align the intention of the investment. Alternatively, the asset owners are found to select an asset manager based on them sharing the same values as them by conducting a heavy due diligence. Both decisions are based on engagement in the initial phase, which will lead to stimuli towards the asset manager which in turn will reduce the perception gap by aligning interpretations.

As engagement in the initial phase decreases the perception gap for how asset owners and asset managers understand impact, it will increase the trust in reporting and thereby decrease the ongoing engagement which in turn can lead to an increased risk for greenwashing. In the findings, ongoing engagement is further shown to be more likely when the asset owner holds more power and is perceived as a key player by the asset manager. Since the key players can have ongoing engagement with the asset manager, e.g. by having a board seat, they become less reliant on reporting, in comparison to the asset owners without power claims. Both the engagement in the initial and ongoing phase, leads to an increase in stimuli that will cause a retrieval of stored information and ultimately decrease the perception gap.

The systems diagram shows two main timings of engagements that will both, independently, decrease the perception gap:

1. Engagement in the initial phase
2. Ongoing engagement

5.2.2.3. Agency and Stewardship Relations

The Principal-Manager Choice Model is applied to the system in order to understand which premise the engagements are based on. According to the model, and in accordance with the findings, the ultimate scenario would be in the situation where both the principal and the agent choose a stewardship approach as it maximises the performance of the investment and thereby implicitly maximises the potential impact of the investment.

The systems map shows that engagement in the initial phase is conducted to align the intentions of the asset owner and the asset manager and narrow the perception gap which would, all else equal, create a foundation for a mutual stewardship relationship already in the early phase. From the above analysis of expectations to the asset manager (Section 5.2.1.2.), it is argued that especially when an asset owner expects their asset manager to pursue sustainable or impact due to critical management or corporate greening, they may be more prone to pursue a stewardship approach if this is in alignment with the asset owners own objectives. Especially investors with impact at a company-level are found to fall in these categories of ethical concerns, and thus especially when the asset manager has impact at a company level, the stewardship approach may be more sought for. On the other hand, if the asset owner expects a risk of greenwashing, they may be prone to follow the agency approach, in order to limit the risk. This would especially be appropriate for asset managers carrying out stakeholder management, yet only if the asset owner expects a risk of greenwashing. Especially for asset managers with impact at a product level, this may be a concern. Thus, asset owners seeking to ensure impact through asset managers with impact at a product level may be prone to follow the agency approach. Hence, although stewardship is found to be the optimal solution, maximising the performance, all asset owners may not pursue this strategy.

However, the structures of the system provide a situation where cooperation would be favourable but not obtained, and thus the mutual stewardship relationship is never achieved. Several factors result in a problem of *limiting structures* and is seen from the system as the balancing loops work as barriers to growth. The element of the perception gap will both increase and decrease as a result of the system’s causes and effects, and thereby never fully close. Further, the aspects of various understandings and lack of coherent measuring and reporting providing a constant set of new stimuli, adds limiting complexities. The asset manager will, although in a structure set up for stewardship, in time, end up in an agency approach, potentially unknowingly and unintentionally as new stimuli will constantly move the perspectives of the asset owner and the asset manager away from each other.

The system dynamics fulfil all three elements of an interesting principal agency problem since, there is;

1. an available surplus seen by the asset owners willing to pay the asset managers bonuses as incentives
2. a conflict of interest because of the separation of ownership and control when the asset owner employs an asset manager to invest their capital
3. an information asymmetry in the indirect investment flows, further endorsed by a lack in reporting standards

Several common mechanisms of an agency problem are seen present from the systemic analysis. Already prior to the investment, the asset owner is exposed to adverse selection when trying to choose an asset manager with similar values. The adverse selection occurs as the asset owner and the asset manager will have different understandings of impact investing from the start, and hence the asset manager will have superior knowledge about how impact will be understood when carrying out the investment. Additionally, the risk for greenwashing leads to a moral hazard problem, which can be due to the asset manager having superior knowledge, as a result of non-transparent reporting, or due to differences in perceptions, such that the asset manager understands and pursues impact in another way then what the asset owner intent with their investment.

Agency theory proposes contractual solutions to these problems, however, these solutions are not efficient due to the limiting structures of the system, which may lead to the asset owner and the asset manager taking different approaches, even unknowingly. Since the lack of consistent standards for reporting on impact makes it difficult to determine the optimal transactions prior to the investment it, therefore, encourages the asset manager to take its own decisions, leading to ex-post information asymmetry. When the asset manager takes these future decisions, they might not be aware of choosing an agency approach, but since structure influences behaviour there is a risk of the asset manager acting opportunistically. This opportunistic behaviour may be a result of the constant reinterpretations resulting from receiving new stimuli, and due to the factor of time, the asset owner may not be aware of this leading to what can be seen as opportunistic behaviour in hindsight.

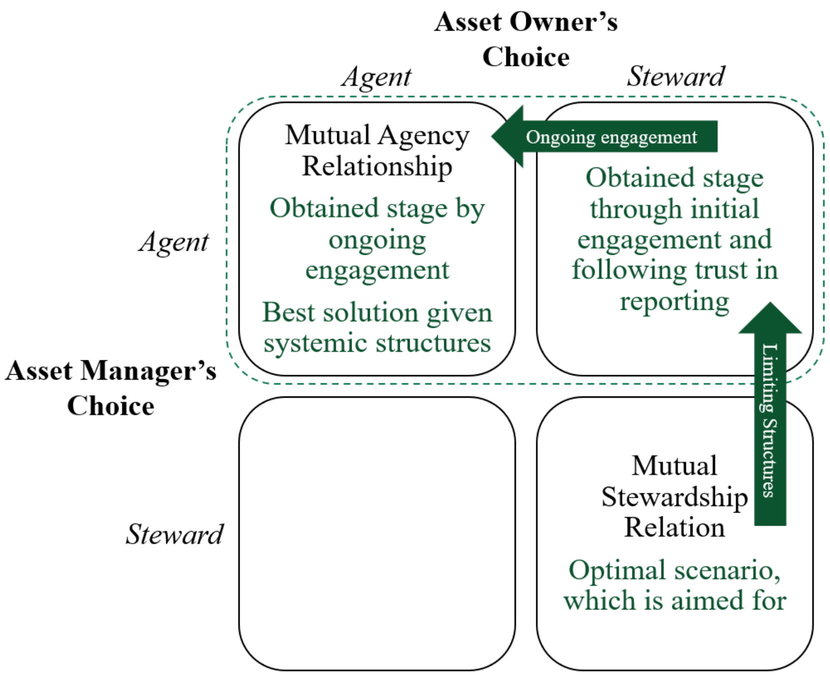


Figure 29: Agency and Steward Choice Analysis. Source: Own Construction, compiled based on Davis et al.'s (1997) Model.

5.2.2.4. Implications for Engagement

The limiting structures of the system, as described above (Section 5.2.2.3.), which hinders the asset owner and the asset manager from reaching a state of mutual stewardship approaches, has several implications for how asset owners do and potentially should engage. These implications arise from the principal-manager choice model implying differences in the optimal engagement types depending on the choices made by the actors.

Due to the limiting systemic structures, the mechanisms of initial and ongoing engagement are seen to counterwork each other. Engagement in the initial phase of aligning perceptions leads to an increased trust in reporting, as seen when asset owners rely on the asset managers reports towards the goals, due to their involvement in setting up the structures. With increased trust in reporting, the need for ongoing engagements to align perceptions is found to decrease. This is consistent with the analysis of the asset owners’ expectations to the asset managers, as the asset owner may be content with the informational or persuasive strategies, due to the trust in reporting and aligned expectations. However, it further leads to an increased risk of greenwashing as the lack of ongoing engagement will not aid in aligning the perceptions of the impact. The lack of ongoing engagements to align perceptions between the asset owner and the asset manager exposes the asset managers perceptions for other forms of stimuli. This further leads to the possibility that the asset manager's perception may evolve in one direction after the initial engagement and the asset owner in a different direction, unintendedly increasing the perception gap. The potential for misaligned perceptions presents a paradox of engagement.

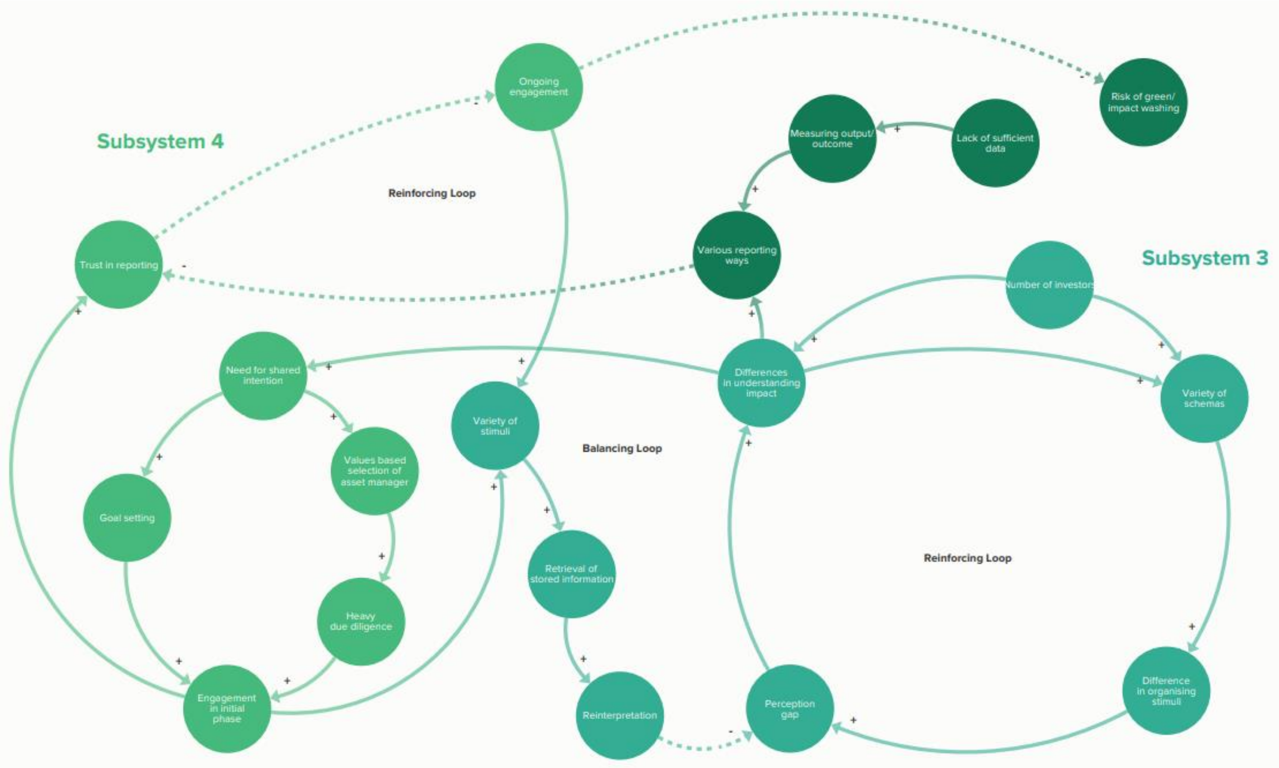


Figure 30: Subsystems 3 and 4 from the Systems Thinking Diagram. Source: Own Construction.

The paradox is found as the identified theoretical optimal relationship, being the mutual stewardship approach between the asset owner and the asset manager does not necessarily entail the best possible engagement strategy for the asset owner to ensure impact. In a condition of mutual stewardship, the structure would motivate the asset manager to act in the asset owner's best interest, and the initial engagement would align perceptions between the asset owner and the asset manager.

However, due to the paradox within the system even though the asset manager may have the intentions to act on behalf of the asset owner's best interest, and the asset owner may have done a due diligence in the initial stage and have ongoing meetings regarding results with their asset manager, they end up in a situation where, the asset manager may unknowingly act according to their own perceptions, which creates an agency problem.

As the inference of constant stimuli leads the asset owner and the asset manager to different perspectives after the initial engagement, the asset owner will need to acknowledge the agency problem to limit, even unintentional, opportunistic behaviour from the asset manager. Thus, to overcome a potential agency problem, the asset owner will need to engage both initially and on an ongoing basis with the intention of aligning perceptions.

