

# Impact Investing Strategies

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*Document Version*

Final published version

*Publication date:*

2020

*License*

Unspecified

*Citation for published version (APA):*

Agrawal, A. (2020). *Impact Investing Strategies*. Copenhagen Business School [Phd]. PhD Series No. 25.2020

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COPENHAGEN BUSINESS SCHOOL  
SOLBJERG PLADS 3  
DK-2000 FREDERIKSBERG  
DANMARK

WWW.CBS.DK

ISSN 0906-6934

Print ISBN: 978-87-93956-60-5  
Online ISBN: 978-87-93956-61-2

IMPACT INVESTING STRATEGIES

PhD Series 25.2020

Anirudh Agrawal

IMPACT INVESTING STRATEGIES

CBS PhD School

PhD Series 25.2020

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# **Impact Investing Strategies**

By

**Anirudh Agrawal**

A Doctoral Dissertation

Submitted to the

Department of Management, Society, and Communication

Copenhagen Business School

In partial fulfillment of the requirement for the Doctoral Degree

October 2019

Anirudh Agrawal  
Impact Investing Strategies

1st edition 2020  
PhD Series 25.2020

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ISSN 0906-6934

Print ISBN: 978-87-93956-60-5  
Online ISBN: 978-87-93956-61-2

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## Acknowledgments

*“If I have seen further than others, it is by standing upon the shoulders of giants.”*

The Isaac Newton

Pursuing a Ph.D. was challenging work for me. It was a journey that brought me out of my comfort zone, and I have learned much and changed in many ways. This journey was my *dharma*, and the credit to this journey primarily goes to my mentor and coach, Kai Hockerts. I wish to thank the Department of MSC (formerly IKL) and Copenhagen Business School for approving my application and accepting me in their team.

My doctoral journey was similar to the story of *Arjuna* (rich student), *Karna* (poor student) and *Dronacharya* (the Guru). *Arjuna* worked hard with *Dronacharya* as a mentor by his side, and *Karna* worked hard with the statue of *Dronacharya* as his spiritual mentor. Both *Arjuna* and *Karna* achieved their desires, albeit through different means. I have had a journey in which I experienced the lives of both *Arjuna* and *Karna* in addition to the numerous gurus whose work I read or who worked with me to develop my craft. Throughout the journey I encountered multiple articles and ideas, mentors, reviewers, and fellows—doctoral fellows, family, friends, social entrepreneurs, impact investors, practitioners, consultants, teachers, professors, co-authors, and editors, who all functioned as my *Dronacharya* (both spiritual and real guru) and contributed to this work.

I would like to express special gratitude to the following:

*Dharma* (good) and *Adharma* (evil) are analogous to yin-yang. Wherever *adharma* is, *dharma* is there to balance it. The socioeconomic problems of society are *adharma*, and the acts of social entrepreneurs are acts of *dharma* that maintain the balance in society. Social entrepreneurs inspire me; I love their motivation and their journey, and I wish to acknowledge their hard work in attempting to bring social values and enact socioeconomic change in this rapidly changing world. I want to express my sincerest thanks to every social entrepreneur and impact investors who was part of the journey and inspired me.

Academic institutions are a unique paradox. They are both temples of ideas and centers of bureaucracy. I wish to express my deepest gratitude to Dorte Salskov-Iversen, the head of IKL/MSK, for accepting me in the department and providing me with generous funding. I would like to thank Annika Dilling, Majbritt Vendelbo, Lise Soestroem, Lisbeth de Thurah, and Susanne Sorrentino for the incredible support they have provided me during my doctoral journey. In addition, I would like to thank my doctoral friends Lara Hale, Kristian Jespersen, Janni Hansen, and Sarah Netter for sharing their ideas and words of wisdom.

I would like to thank my co-authors, Dr. Sreevas Sarahsaran, Dr. Prajakta Khare, Dr. Payal Kumar, and Dr. Ashish Tyagi, with whom I published multiple book chapters and popular articles and who have helped me to develop my craft. Furthermore, I wish to thank the wonderful people I met in numerous conferences, paper development workshops, and doctoral events who helped me

throughout this journey. In addition, I would like to thank the many anonymous reviewers and editors who helped me to improve my writing craft.

I would like to give a special thanks to my colleagues and the faculty at Jindal Global University, Jindal Center for Social Entrepreneurship, Bennett University, EFER, ESU, Frankfurt School of Finance and Management and Flame University, whose ideas and discussion offered me new insights.

I want to thank my family, who have been incredibly supportive throughout this journey. I would also like to thank my wife, Abhilasha Gupta; my kids, Anushka Agrawal and Ashwin Agrawal; my mother, Sudha Rani Agrawal; my father, Dr. CB Agrawal; my sister, Dr. Saranga Agarwal; and my brother-in-law, Dr. Deepak Jain. My family has provided enormous support and has backed me during all the ups and downs.