The paradox of engagements then presents that the asset owner's theoretical optimal engagement strategy would result in a mutual stewardship approach as this will maximise performance and thereby potentially maximise the impact of the investment. This is obtained by conducting initial engagements to set up structures allowing for a collaborative partnership between the asset owner and the asset manager, however, following this strategy will due to the system result in a situation where the asset owner and the asset manager, instead potentially are misaligned. Thus, the best option, given the current system, is to follow an agency approach, and thus for the asset owner to conduct both initial and ongoing engagements to align perceptions.

5.3. Sub-Conclusion

By analysing the findings from the interviews and applying agency and stewardship theory, in combination with models from the fields of cognitive psychology and corporate communication, it is found imperative to consider the system of impact investments holistically. This is concluded as several external factors affect the relation between asset owners and asset managers, such as stimuli in the form of various definitions and reporting methods, to a degree such that the engagement must not be analysed in isolation.

The analysis of how the three factors, *actors*, *expectations* and *situation*, affect the engagements between the asset owner and the asset manager, has provided the foundation for the systemic analysis, which has shown that all elements are interconnected.

Through the application of the Principal-Manager Choice Model, an engagement paradox is discovered, leading to the following three key results:

1. Although, the optimal state would be where both the asset owner and the asset manager work towards a shared purpose in a collaborative approach, following a mutual stewardship relationship, the systemic structures of impact investments themselves impede this scenario.
2. Several factors are found within the system cultivating the current structures limiting the asset manager from operating as a steward, and thus may be unwillingly undertaking an agency approach. Amongst others, these factors include the lack of standardisation in definitions, understandings, and measurements and reporting, leading to a dynamic perception gap.
3. Given the way the system is currently set up, the best solution is for the asset owner to act to overcome the agency problem. To ensure positive impact, the asset owner must both engage initially with the asset manager to align incentives and carry out engagements ongoing through dialogue and critical investor questions to ensure that the perception of impact stays aligned throughout the investment.

The systemic structures identified are found to affect the engagements, however, the engagements will further affect the system. Therefore, when engagements are done to align perceptions and ensure positive impact, both in the initial phase and on an ongoing basis, this will affect the structures of the system, and thereby the understanding and reporting mechanisms of the system. As engagements will affect the overall system, by influencing especially the understanding and reporting mechanisms of impact investing, this brings the potential to reach a state where mutual stewardship relations are possible in the future.

6. Part III: Discussion

In this section, the implications of the empirical findings and results from Part II will be discussed, compared, and contrasted to the existing literature covered in Part I. The discussion will be presented in six segments. First, the inference of the main result of the interviews, relating to the engagement paradox and overall system will be discussed before alternative perspectives are discussed. Hereafter, the discussion will follow the structure of the sub research questions as implications of understanding and measuring impact will be discussed followed by a discussion of the current state of engagements, evaluation of the current engagements and lastly the recommended engagements based on the analysis findings.

6.1. Inference of Key Finding

This study set out to examine how impact investing is understood and measured and investigate how asset owners can engage with their asset managers to ensure positive impact of their investments. This positions the present study within the identified gap found in the literature on engagements within impact investing suggesting that further research is needed in regard to engagements. The empirical findings confirm the reviewed literature that several ambiguities and a lack of standardisation exists as to how impact is understood and measured. The empirical analysis has further demonstrated how the system of impact investments must be considered holistically, in order to answer the question of how asset owners can engage with their asset managers to ensure positive impact. The need to examine the systemic structures has arisen from the analysis of factors influencing engagements showing that the relation between asset owners and asset managers is influenced by several factors external to the relation. Thus, the relation between asset owners and asset managers is not best analysed in isolation. Through the systemic analysis of how the factors are connected and over time continually affect each other, an engagement paradox is found.

These results contribute to the existing literature in providing a thorough systemic view on engagements, while tying together some of the findings from existing literature by application of the agency and stewardship theories. The notion of differing institutional logics was found in the literature to affect the need for transparency, which the empirical analysis further adds to with the perception gap which leads to a need for ongoing engagements to align perceptions.

Although a research gap was found to be present in existing literature in terms of engaging to ensure positive impact, the literature identified on this topic, presented high-level conclusions on the importance of establishing common goals to align expectations, cooperation and standards of reporting. The empirical findings add to these statements, by bringing forth the systemic framework in which 1) common goals and aligned intentions must be set up due to the perception gap, 2) ongoing engagements to align perceptions must be conducted under a mutual agency approach as the optimal stewardship approach is unachievable, and 3) lacking standards of reporting are found to be a factor within the current system, affecting engagements. Further, the literature provided the more specific recommendations that the asset owner should challenge their advisors, while the asset managers should take responsibility for the investments. Following the logic of the empirical results, the notion of taking responsibility for the investments may imply following a stewardship approach, which the systemic analysis has shown, is hindered by the system, which is why the asset owners must challenge their advisors, as in an agency relation to align perceptions.

6.2. Alternative Perspectives of Findings

The engagement paradox as found from the empirical analysis, is a result of the qualitative study and systemic analysis and interpretation of the interview findings. As a systems thinking diagram is bound by the quality of perspectives, the interpretations of the interview findings would consequently differ depending on the individual observing the findings or the systems diagram. This would perhaps lead to differences in the specific application of each model and hence different results, however, this strengthens the overall conclusion in the need to consider the system holistically. It is deemed beyond the scope of this thesis to provide conclusions as to the specific causes and effects within each of the factors affecting the system. The results of the empirical analysis may additionally have varied, if the researcher had instead applied a strict stewardship perspective, and one could therefore instead have argued how the system must be changed to get to a state of mutual stewardship approaches, which would likewise be a valid perspective. However, this study argues how asset owners can engage in order to work with the system and meanwhile affect the system towards a mutual stewardship state. How additional factors of the system may have the potential to aid in influencing the system towards the optimal state is beyond the scope of this thesis.

6.3. Implications of Understandings & Measurements of Impact

The present research has aimed to identify how asset owners can engage to ensure positive impact of their investments, yet a prerequisite was identified being the examination of how impact investing is understood and measured. Given the findings of the systemic structures of impact investments, how impact is understood and measured is indeed found to be cornerstones in why the engagement paradox is present.

Since no single agreed-upon definition exists, both the literature and empirical analysis point towards the need for engagement to set up intentionality and alignments. The empirical findings on how impact and impact investing is understood are generally in agreement with the literature. Great definitional and terminological variations are found, however where the literature focuses highly on specific definitions and terminology, the empirical findings show a greater diffusion. Within the literature, variations of impact and impact investments were specified to a greater degree than what is seen in this empirical study. Terminology such as primary and secondary impact, as well as early-stage impact investments and mainstream impact investments, was specified in the literature, yet found to be discussed in the interviews but not specifically termed or defined. Although literature showed more sophisticated definitions, they were generally greater encompassing, e.g. by including various degrees of financial returns, whereas the empirical findings have shown that individuals have more narrow perceptions yet without the sophistication in the descriptions and terminologies. When comparing the understandings found in literature to the empirical findings, a general denominator may be considered as the impact being “what is different because of the investment”. This may cover both mainstream impact investments where the impact is due to the operations of the asset itself and new capital allocations, as well as investor impact. However, it is suggested that each investor should clarify their goals of the impact investments, such as accepted returns and asset classes, to better align expectations. This is important due to the finding that the interviewed asset owners generally do not perceive publicly listed assets to be eligible for impact investing, which the asset managers generally do.

With regards to the understanding of impact, the literature defined impact in a unified way as the effect on society, and further used the logic model to specifically stipulate the difference between outcome and impact of an investment, which according to the existing literature is a crucial distinction. From the empirical findings, the use of the logic model to describe impact is also found, although not as sophisticated and the need to distinguish between outcome and impact is found dubitable.

The logic model is further used to measure impact, both in the empirical findings, however to a larger and more specified extent in the literature. Across both literature and empirical findings, the importance of measuring impact is highlighted. In the literature a general agreement existed that measuring the impact, being the amount of outcome attributable to the investment itself, was the end goal. However, scholars argued that this may be costly and that in reality no tool or methodology is available to accurately measure these aspects, potentially leading to a focus on more quantifiable measures such as output or outcome. Due to the complexity concerning standardised reporting on impact as seen in both the literature and in the empirical findings, both consistently turned to more comparable metrics such as amongst others, the SDGs. The empirical findings have elaborated on this last point, as several viewpoints are found which question the need to measure the impact attributable to a specific investment.

Given the fact that measuring and reporting impact is deemed important in both literature and the empirical findings, although discussed to which degree, this is specifically found to be a factor influencing the system in which the impact investments take place. The literature highlighted many specific ways of measuring impact, and further pointed towards the need for both individualism of the measures and yet also a certain centralisation and comparability. A discussion is found in the literature of whether one single measure would in fact be the best solution. The empirical findings add to this, as it is found that the actors do not make use of the many specific measurement methodologies, yet that the need for both specialisation and homogeneity is present in their perception. From the empirical findings, it is suggested that the system is limited due to the lack of standardisation, transparency and comparability of measuring and reporting, as was suggested by existing literature. The findings on how the challenges to measuring impact affects the entirety of the system, being a core factor in limiting the stewardship approach, adds to the existing literature while being in alignment with the logic of previous findings.

6.4. Current State of Asset Owners Engagements

Although a gap was identified in academia covering engagements in impact investing, the literature was found to discuss the different actors and potential power dynamics as well as different levels of influence by different types of actors. The empirical data confirms this, by mapping how the engagement follows the flow of capital and shows that the bigger relative capital allocation made in an investment the more power the asset owner will have and therefore be more likely to affect how the asset manager invests and engages with the asset and thereby potentially affect the impact of the investment. Although the empirical findings have solely presented the size of the capital allocation to influence the power, it is noteworthy how other factors may also influence the perception of the asset owner than found in the analysis, such as brand, relation or potential for further partnerships. Due to the methodology of this study, the specific factors have not been identified, but due to the scope of the thesis, this is not deemed to affect the credibility of the results. Further, the empirical analysis has built on the relations and power dynamics between asset owners and asset managers and has further explored how different communication strategies are possible depending on the power dynamics, finding that smaller investors can collaborate in a joint engagement to obtain power. This raises the importance of understanding the expectations of the other party and how it creates objectives for the engagement when going further into detail of how asset owners engage with their asset managers.

The literature includes high-level conclusions in regard to which aspects of engagements are valuable. These are in alignment with the empirical findings regarding the importance of establishing common goals to align expectations, cooperate and create standards of reporting. Further, the empirical data goes into detail of how asset owners and asset managers engage. In alignment with the existing literature, dialogue strategies are found to be valuable by both asset owners and asset managers. However, the empirical findings further highlight that these engagements are primarily carried out at two stages of the investments; 1) in the initial phase, as a due diligence, to ensure aligned expectations, and 2) throughout the holding period in order to affect the investments and understand results. During the holding period, the empirical findings proved that critical investor questions were often used during the ongoing engagements to limit the risk of greenwashing and ensure positive impact with the investments.

The findings are in alignment with perspectives of the existing literature, however, adds the aspect that asset owners will vary in which ways they carry out engagements depending on their levels of perceived power and interest, expectations to the asset manager and the current situation. Additionally, although both initial phase and ongoing engagements are touched upon in literature, the empirical findings add the distinction between each of the strategies depending on the purpose, and that asset owners vary in regard to whether they carry out either initial or ongoing engagements, or both.

6.5. Evaluation of Current Engagements

Although high-level engagement suggestions were made in existing literature, one of the apparent gaps identified relates to the investigation and evaluation of engagements carried out. The present thesis has explored this gap and provides new insights into the relationship between asset owners and asset managers with the intention to ensure positive impact of investments. It is beyond the scope of the present thesis to evaluate the effectiveness of each specific engagement initiative. However, the empirical analysis has provided evaluations of engagements in two significant ways, 1) evaluation of the short- and long-term effects of engagements in the initial and ongoing phase respectively and 2) bringing forth the shared trends of engagement tactics which led to any effects. Evaluation of each specific initiative would, given the findings of this thesis, prove difficult due to the individuality and complexity of factors affecting this.

First, both engagements in initial and ongoing phases of the investments are found to have both short- and long-term effects, which are all identifiable in the systems diagram. In the short term, the engagements are seen to lead to the development of new products, changes in the portfolio, or improvements to the specific reporting methods. In the long term, the empirical analysis has found that engagements will aid in closing the perception gap and affect the overall system by increasing awareness, increasing demand, improving reporting, and facilitating a common understanding, which could potentially lead to a more unified definition. These findings are in alignment and further build upon the existing literature. However, the empirical results of the engagement paradox stating that closing the perception gap by initial engagement will not prove effective in the long term without following up by ongoing engagements, due to the current limiting structures within the system, suggests an evaluative extension to the existing literature.

6.6. Recommended Engagements

Having discussed, compared, and contrasted the findings from the literature and empirical analysis, it is argued that the present thesis is in alignment with the logic of the existing literature and that the findings of the present thesis serve as an addition to the existing literature gap on engagements in impact investing. Going forward the findings suggest strategic recommendations which are given the current structures of the system, implying that these engagements may, in turn, affect the system. Due to the systemic structures, the present thesis recommends asset owners, to a higher degree than what is often the case today, to engage throughout the entire investment process with the intention to align perceptions. Thus asset owners can engage with their asset managers to ensure positive impact only by both engaging in the initial phase of an investment with the aim to set up a shared purpose and intention, align reporting and agree on perceptions, as well as during the ongoing investment, through a dialogue strategy and critical investor questions, to ensure that the alignment of perceptions persists.

7. Conclusion

This research aimed to examine how impact is understood and measured, and how asset owners can engage with their asset managers to ensure they achieve positive impact of their investments.

The study is positioned within a research gap in the literature proving a need to further examine the effects of engagement on impact investments. In order to identify the optimal engagement approach, the understanding and measuring of impact have been examined due to the novelty of the impact investing field. How asset owners can engage with their asset manager has been analysed through a qualitative analysis consisting of a thorough literature review, an empirical analysis based on interviews with 22 practitioners from the industry and a discussion comparing the literature and empirical analysis.

Overall, it is concluded that, due to the lack of clear definitions and standards to measurements and reporting, the perception of impact investing varies greatly, even to an individual degree amongst the actors in the field. Thus, the results indicate a perception gap of how asset owners and asset managers understand impact generating a need to understand the underlying systemic structures of the industry influencing the engagements. This is found to lead to a paradox of engagement, in terms of how asset owners best engage with their asset manager to ensure positive impact.

First, the thesis set out to examine whether asset owners and asset managers are aligned in their understanding. This is done by assessing 1) how asset owners and asset managers understand impact investing and impact, and 2) in which ways and to what degree impact is measured. The findings of the empirical analysis confirm existing literature that there is a variety of definitions and understandings in relation to impact and impact investing, and that practitioners vary in their opinion of what should be measured when reporting on impact. The understanding of impact investing is generally found to revolve around a financial and a sustainability aspect, and impact is seen to be understood as an effect on ESG factors of society. In terms of measurements, the literature showed more sophisticated measurement techniques of impact while the empirical analysis has presented a discussion of how much should, in fact, be measured. Both practitioners and scholars are found to vary greatly in several aspects with regards to how impact investments should be understood and measured, and as a result, engagements are found to be crucial for the asset owner to align perceptions with the asset manager.

Hereafter, the engagements were examined, by asking the question of how asset owners engage with their asset managers to ensure positive impact. The present thesis, show that engagements are primarily carried out at two stages of the investments; 1) in the initial phase, of setting up the investment, where the asset owner conducts a due diligence, or the asset owner and the asset manager together set the intention with the investment, and 2) on an ongoing basis e.g. as a dialogue between the asset owner and the asset manager or through critical questions from the asset owner. Some asset owners are found to carry out both, whereas others rely on engagements in one of the two stages. Both engagements will independently, all else equal, aid in creating a joint understanding of impact investing, and thus bring the perceptions of the asset owner and the asset manager closer, at the time of engagement.

Combining the above conclusions made it possible to further analyse and make recommendations as to how asset owners should engage with their asset managers to ensure positive impact, going forward. In order to explore the best engagement strategy, it was found necessary to examine the entirety of the system due to several factors from outside the relationship between the asset owner and the asset manager influencing the engagement, and thus the engagement is not found to best be explored in isolation. The systems thinking analysis holistically seeks to consider how all identified components which affect engagements with the objective of ensuring positive impact are related. The identified system in the systemic analysis, which is interconnected with greater systems of investments, is found to be of a dynamic nature. Through this systemic analysis, an engagement paradox is identified.

The paradox is that the identified theoretical “optimal relationship” between asset owners and asset managers does not necessarily entail the best possible engagement strategy for the asset owners to ensure impact. It is suggested that the optimal relationship between the asset owner and the asset manager is a mutual stewardship relationship. In a condition of mutual stewardship, the structure would motivate the asset manager to act in the asset owner’s best interest, which would maximise potential performance. When the asset owner and the asset manager set out to have this trusting relationship, they base their relationship on the initial trust-building and alignment of perceptions and may therefore not verify that the perceptions stay aligned throughout the investment period. However, the way the identified current system of impact investments is set up, suggests that this will lead to the perceptions moving apart, and the asset manager will, therefore, act according to their own perceptions, which creates an agency problem. Thus, the findings suggest that the asset manager may have the intentions to act on behalf of the asset owner’s best interest. But although the asset owner may have done a due diligence in the initial stage and have ongoing meetings regarding results with their asset manager, they end up in a situation where, even though the asset manager believes to act according to the asset owner’s expectations, the current system limits the mutual stewardship approach. The results suggest that given the current systemic structures the best strategy for the asset owner, is to instead treat the relationship with the asset manager as a mutual agency relationship.

Hence, to the overall aim of this thesis, *how asset owners can engage with their asset managers to ensure they achieve the positive impact of their investments that they are aiming for*, the study concludes, that given the current systemic structures asset owners can engage with their asset managers to ensure impact, only by both:

1. Engaging initially in terms of due diligence and setting up intentions, incentives and align expectations with their asset manager, and
2. Engaging on an ongoing basis throughout the holding period with the objective to keep perceptions aligned by pursuing dialogues and asking critical questions.

Though these are the two stages in which engagements are seen in the findings, the recommendation is that both must be carried out and that asset owners should, to a higher degree than what is primarily the case today, engage throughout the entire investment process with the intention to align perceptions, in order to best ensure positive impact.

7.1. Managerial Implications

The findings presented in this study are important to practitioners within the field of impact investing as well as investors in general, including asset owners, asset managers and service providers, as they suggest a strategic solution for how asset owners can engage with their asset manager to ensure impact of their investments. This is important as the findings highlight that a paradox of engagement exists within the greater investment system that stems from the lack of existing definitions of impact investing and transparent reporting of impact. This lack of definitional agreement creates a gap of how different asset owners and asset managers perceive impact investing, and since transparent measures do not exist to help overcome this gap, the findings thus highlight a need to consider the system in which the asset owner invests holistically. Further, the findings suggest that engagements by the asset owner with the asset manager may help close this perception gap throughout time, providing an argument for the importance for practitioners of understanding the implications of their engagement.

Specifically, the findings are relevant for asset owners who wish to ensure positive impact of their investments, and suggest that asset owners shall engage with the asset manager in two phases - first, the initial phase prior to the investment and second, on an ongoing basis throughout the holding period of the investment. Engagement in the initial phase should be conducted to align perceptions and incentives between the asset owner and the asset manager, and ongoing engagements should be carried out in the form of dialogue and critical investor questions with the objective of ensuring that the perceptions stay aligned and that the positive impact which the asset owner sought for is achieved.

The findings indicate that in order for the engagements to be successful the asset owner should take into consideration how they are perceived by the asset manager, the expectations that the asset owner has towards how the asset manager may engage and act throughout the investment, and lastly what implication both internal and external situational factors can have on the relation between the asset owner and the asset manager.

7.2. Recommendations for Future Research

This thesis provides some recommendations for future researchers to build on the present findings. As the scope of the present study is limited to the field of impact investing, the systems analysis provides an interesting perspective for future research of how the system of impact investing may unfold in relation to the greater system of investments. It poses an interesting angle for future research as it is yet to be determined whether the system of impact investing engagements will develop as its own subsystem or as an integral part of greater investment and asset management systems, which may prove important for the success of impact investing as a field. Additionally, the present study has identified the engagement paradox and suggested the overarching needs to engage in terms of timing, and level of engagements, however, the specific tactics of engagements are deemed beyond the scope of this thesis yet poses as a topic for future research. This thesis has shown how the factors of actors, expectations and situation will affect the engagement and system of impact investments, however, future research may build on this analysis to prove how the specific engagements in the relationship is best carried out, to a higher level of detail. Lastly, the factors of definitions and measurements, which are both identified to be affecting the system of impact investments and engagements, may be further researched as to how they are best developed to foster a collaborative stewardship relation between asset owners and asset managers.

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Appendices

Public Appendices

Confidential Appendices

Appendix A: Interview Guides

The preamble is consistent for Asset Owners, Asset Managers and Service Providers.

Preamble

Thank You
First of all, thank you very much for agreeing to do this interview with us. (It is really quite an honour to get the opportunity to interview you for our master's thesis, so a great thank you for taking the time).

Practicalities
[If not already agreed e.g. by email] I do just want to start off by asking if you are okay with us recording the interview? We will of course not keep any recordings, and everything said will only be used for the sole purpose of writing our thesis.

[If already agreed] I do just want to start off by reminding you that we are recording the interview, as already agreed upon per email, and that we will of course not keep any recordings, and everything said will only be used for the sole purpose of writing our thesis.

[If not discussed] So far the thesis is non-confidential, meaning that it may be published on the CBS Theses site, and it is our intention to keep the thesis open, as we see this as a topic others may benefit from, and a way to progress the agenda of impact and sustainability. However, should you, now or after the interview decide that you wish this interview to be confidential, we will, of course, be happy to do so, if that is the prerequisite for having this interview. We do have the contract form with us, in case.

That was it, on practicalities from our side, so unless you have something to add, I suggest we dive into the topic? [give chance to respond]

Intro to us
Briefly about us, we studied our bachelor's degree in IB together, and now study our Master's in Finance & Strategic Management at CBS, we have long known that we have a great interest in sustainability and in impact investments. We have therefore chosen to write a strategic thesis focusing on the investment topic.

Topic prompt
I will just give a short introduction to the topic before diving into the questions, however, I will keep it rather brief as we want to keep the interview as open as possible. As we also briefly mentioned in our email, we are writing our thesis on Impact investments, as we see that there is an increasing interest and focus within this field. However, as it is still emerging as a relatively new concept, it seems there may still be a few challenges or aspects that still need defining or standardization. We are specifically investigating the engagements between asset owners and asset managers in relation to impact investing.

Do you have any questions before we begin? Otherwise I would now like to hear more about you.

Asset Owner Interview Guide

Introductory Questions

Who are we interviewing and why are they important to our research?

1. Brief introduction to person, role and company
2. Investments, strategy and focus
3. Brief introduction to impact investing at [Company]

Impact

How do asset owners and asset managers understand impact?

1. How does [Company] work with impact investments?
2. (How do you work with impact investments?)
3. **How is impact defined at [Company]?**
4. What is the goal of investing with impact at [Company]?
5. **How are impact investments understood? (By company, employees, clients)**
6. Do you have one specific Impact Product?
7. How do the impact investments differ from the other investments?

If they do not perceive their investments to be impact investments

[If no Impact investments, continue with the type of investments they do have, e.g. sustainable] We are interested in the entire spectrum from no impact to full impact, so this type of investment is definitely still relevant for us.

8. How do you find (ESG; responsible, sustainable investments) to differ from impact investments?
9. What is the reasoning for the choice of not carrying out dedicated impact investments?

Measure

In which ways and to what degree is impact measured?

1. Is impact measured and/or reported at [Company]?
2. How is impact reported?
3. How is the process?
4. Do you have any partners who are part of the process?
5. What is the purpose of reporting impact at [Company]?

6. **How is impact measured?**
7. How is the process?
8. For whom?
9. Which steps are taken?
10. Who is doing the measuring – your firm? Your asset managers? The investee? Etc.

11. Which factors do you see as most important when reporting and measuring impact?

12. **How do you experience the process of measuring and reporting impact?**
13. **How subjective/Objective to you experience the measure?** (Why?)

14. What is your evaluation/opinion on the measuring and reporting of impact?
15. What do you think works well?
16. What do you think could be improved?

17. Which data is used for the measures provided?
18. How important is the data foundation for you? (How about your asset managers?)
19. How critical are you towards the data?
20. Which requirements do you set to your Asset managers in terms of data?
21. Did you know that the data sets can vary greatly across providers? What do you do about this?

Relation

Which formal relationships do asset owners have?

22. Who is involved in your investment process?
23. Who are your investees? (Foundations? Direct investments?)
24. Do you invest through external asset managers? (Generally? For your impact investments?)
25. How do you decide on asset managers?
26. How important is the aspect of impact in choosing asset managers?
27. Do you invest in Impact Investing funds?

(30 min) Engagement

How does the asset owner engage with their asset managers to ensure positive impact?

28. Do you actively engage with your asset managers? Do you carry out active ownership?
29. How important is ensuring positive impact of your investments?
30. **Do you do anything to make sure that your asset managers deliver impact on your investments? (What?)**
31. How does the communication usually take place? (Email, Phone, Meetings, board meetings, who is involved?)
32. Do you use stewardship companies to engage with your asset managers?
33. Can you tell me about a situation in which you actively engaged for more information on the impact of your investments?
34. Are you part of the investment decision?

How do asset managers engage with their asset owners (investors)?

35. Do your asset managers generally actively engage with you to ensure you of the impact of your investments?
36. Do they seem to find it relevant to actively keep you engaged? (How?)
37. In which ways do your asset managers inform you of the impact of your investments?

In which ways are the engagements of investors impactful (evaluation of current state)?

38. Can you describe a situation where an engagement with one of your asset managers led to a change/impact on the investment?
39. Would you try and describe an engagement with an asset manager which you thought was impactful?
40. Are interactions with asset managers regarding impact usually a positive or negative experience?
41. How do engagements with asset managers usually end?

42. Are you generally happy after an engagement? Do you usually follow up?
43. What about the asset managers - how do you think they feel after engagements revolved around impact?
44. Do you see any relations between active ownership and impact investments (how?)
45. In your view, does it improve impact investments when investors carry out active ownership?**?**

Challenges

What challenges are there in ensuring impact to your investors?

46. What is your opinion on/attitude towards/view on impact investing?
47. Do you experience any challenges regarding impact investments?
48. **Which challenges (if any) do you experience regarding impact investments?**
49. Which aspects of impact investing would you appreciate were different?
50. What do you think your investors find as challenges within impact investing?

Outlook for the future

Going forward, how should investors engage with their managers to ensure impact?

51. How do you think the future of impact investments will look?
52. **What do you think will happen in the field of impact investments within the coming years?**
53. What do you hope to see in the field of impact investing?
54. How do you think/hope the measuring of impact will evolve?
55. Who do you see as leaders within the field of Impact Investing (can be organizations or individuals)

Debriefing

56. Do you have anything else to add?
57. We have no further questions. Is there anything else you would like to bring up or ask about before we finish the interview?

Asset Manager Interview Guide

Introductory Questions

Who are we interviewing and why are they important to our research?

1. Brief introduction to person, role and company
2. Investments, strategy and focus
3. Brief introduction to impact investing at [Company]

Impact

How do asset owners and asset managers understand impact?

1. How does [Company] work with impact investments?
2. (How do you work with impact investments?)
3. **How is impact defined at [Company]?**
4. What is the goal of investing with impact at [Company]?
5. **How are impact investments understood? (By company, employees, clients)**
6. Do you have one specific Impact Product?
7. How do the impact investments differ from the other investments?

If they do not perceive their investments to be impact investments

[If no Impact investments, continue with the type of investments they do have, e.g. sustainable]
We are interested in the entire spectrum from no impact to full impact, so this type of investment is definitely still relevant for us.

8. How do you find (ESG; responsible, sustainable investments) to differ from impact investments?
9. What is the reasoning for the choice of not carrying out dedicated impact investments?

Measure

In which ways and to what degree is impact measured?

1. Is impact measured and/or reported at [Company]?
2. How is impact reported?
3. How is the process?
4. Do you have any partners who are part of the process?
5. What is the purpose of reporting impact at [Company]?

6. **How is impact measured?**
7. How is the process?
8. For whom?
9. Which steps are taken?
10. Who is doing the measuring – your firm? The investee? Etc.

11. Which factors do you see as most important when reporting and measuring impact?

12. **How do you experience the process of measuring and reporting impact?**

13. **How subjective/Objective to you experience the measure?** (Why?)
14. What is your evaluation/opinion on the measuring and reporting of impact?
15. What do you think works well?
16. What do you think could be improved?

17. Which data is used for the measures provided?
18. How important is the data foundation to you? (How about your asset managers?)
19. How critical are you towards the data?
20. Which requirements do you set to your Asset managers in terms of data?
21. Did you know that the data sets can vary greatly across providers? What do you do about this?

Relation

Which formal relationships do asset owners have?

22. Who are your clients regarding impact investments?
23. Who are your investees?
24. (Follow-up, if not clarified) funds? Direct investments? Do you invest through external asset managers?
25. Who are your investors?
26. Are your investors generally seeking a positive impact on their investments?

(30 min) Engagement

How does the asset owner engage with their asset managers to ensure positive impact?

27. Do your investors actively engage with you? Do they carry out active ownership?
28. Do your investors generally seem interested in ensuring positive impact of their investments?
29. **What do your investors do to make sure that you deliver impact on their investments?**
30. How does the communication usually take place? (Email, Phone, Meetings, board meetings, who is involved?)
31. Can you tell me about a situation in which an investor wanted more information on the impact of their investments?
32. Are the investors part of the investment decision?

How do the asset managers engage with their asset owners (investors)?

33. Do you actively engage with your investors to ensure them of the impact of their investments?
34. Do you find it relevant to actively keep the investors engaged? (How?)
35. **In which ways do you inform your investors of the impact of their investments?**

In which ways are the engagements of investors impactful (evaluation of current state)?

36. Can you describe a situation where an engagement with one of your investors led to a change/impact on the investment?
37. Would you try and describe an engagement with an investor which you thought was impactful?
38. Are interactions with investors regarding impact usually a positive or negative experience?
39. How do engagements with investors usually end?

40. Do your Investors seem happy after an engagement? Do they usually follow up?
41. **Do you see any relations between active ownership and impact investments (how?)**
42. **In your view, does it improve impact investments when investors carry out active ownership?**

Challenges

What challenges are there in ensuring impact to your investors?

43. What is your opinion on/attitude towards/view on impact investing?
44. Do you experience any challenges regarding impact investments?
45. **Which challenges (if any) do you experience regarding impact investments?**
46. Which aspects of impact investing would you appreciate were different?
47. What do you think your investors find as challenges within impact investing?

Outlook for the future

Going forward, how should investors engage with their managers to ensure impact?

48. How do you think the future of impact investments will look?
49. **What do you think will happen in the field of impact investments within the coming years?**
50. What do you hope to see in the field of impact investing?
51. How do you think/hope the measuring of impact will evolve?
52. Who do you see as leaders within the field of Impact Investing (can be organizations or individuals)

Debriefing

53. Do you have anything else to add?
54. We have no further questions. Is there anything else you would like to bring up or ask about before we finish the interview?

Service Provider Interview Guide

Introductory Questions

Who are we interviewing and why are they important to our research?

1. Brief introduction to person, role and company
2. Investments, strategy and focus
3. Brief introduction to impact investing at [Company]

Impact

How do asset owners and asset managers understand impact?

4. **How do you define impact at [Company]?**
5. How does impact investments differ from other investments?
6. What do you identify as the main goal of investing with impact?

7. **How are impact investments understood by asset managers/asset owners?**
8. How has the understanding of impact changed/evolved over time?
9. Do you see a difference in the way asset owners and asset managers talk about impact investments?

Measure

In which ways and to what degree is impact measured?

10. Do you work with the measurements/reporting of impact at [Company]?
11. How is impact reported?
12. How is the process?
13. Do you have any partners who are part of the process?
14. What is the purpose of reporting impact at [Company]?

15. **How is impact measured?**
16. **How is the process?**
17. For whom?
18. Which steps are taken?
19. Who is doing the measuring – your firm? The asset managers? The investee? Etc.
20. How did you establish the measurement?

21. **How do you see Impact being measured in the industry?**

22. Which factors do you see as most important when reporting and measuring impact?
23. What have you experienced is the most important to asset owners when given an impact measure/report?
24. What about asset managers?

25. **How objective or subjective would you say the measure is?**

26. **How do you experience the process of measuring and reporting impact?**

27. What is your evaluation/opinion on the measuring and reporting of impact?
28. What do you think works well?
29. What do you think could be improved?

30. What are some of the key focus areas at [Company]?

Relation

Which formal relationships do asset owners and asset managers have?

31. Who are your clients regarding impact investments?
32. Are your clients primarily asset owners or asset managers?
33. Who benefits from your products and services?
34. Do you ever take part in engagements between asset owners and asset managers?

(30 min) Engagement

How does the asset owner engage with their asset managers to ensure positive impact?

35. **In which ways do you observe that asset owners engage with their asset managers?**
36. Do you generally see that asset owners are interested in ensuring impact of their investments?
37. How have you seen asset owners try to ensure impact through their asset managers?
38. In which ways does [Company] contribute to this dialogue?

How do the asset managers engage with their asset owners (investors)?

39. Do you see that asset managers actively engage with your investors to ensure them of the impact of their investments?
40. **What do asset managers do to keep the investors engaged?**
41. Can you tell me about a situation where you have observed asset managers inform their investors of the impact of their investments?
42. In which ways does [Company] contribute to this dialogue?

In which ways are the engagements of investors impactful (evaluation of current state)?

43. Have you observed/been involved in situations where engagements between asset owners and managers led to a change/impact of the investment?
44. **What is your view on stewardship and active ownership?**
45. **Do you see any relations between active ownership and impact investments (how?)**
46. In your view, does it improve impact investments when investors carry out active ownership?

Challenges

What challenges are there in ensuring impact to your investors?

47. What is your opinion on/attitude towards/view on impact investing?
48. Do you experience any challenges regarding impact investments?
49. **Which challenges (if any) do you experience regarding impact investments?**
50. Which aspects of impact investing would you appreciate were different?
51. What do you think your investors find as challenges within impact investing?

Outlook for the future

Going forward, how should investors engage with their managers to ensure impact?

52. How do you think the future of impact investments will look?
53. **What do you think will happen in the field of impact investments within the coming years?**
54. What do you hope to see in the field of impact investing?
55. How do you think/hope the measuring of impact will evolve?
56. Who do you see as leaders within the field of Impact Investing (can be organizations or individuals)

Debriefing

57. Do you have anything else to add?
58. We have no further questions. Is there anything else you would like to bring up or ask about before we finish the interview?

Appendix B: Themes and Codes

This appendix presents the codes and categories established through the coding process adapted from Grounded Theory Methodology. Categories are noted with a 1., and subcodes are indented to indicate their inferior position to the categories or other codes.

The key codes and categories selected to answer the research questions are noted with a * followed by the appropriate research question(s).

1. **Actions* (RQ3)**
    - activity creation
    - client pleasing
    - collective action
    - commitment
    - creation of new possibilities
    - do good
    - own actions of investors
        - walk the talk
    - pushing asset managers
    - pushing responsibility on
    - rather engage than exclude
    - take position
1. Actors
    - asset managers
        - asset manager role
        - complications of asset managers
    - asset owners
    - beneficiaries
        - clients
    - differences in actors
    - diverse group of stakeholders
    - experts
    - foundations
    - front runner
    - GIIN
    - government as asset owner
    - high net worth individuals
    - IFC
    - IFU
    - IMP
    - investment banks
    - investors
        - competent investors
        - female investors
        - investor focus
        - investor responsibility
        - investor security
        - private investors
    - network
    - NGOs and media
    - Pension Funds
    - shift of generations
    - SMEs
    - specific investees
    - supplier based on amount of data
    - The National Advisory Board for Impact Investing
    - the ultimate clients
    - UN PRI
        - UN PRI signatory
1. Additionality
1. agency problem
    - accountability
    - aligned expectations
1. ambiguity
1. Approaches
    - mixed approach
    - pragmatic approach
    - qualitative
    - quantitative
1. asset class
    - bonds
    - debt
    - direct investments
    - green bonds
    - listed
    - microfinance
    - more common for direct investments
    - private debt
    - private equity
    - Projects
    - service
    - unlisted
    - venture capital
1. attitude
    - mixed attitude
    - negative
        - negative descriptive words
            - bad reputation
                - avoiding
                - **negative**
                - publicity
            - market dysfunctions
            - non-aggregable
            - superficial
            - The definition is too restrictive
            - too many opinions
            - unresolved potential
            - vague
    - positive
        - positive descriptive words
            - flexibility from not having owners
            - important
            - informational advantage
            - inspire
            - mainstream
            - maintaining integrity
            - opportunities
            - perfection
            - sexy area
            - solution
            - sophistication
            - think outside the box
            - trust in asset manager
            - trust in data
            - trust in the sector
1. catalytic
    - exponential
1. challenges
    - barriers
    - big workload
    - can you have impact investments with no return
    - can you measure too much
    - competitive parameter
    - complexity of products
    - conceptual challenge
    - criticism
    - demystify the industry
    - different challenges depending on the maturity of investee
    - everyone wants to be a leader
    - fluffy
    - fragmentation
    - green- & impact washing
    - how to get capital into impact investing
    - if we wait for the data, we will never get started
    - investor barriers
    - is it the right actors to ensure impact
    - lack of consistency
    - lack of data foundation
    - lack of demand
    - lack of expertise
    - lack of transparency
    - no goalsetting
    - own disadvantage
    - risk
1. checkmark
    - labelling
1. corona
1. country differences
    - people in Denmark cannot choose their pension
1. **data* (RQ2)**
    - inputs
    - personal judgement of when you have enough data
    - satellite data
1. definition
    - common language
    - GIIN's definition
    - terminology
1. double bottom line
    - blended finance
    - either or
    - not in isolation
    - trade-offs
1. ease
    - Difficult

        - difficult to have impact investing without active ownership
    - ease of investing
    - easy
1. eco system
1. Effect
    - change
        - change of system
        - disruption
        - improvement
        - transition
    - contribution
        - attributing vs contributing
    - deferred effect
    - development effects
1. **Engagement* (RQ3)**
    - active investors
    - active ownership
    - **asset owner engagement* (RQ3)**
    - board meetings
    - communication
    - continuous support
    - critical investor questions
    - dialogue
        - dialogue with investee
        - ongoing dialogue
    - engagement attitude
    - formal interaction
    - guidance
    - **high engagement* (RQ3)**
        - intensive interaction
    - impactful engagement
    - influence
    - informal interaction
    - investor board
    - **investor engagement* (RQ3)**
    - investor inputs
    - involvement
    - level of asset manager engagement to asset owner
    - **little engagement* (RQ3)**
    - many investors with different interests
    - meetings
    - open and honesty
    - partner meetings
    - pressure
    - requirements
        - board requirements
    - sparring
    - **stewardship* (RQ3)**
    - voting
        - proxy voting
        - voting against management
1. entrepreneurship
1. examples
1. Financials
    - all about the money
    - can you have impact on listed markets
    - capital looking for new places to invest
    - contracyclical
    - cost of investing
    - fiduciary duty
    - financial drivers
    - financial due diligence
    - financial performance
    - financial return
        - accept lower returns
        - concessionary returns
        - expected returns
        - fair return
        - good
        - market returns
        - not good
        - positive financial returns
        - profit maximising
        - reinvesting returns
        - too high returns
    - financial risk
    - financial stress
    - investing universe
        - financial language
    - man world
    - market correlation
    - mediation of money
    - new capital
    - no talk of impact but just investing
    - not getting access to unlisted investments
    - portfolio management
    - volatility
    - where does the money go
    - working money
1. **Goals and performance* (RQ2)**
    - ahead of social goals
    - as long as the goal is the same
    - capital as a means to a goal
    - **goalsetting* (RQ2)**
        - ambition of goals
    - impact-tied bonus
    - incentivised system
    - payment by result
    - **performance* (RQ2)**
    - performance bonus
    - **proof of performance* (RQ2)**
    - realising impact goals
    - savings
1. **Impact* (RQ1,2,3)**
    - afterthought of impact
    - amount of start-ups created
    - as big an impact as possible
    - capital allocation impact
    - claiming impact
    - collective impact
    - **definition of impact* (RQ1)**
    - **ensuring impact* (RQ2,3)**
    - everything has an impact
    - impact after the investment end
    - impact drivers
    - impact in all investments
    - impact investing strategy
    - impact should grow with business
    - indirect impact
    - **Investor impact* (RQ3)**
    - market level impact
    - negative impact
    - net impact
    - not enough impact
    - positive impact
    - spectrum of impact
    - understanding the impact narrative
    - **verifying impact* (RQ2)**
        - verifiable
1. **Impact Investing* (RQ1)**
    - **definition of impact investments* (RQ1)**
    - demand for impact investing
    - finance first
    - impact first
    - impact investment product
        - product development
    - momentum of impact investments
    - reason for not doing impact investing
1. **Impact measuring, reporting and managing* (RQ2)**
    - agreement
    - baseline
    - benchmark
    - calculations
    - compliance
    - evidence
    - framework
        - development of framework
            - everyone wants to develop the framework
    - impact calculators
    - measuring
        - in house impact measuring
        - **measurable impact* (RQ2)**
        - **measuring impact* (RQ2)**
        - portfolio impact measure
    - merging
    - metrics
        - additional capital attracted
        - amount of foreign capital attracted
        - indicators
        - kpi
        - number of companies
        - project to continue after investment
    - monitoring
    - proxy for impact
    - reporting
        - quarterly reports
        - reporting engagement
        - reporting impact
        - Reporting Length
            - 10 questions
            - 100 pages
            - 2 pages
            - 3rd party
            - 60-page questionnaires
        - reports
    - Simplifying measurement process
    - situational measuring
    - steering tool rather than a reporting tool
    - storytelling
    - weighted impact measure

you need to report
1. Impossible
impossible to connect financial market to impact
impossible to report
1. industry development
growing attention
growing trend
history
industry building
innovation
more money flowing into impact investing
more possibilities
new players entering the market frequently
status quo
the new normal
1. Intention
1. Interview intro
interviewee background
our intro
1. Investment Process* (RQ3)
active investee selection
choice of asset managers* (RQ3)
choice of investment
choice of partners
same supplier as for financial data
defining an investment strategy
due diligence
investment context
investment decision
pilot investments
screening
structure and processes
1. investment spectrum* (RQ1,3)
bonds
ethic
exclusion
financial inclusion
holistic
hygiene factor
investing in good
meaning of investments
mission related investment
philanthropy
donation
positive screening
normative screening
program related investments
responsible investment
sustainable investments
thematic investments
venture philanthropy
where impact investments work better than grants
1. Learning & Knowledge
knowledge sharing
sharing ideas
learning process
understanding investments
1. Level of Influence* (RQ3)
ownership rights
power
sphere of control
1. Logic Model
impact vs outcome
output
theory of change
what would have happened anyway
1. making the world a better place
a world to live in
1. marketing
1. mindset
awareness
courage
1. nuances
1. Perceptions & Interpretations
assumptions
interpretations
myths
perception of lower financial return
perception of you can have it all
psychology
1. Portfolio
balanced portfolio
diversification
pooled investments
1. Predictions
1. regulation
EU taxonomy
1. Relations
quality of relationship
1. scaling
1. Size
amount invested
investee company size
large amount of funds invested
small amount of funds invested
small size
1. standards
svanemærket
1. strategy
Broad vs. narrow focus of strategy
broad focus strategy
narrow focus strategy
members should not decide investment strategy
1. subjectivity
1. sustainability
circular economy
recycling
ESG
best in class
environment
climate
co2
co2 negative
co2 reduction
coal
global warming
lack of resources
Oil
ESG incorporation
ESG optimization
ESG ratings
ESG risk
governance
social
education
exposed areas
ghetto list
job creation
number of people in jobs
social barriers
social due diligence
Social entrepreneurs
social impact
social impact bonds
social investing
social performance
social return on investment
societal problems
socioeconomic index
vulnerable people
expectation of sustainability
SDGs
how the investees deal with SDGs
product vs operations
sustainable business model
sustainable return
transition themes
1. technology
AI
technical skills
1. Time perspective
long term
short term
1. Transparency
1. values
looking for values externally
mission
purpose
shared value
value creation
values-washing

Appendix C: Coding Analysis Method

Following the coding explained in the methodology section 3.3.2.2., the cross-references were mapped. The mapping process, leading to the identification of core themes is explained in this appendix.

Key Codes

First, the key-categories and codes were identified to answer the research question. More specifically, key codes were selected for sub-question 1, 2, and 3. The selected key categories and sub-codes for each research sub-question are presented below. The subcodes are presented in the cell next to their respective category.

Research Question 1: How do asset owners and asset managers understand impact?

Key Categories Selected	Sub-Codes Selected for Greater Detail
Impact	Definition of Impact
Impact Investing	Definition of Impact Investing
Investment Spectrum	

Research Question 2: In which ways and to what degree is impact measured?

Key Categories Selected	Sub-Codes Selected for Greater Detail
Data	
Goals and Performance	Proof of performance Goalsetting Performance
Impact	Ensuring impact Verifying impact
Impact measuring, reporting and managing	Measuring impact Measurable impact

Research Question 3: How do asset owners engage with their asset managers to ensure positive impact?

Key Categories Selected	Sub-Codes Selected for Greater Detail
Actions	
Engagement	Asset Owner Engagement Investor engagement Stewardship High engagement Little engagement
Impact	Investor impact Ensuring impact
Impact Process	Choice of Asset Manager
Level of Influence	

Cross-Referencing:

As explained in the methodology section 3.3.2.2, all codes were cross-referenced. This was done by creating a matrix of all 506 codes, by all 506 codes, where the number of times any two given codes overlapped, across all interviews, was identified. Then, the selected key categories were examined and the cross-referenced codes making up the top 50 % of the distribution of overlaps with the chosen categories were identified. This means that for any given key category, the total distribution of overlaps with other codes was considered, and the codes making up the top 50% of these overlaps, were thus deemed the most relevant patterns for the given category.

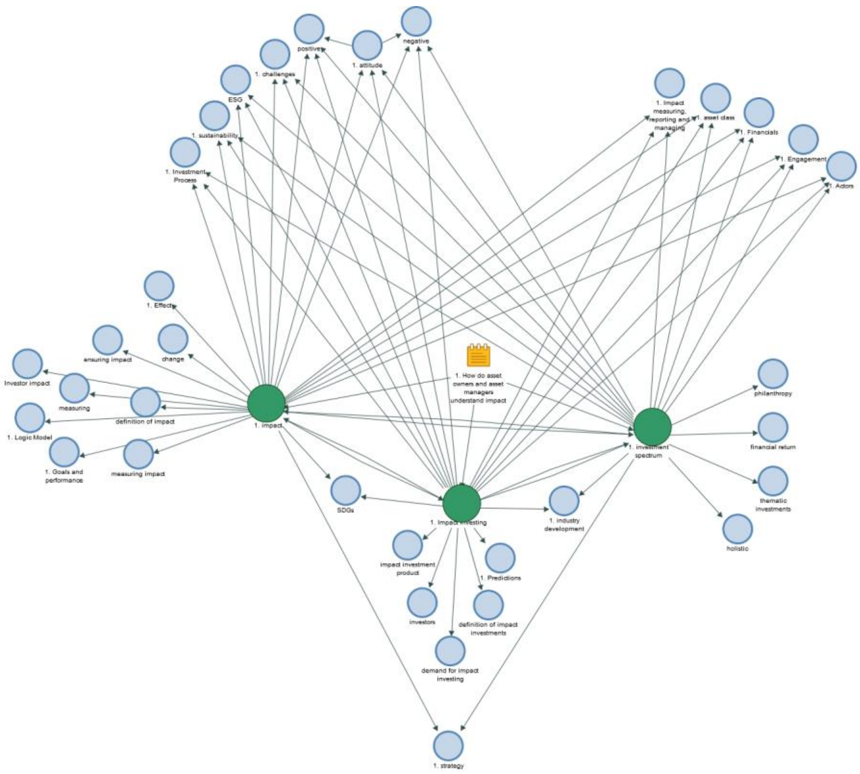
Mapping:

First, one map was created for each of the three sub-questions, plotting the selected key categories, and their top cross-reference codes. Lines were drawn between the key categories and their top cross-references. As several key categories would share cross-reference codes, patterns emerged amongst the key categories. Both the shared cross-reference codes as well as those specific to one key category were examined, to understand the relationships between the key categories.

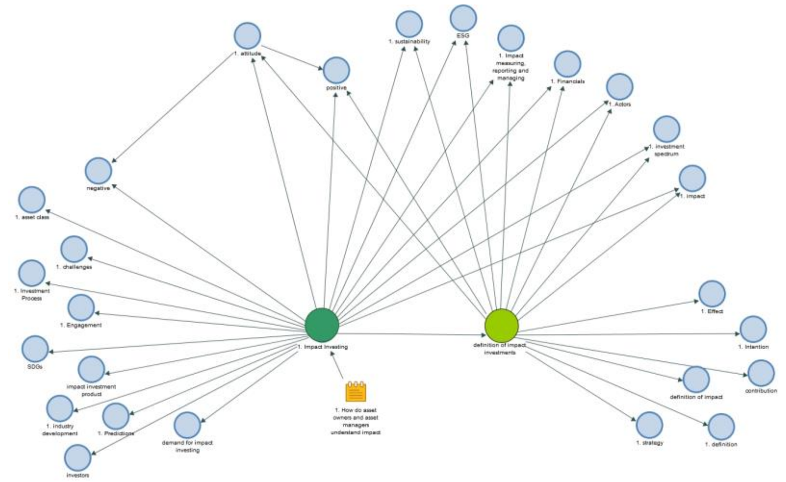
Second, maps were created for the identified sub-codes, in the exact same way as for the key categories. These maps were examined in combination with the category-level map, to understand a greater level of detail within the patterns recognised. The coding and mapping was done with the use of NVivo 12 pro.

The maps are presented below for each of the three sub-questions. Dark green represents a key-category, light green represents a key sub-code, and blue represents the cross-reference codes.

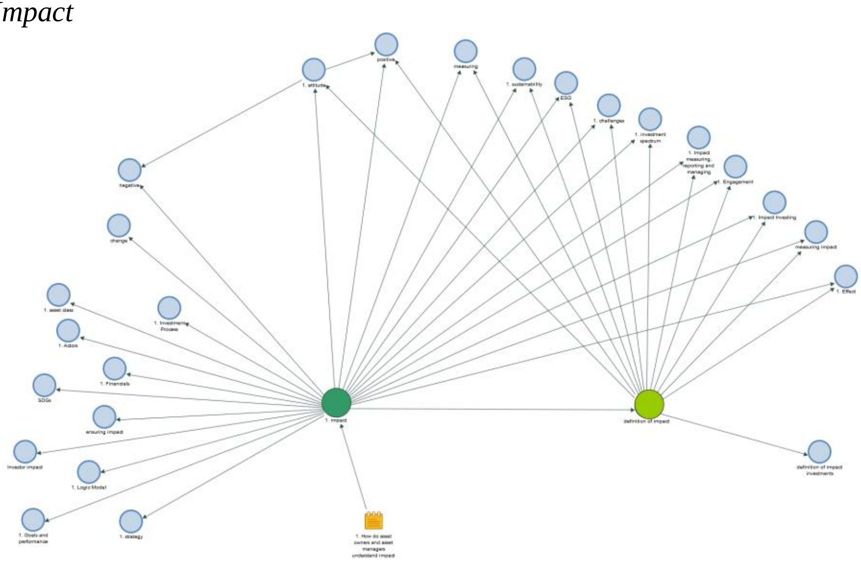
Research Question 1: How do asset owners and asset managers understand impact?
Category map



Sub-code map: Impact Investing

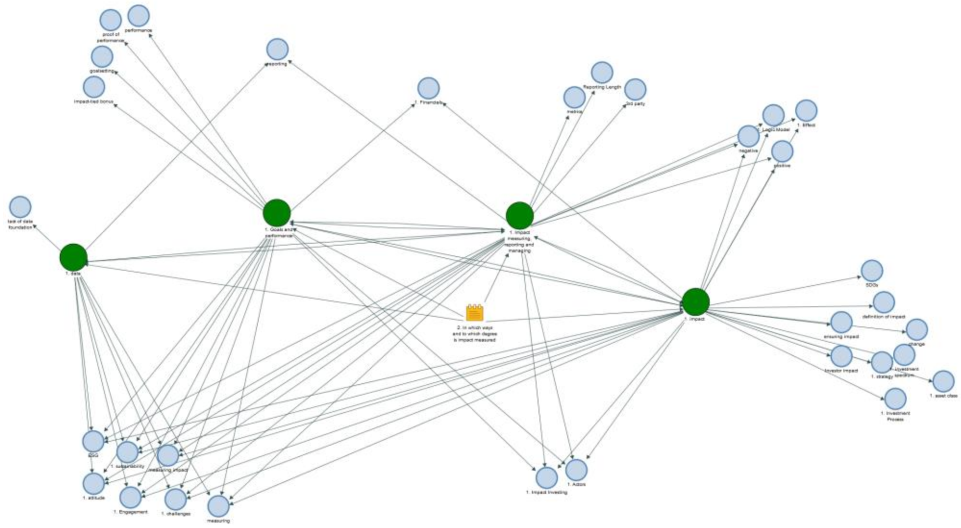


Sub-code map: Impact

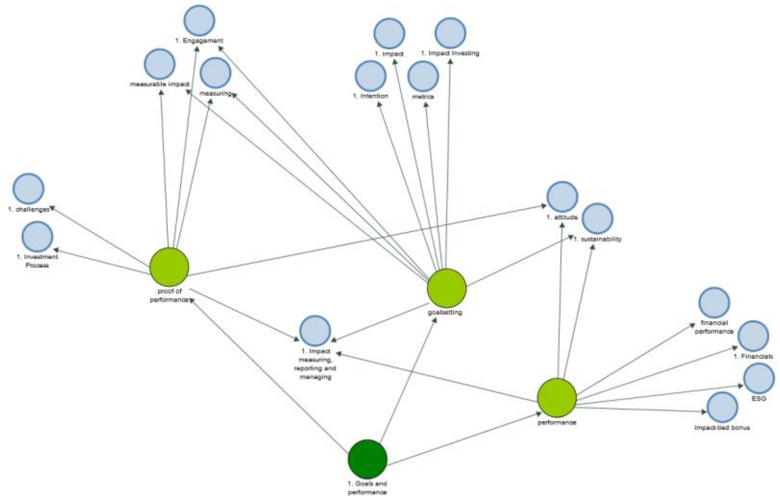


Research Question 2: In which ways and to what degree is impact measured?

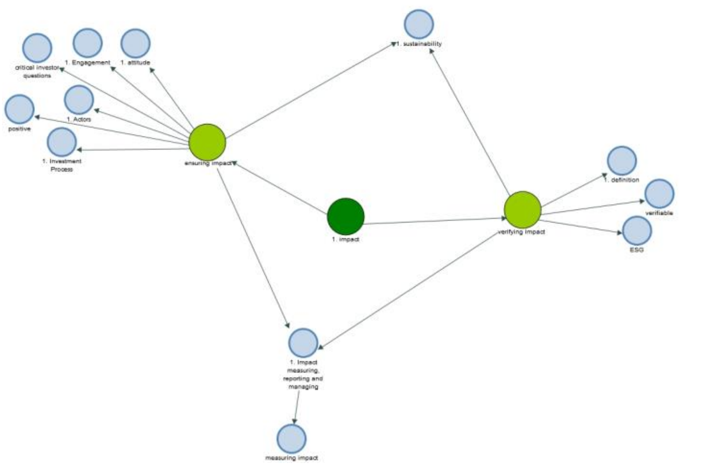
Category map



Sub-code map: Goals and Performance

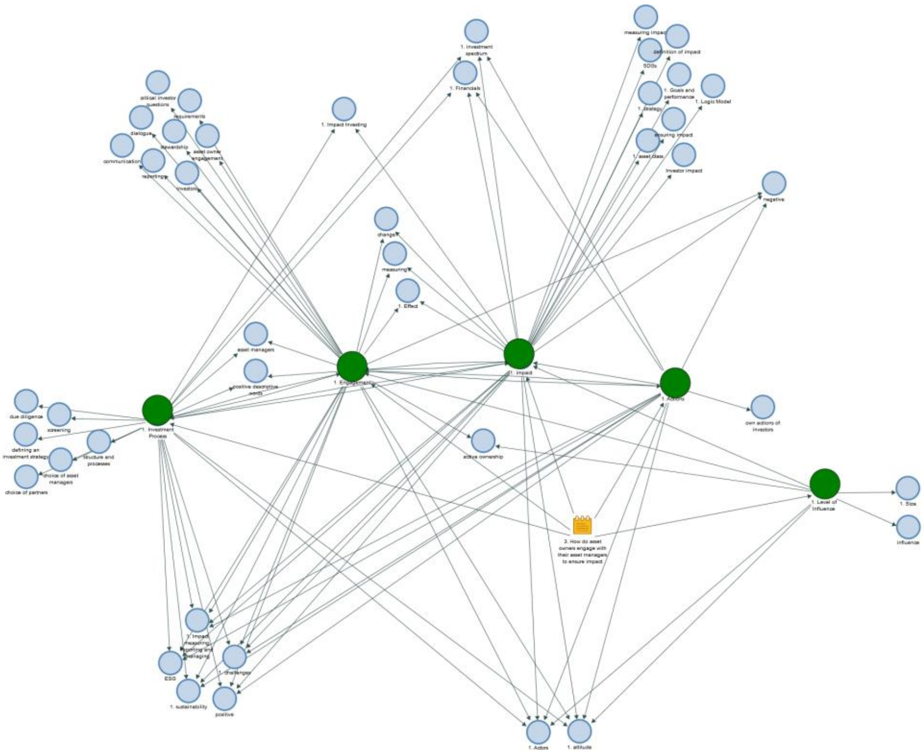


Sub-code map: Impact

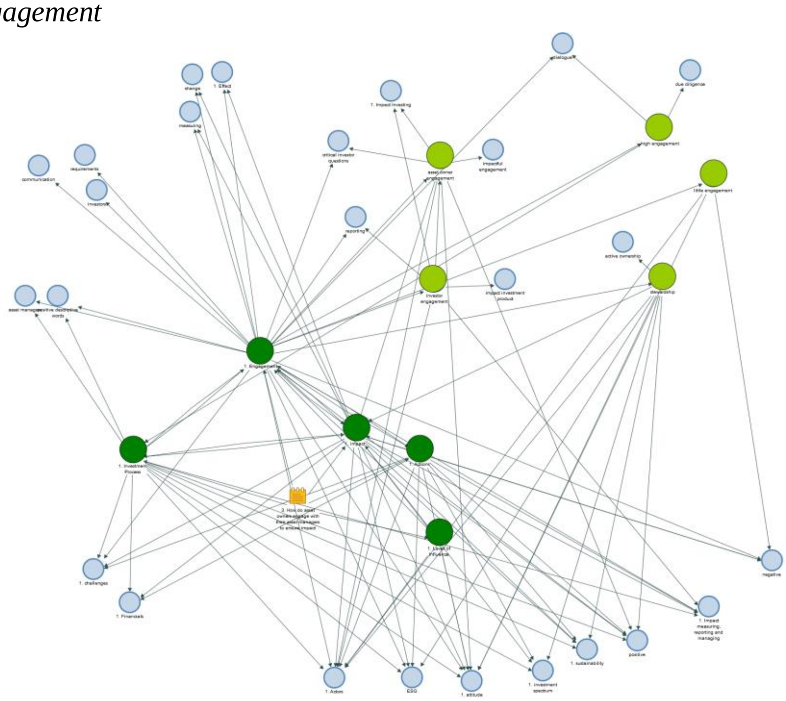


Research Question 3: How do asset owners engage with their asset managers to ensure positive impact?

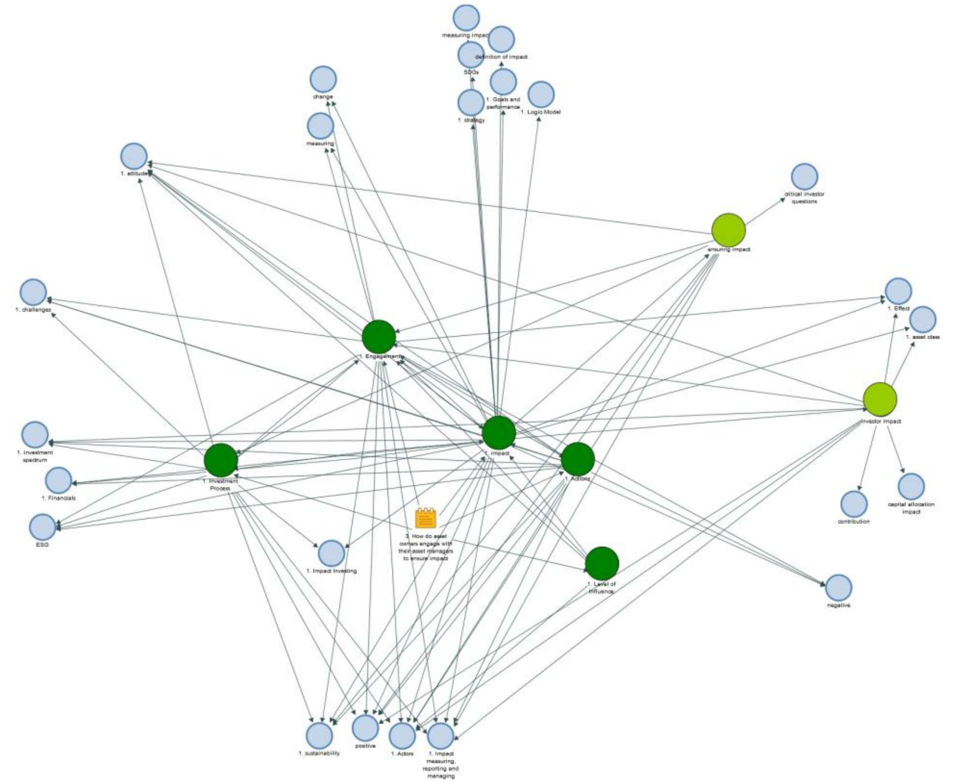
Category map:



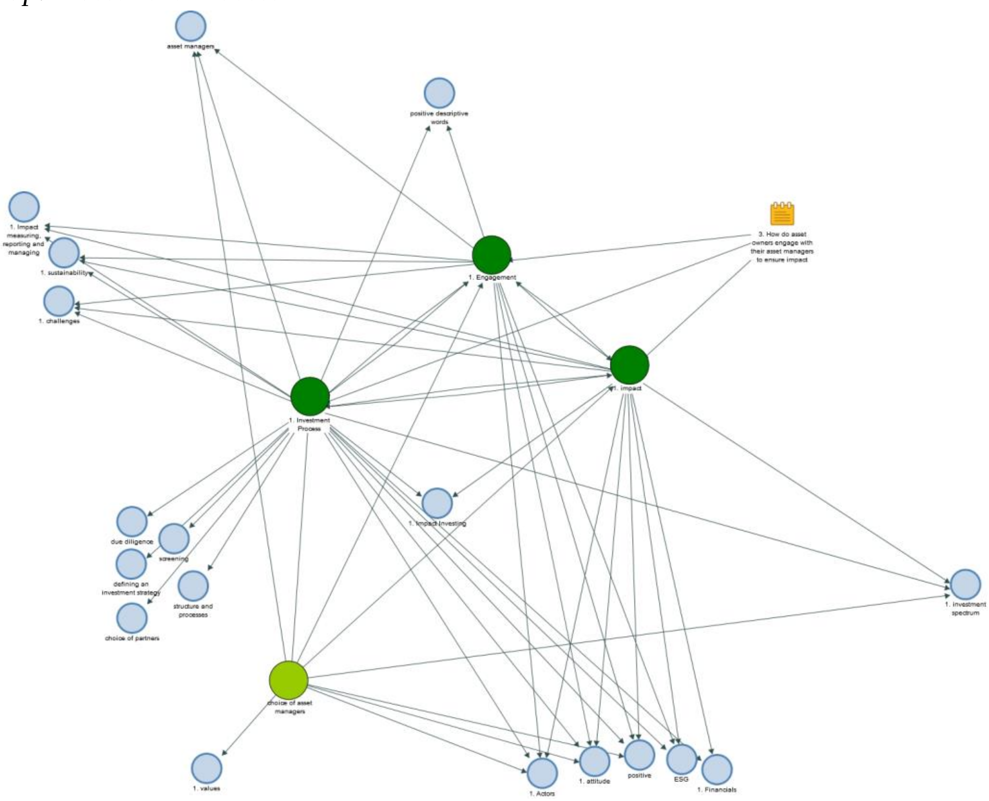
Sub-code map: Engagement



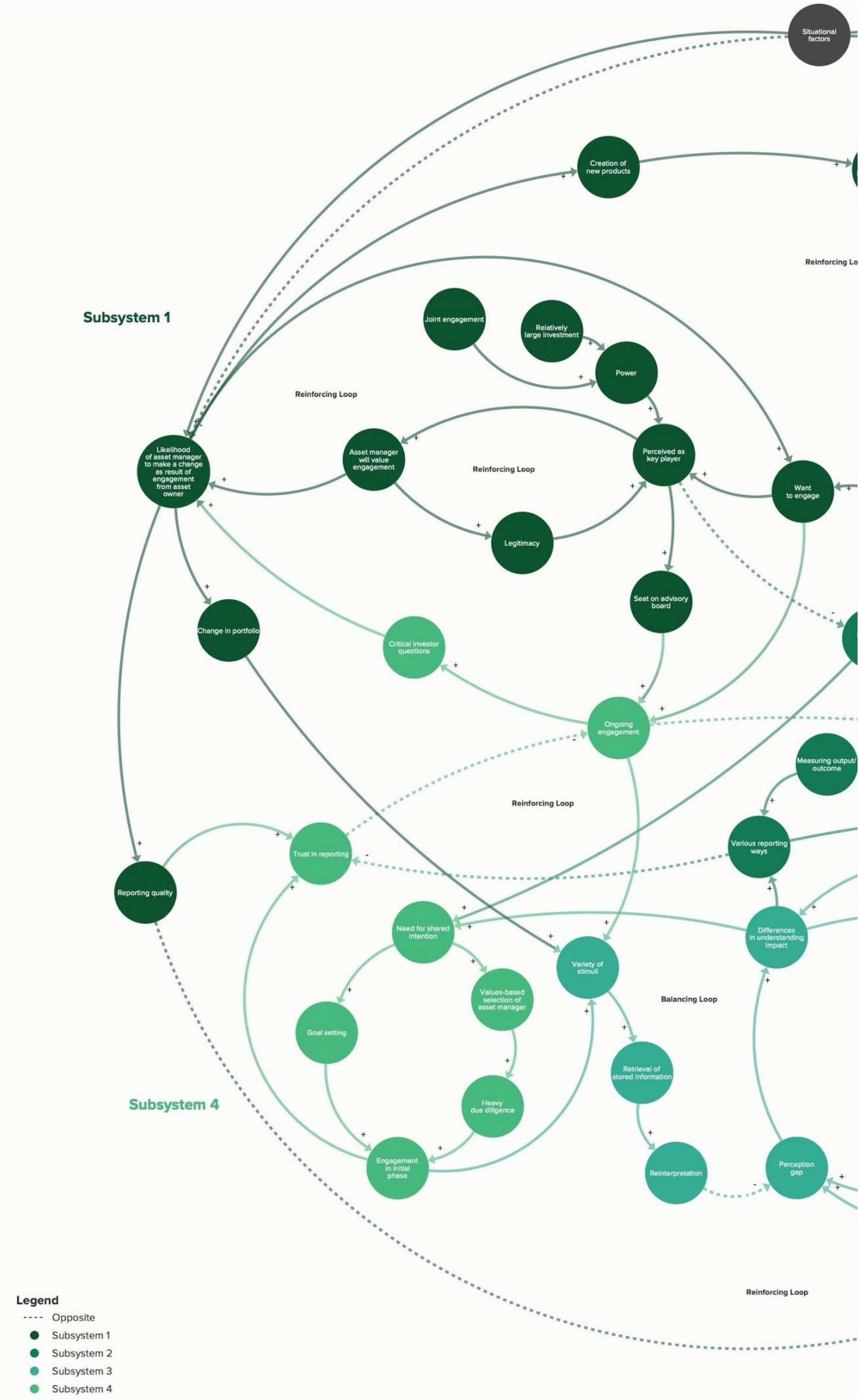
Sub-code map: Impact

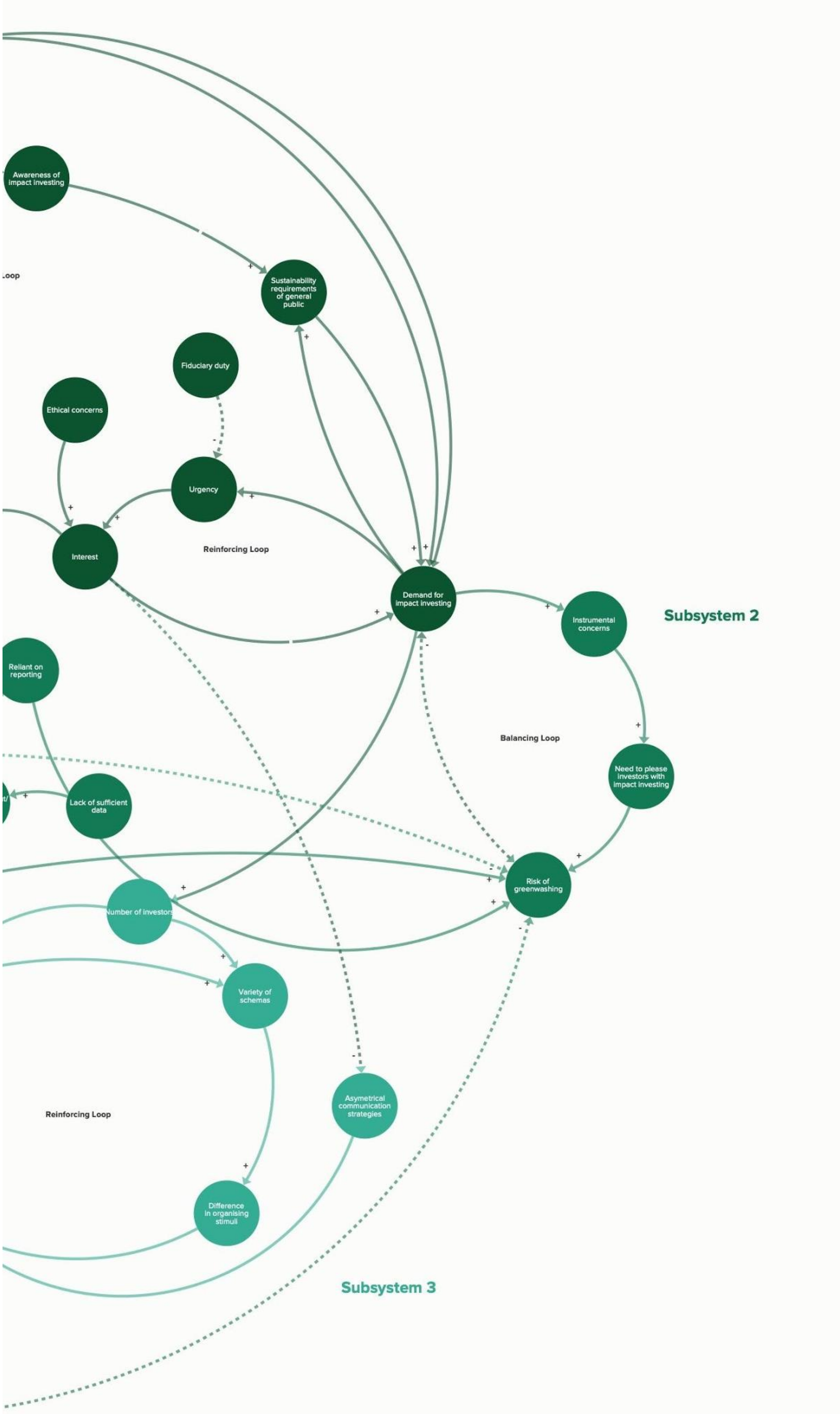


Sub-code map: Investment Process



Appendix D: Systems Diagram




Awareness of impact investing
Sustainability requirements of general public
Fiduciary duty
Ethical concerns
Urgency
Interest
Reinforcing Loop
Demand for impact investing
Instrumental concerns
Subsystem 2
Balancing Loop
Need to please investors with impact investing
Reliant on reporting
Lack of sufficient data
Risk of greenwashing
Variety of schemas
Reinforcing Loop
Asymetrical communication strategies
Difference in organising stimuli
Subsystem 3

Appendix E: Systems Diagram Explanation

When this factor increases…	**…the effect on this factor…**	**…is the...**	**Rationale** ***– based on findings and analysis***
Subsystem 1			
Demand for impact investing	Urgency	Same	As demand increases the sense of urgency will increase amongst the actors demanding this
Fiduciary duty	Urgency	Opposite	Actors obligated by the fiduciary duty are found to find impact investing less urgent, as it must be proved to not be against their fiduciary duty before conducting this type of investments.
Urgency	Interest	Same	The more urgent an actor finds this field, the higher their interest is found to be.
Ethical concerns	Interest	Same	The actors pursuing sustainability due to ethical concerns are seen to generally have a higher interest in the field, due to having sustainability throughout their entire organisation.
Interest	Demand for impact investing	Same	The more interest there is in the field, the more the demand will increase.
Interest	Want to engage	Same	The higher an actor’s interest in impact investing, the more likely they are to want to engage regarding their investments.
Want to engage	Perceived as a key player	Same	When actors display their interest and claim of urgency, through wanting to engage, the more likely they are to be perceived as a key player. The power interest model states that high interest is needed to be a key player.
Power	Perceived as a key player	Same	As seen in the application of the power-interest model, the more power an actor has, the more likely they are to be perceived as a key player.
Relatively large investment	Power	Same	A key factor increasing the power of an actor, was seen to be the size of their investment, relative to the asset under management by the asset manager.
Joint engagement	Relatively large investment	Same	Joint engagements are found as a way for smaller actors to collectively achieve more power by pooling their investments, in this way their collective large investment will give power.
Perceived as a key player	Asset manager will value engagement	Same	The analyses applying the power interest model and salience model show that the more key the asset owner is perceived to the asset manager, the more the asset manager will value the relationship and hence the engagement.

Asset manager will value engagement	Legitimacy	Same	The analysis applying the salience model show that legitimacy is built when the asset manager values the relationship
Legitimacy	Perceived as key player	Same	Legitimacy is seen through the application of the salience model to be a key influencer in whether an actor is perceived as a key stakeholder.
Asset manager will value engagement	Likelihood of asset manager to make a change as a result of engagement from the asset owner	Same	The analysis shows that the more the asset manager values the engagement, i.e. how valuable they perceive the engagement, the more likely it is that the engagement will lead to changes.
Likelihood of asset manager to make a change as a result of engagement from the asset owner	1. Creation of new products 2. Changes in portfolios 3. Reporting quality	Same	The most common observed ways that asset managers would make changes as results of "successful" engagement were through the creation of new impact products, changes to the portfolios in terms of which assets are included and increased reporting quality
Likelihood of asset manager to make a change as a result of engagement from the asset owner	Want to engage	Same	With a greater opportunity for there to be a change due to engagement, it will increase the asset owners willingness to engage
Subsystem 2			
Demand for impact investing	Instrumental concerns	Same	The model of objectives for sustainability show how the instrumental concerns are related to achieve economic results, and hence more actors with instrumental concerns will get involved in impact investments as a way to achieve returns when the demand increases.
Instrumental concerns	Need to please investors with impact investing	Same	The instrumental concerns were found to relate to stakeholder management, and hence when the instrumental concerns increase, there will be a greater need to please investors with impact investing as a way to ensure returns.
Need to please investors with impact investing	Risk of green/impact washing	Same	When asset managers pursue stakeholder management and identify the need to please stakeholders, the risk of green or impact washing arises, as the asset manager must be careful to have claims in all aspects.
Risk of green/impact washing	Demand for impact investing	Opposite	With a greater risk of green or impact washing, in time, the demand for impact investing will decrease, due to the greater risk.
Subsystem 3			

Demand for impact investing	Number of investors	Same	With greater demand, more investors are going to move into the field of impact investing.
Number of investors	Variety of schemas	Same	The actors analysis shows how schemas vary across individuals and hence the more investors the more schemas.
Number of investors	Differences in understanding impact	Same	As many different understandings exist, and these vary according to the individuality of the perception model, more investors will potentially increase the amounts of understanding.
Differences in understanding impact	Variety of schemas	Same	The more understandings, which are stored as information, according to the perception model, the greater the variety in schemas.
Variety of schemas	Difference in organising stimuli	Same	The application of the perception model shows that the variety of schemas will lead to a greater difference in how various stimuli is organised.
Difference in organising stimuli	Perception gap	Same	When individuals organise stimuli differently, this leads to different perceptions being stored which creates a perception gap.
Perception gap	Differences in understanding impact	Same	As the perception gap increases, meaning that a great variety of perceptions are stored as information, there will be several different understandings stored as information.
Variety of Stimuli	Retrieval of stored information	Same	The last step of the perception model analysis shows that new stimuli will bring stored information into retrieval.
Retrieval of stored information	Reinterpretation	Same	When information is retrieved the reinterpretation process follows.
Reinterpretation	Perception gap	Different	The more information that is brought into being reinterpreted, the closer perceptions will get, and hence the smaller the perception gap will get with time.
Change in portfolio	Variety of Stimuli	Same	A change of the portfolio will change the assets and thereby also the stimuli
Ongoing engagement	Variety of Stimuli	Same	The more information that is shared the more stimuli will be available
Subsystem 4			
Differences in understanding impact	Need for shared intention	Same	The more differences there are in how impact is understood, the greater the need becomes for setting shared intentions, in order to know what is sought for with the investment.
Need for shared intention	Goal Setting	Same	It is seen from the findings that when investors see a need for setting up shared intentions, they are more likely to set up goals.

Need for shared intention	Values-based asset manager	Same	The findings show that asset managers will be selected based on values when the asset owner sees a need for shared intention, as shared values will provide shared intentions.
Values-based asset manager	Heavy due diligence	Same	When choosing an asset manager based on similar values the asset owner will need to conduct a heavy due diligence in order to find the right asset manager.
Heavy due diligence	Engagement in the initial phase	Same	When conducting heavy due diligence, the engagement in the initial phase will increase as a result of the due diligence.
Goal Setting	Engagement in the initial phase	Same	When setting goals prior to the relationship or investments, the engagement in the initial phase is found to increase as asset owners will set these goals in collaboration with their asset managers.
Engagement in the initial phase	Variety of stimuli	Same	During any engagement, stimuli is going to arise as a result of the conversations and knowledge sharing, hence various stimuli are invoked.
Engagement in the initial phase	Trust in reporting	Same	The findings show that the more engagement the asset owner will do in the early stages, e.g. by setting shared goals and through heavy due diligence, the more trust they have in the following reporting, due to their involvement in setting up the structures.
Central loops, linking the subsystems			
Differences in understanding impact	Various reporting ways	Same	The findings on measuring and reporting impact show that many ways of reporting impact exist, and the analysis of perception further linked that the differences in how impact is understood will contribute to this effect.
Measuring output/outcome	Various reporting ways	Same	Due to investors not measuring on the same element, i.e. that some measure output and some try to measure outcome, while others attempt to measure impact, the ways of measuring, and hence report, will vary greatly.
Lack of sufficient data	Measuring output/outcome	Same	One of the reasons investors do not measure the impact in itself but rather the output or outcome is found to be due to the lack of sufficient data to prove this causality.
Various reporting ways	Risk of green/ impact washing	Same	The more ways to report impact there are, the greater the risk of green/ impact washing, as the reporting becomes less transparent.
Various reporting ways	Trust in reporting	Opposite	The more ways to report impact there are, the less investors will be able to trust the different reporting, this is seen as the scepticism seen by the interviewees in reporting overall.

Reporting quality	Trust in reporting	Same	The better the quality of reporting gets; the more investors are able to trust that reporting.
Reporting quality	Risk of green/ impact washing	Opposite	The better the general quality of reporting gets; the less risk of green/impact washing there will be, as this will be proved by reporting.
Trust in reporting	Ongoing engagement	Opposite	The data shows that the more an investor trusts the received reporting, the less ongoing engagement they will conduct. This is consistent with the analysis of objectives, as the investor will be content with the informational or persuasive strategies.
Ongoing engagement	Risk of green/impact washing	Opposite	From the analysis, it is seen that ongoing engagements between actors within the field of impact investing, will minimise the risk of green and impact washing, as the ongoing engagement will aid in verifying the credibility of the impact.
Ongoing engagement	Critical investor questions	Same	The interviews show that ongoing engagements often lead to critical investor questions, and hence as more engagements are being done on an ongoing basis, the more critical questions will be asked by investors.
Critical investor questions	Likelihood of asset manager to make a change as a result of engagement from the asset owner	Same	From the findings, it is seen that critical investor questions are one of the means to increase the likelihood of effect from the engagement. Many interviewees mentioned changes being made as a result of critical investor questions.
Want to engage	Ongoing engagement	Same	The more an investor wants to engage the more likely they are to conduct engagements on an ongoing basis.
Seat on advisory board	Ongoing engagement	Same	Investors with seats on advisory boards were found to often conduct ongoing engagements as this is part of the structural setup.
Perceived as key player	Seat on advisory board	Same	The likelihood of being on the advisory board increases when the asset owner is perceived as a key player due to having a relatively large capital investment claim.
Perceived as key player	Reliant on reporting	Opposite	When an asset owner is not perceived as a key player, e.g. when having a small capital allocation, they are less likely to be listened to and hence will need to rely on reporting. Contrarily, key players who are listened to, do not need to rely on reporting in the same way.
Reliant on reporting	Need for shared intention	Same	When an asset owner is reliant on reporting from their asset manager it becomes increasingly important for a shared intention, so that the reporting can be trusted to a higher degree. This is related to the analysis of perceptions.

Reliant on reporting	Risk of green/ impact washing	Same	When an asset owner is reliant on reporting from their asset manager, they are unable to verify the data behind the reports and hence there is a greater risk for green and impact washing.
Interest	Asymmetrical communication strategies	Opposite	Asymmetrical communication strategies, i.e. the persuasive communication, is found to be applied towards asset owners with high levels of power and lower levels of interest, and hence the opposite link between high interest and this type of communication. By showing higher levels of interest this type of communication will be limited and replaced by symmetrical communication strategies.
Asymmetrical communication strategies	Perception gap	Same	When asymmetrical communication is conducted the perception gap may increase as informational asymmetries exist and there are no possibilities for the asset owners to question the information or provide stimuli to reduce the perception gap.
Creation of new products	Awareness of impact investing	Same	As new impact products are created and marketed, the awareness of the field will increase. An example would be as one asset manager created a new product for a pension fund, and later created a similar product for private investors – both products marketed to the general public create a greater awareness.
Awareness of impact investing	Sustainability requirements of general public	Same	As the awareness increases the general public will begin to have greater requirements.
Sustainability requirements of general public	Demand for impact investing	Same	As the general public’s requirements increase the demand will also increase. This may be due to beneficiaries requiring more from their pension funds.
Demand for impact investing	Sustainability requirements of general public	Same	When the demand increases, the private investors will get greater requirements.
Situational factors	Demand for impact investing	Same/ Opposite	The demand for impact investing further depends on situational factors. As an example, COVID-19 is brought up, having the potential to both increase and decrease the demand.
Situational factors	Likelihood of asset manager to make a change as a result of engagement from the asset owner	Same/ Opposite	Situational factors, both external as well as internal, are found to influence the engagements, and one way is in terms of whether the asset manager will act upon the engagement. The situational factors can both be beneficial and disadvantageous to the engagement.