I hope to use my learnings (my *dharma*) from this journey, as Arjuna and Karna did, to serve humanity and counter *adharma* through teaching, research, and public service. Finally, I would like to thank everyone who has contributed to this journey from the bottom of my heart, and I shall carry this immense gratitude until my last breath.

**Anirudh Agrawal**

## Abstract

Access to finance at a ‘fair price’ is one of the major issues in many economies. Both developed and developing economies struggle to fund promising social entrepreneurs. The traditional financial systems are designed to discourage promising social entrepreneurs without any collateral from obtaining financial services. To address this disequilibrium in the finance ecosystem, impact investing is one of the most promising, innovative types of financing aimed at making the financial system more inclusive.

The field of impact investing is growing, and multiple players populate it. They provide substantial capital to projects and social enterprises with a strong social mission and promising financial return capability. However, there remains a lack of a knowledge base to understand the complexities surrounding impact investing, investment logics, and organizational form. The lack of a strong knowledge base of impact investing increases the risks (financial risks, legitimacy risks, and institutional risks) of impact investments. Therefore, this thesis investigates impact investing, historical development, distinction, investment strategies, and their relationship with investee firms. The thesis aims to develop a greater understanding of impact investing. It provides elements that should offer a more significant knowledge base upon which investors can base their impact investing decisions.

First, legitimacy of impact investing is linked to how well it selects and invests in social enterprises. Second, most venture capital literature is focused on the performance of investees. The performance of impact investing is tied to social and commercial value creation. Given the difference in objectives of (compared with traditional venture capital firms), our understanding of how impact investors and investee social enterprises interact at the inter-organizational level remains weak and must be explored. Third, most studies on impact investing consider it as merely a practice of investing with social and financial benefits. Given the vast institutional difference between the global north and the global south, how social and commercial expectations vary remains to be explored.

This dissertation is composed of three articles, each contributing to impact-investing field by drawing insights from the institutional theory, institutional logic, impact investing, and social entrepreneurship literature. The research design of this dissertation primarily relies on a systematic literature review for understanding the current status of the field, interviews, and multiple case studies for developing an in-depth understanding of the process, strategy, and application of impact investing.

Article #1 is a review of 85 impact investing articles that explore the longitudinal growth of the field and compare the development of impact investing scholarship with the Kuhnian scientific paradigm. The analysis in the review suggests that the scholarship in impact investing is currently at the exploratory stage, known as the pre-paradigmatic stage of scientific inquiry. For impact investing scholarship to develop into an established field of inquiry, scholars must expand the scope of inquiry by studying different aspects of the field’s intra-organizational, inter-organizational, and institutional complexities using novel theoretical positions. Also, it must pursue both model development and model testing studies.

The legitimacy of impact investing lies in how effectively it invests and how well it manages its investments. Article #2 is an analysis of multiple cases of six impact investing firms and their

investees based out of India, exploring the inter-organizational collaboration between impact investors and investee social enterprises. Using competing logics literature and inter-organizational literature, the article provides insights into impact investing and investee social enterprises. It further empirically recommends strategies for long-term engagement and sustainable value creation between impact investing and investee social enterprises.

The dominating view on impact investing field is that its scholarship lacks depth and breadth. Article #3 explores questions related to variance among impact investors at the global level and examines the impact of investment strategies. To answer these questions, the article presents an interview of impact investors from 22 cases of impact investing firms. Based on the context, the article suggests three distinct categories of impact investing. Similarly, using context and the literature on value creation, article #3 suggests three separate impact investing strategies. Furthermore, the article discusses the implications of these suggestions on our understanding of competing goals' hybridization.

These three articles collectively form the core of the dissertation and provide a broad overview of what is currently being studied, what is missing, and what must be considered in impact investing. First, the dissertation provides a clear understanding of the current growth in impact investing and future research possibilities. Also, the articles suggest a list of impact investing strategies that impact investors should pursue. The article discusses how impact investors and investee social enterprises must interact to establish a sustainable collaboration that ensures long-term value creation. Overall, the dissertation makes a significant contribution to impact investing and expands upon the knowledge base of practitioners investing in social enterprises.

**Key Words:** Impact Investing, Social Entrepreneurship, Social Finance, Mission Driven Investment, Strategy, Institutional Theory, Institutional Logics, Competing Logics, Interorganizational relationship



## Resume

Adgang til finansiering til en 'fair pris' er et af de største problemer i mange økonomier. Både udviklede og udviklende økonomier kæmper med at finansiere lovende sociale iværksættere. De traditionelle finansielle systemer er bygget op på en måde der afskrækker lovende sociale iværksættere uden økonomisk sikkerhed fra at opnå finansielle tjenester. For at imødekomme denne uligevægt i det finansielle økosystem er konsekvensinvestering en af de mest lovende og innovative typer finansiering, der sigter mod at gøre det finansielle system mere inkluderende.

Feltet med konsekvensinvestering vokser, og flere aktører befolker det. De fremskaffer betydelig kapital til projekter og sociale virksomheder med en stærk social mission og lovende økonomisk afkast. Der mangler dog stadig en videns base for at forstå kompleksiteten omkring konsekvensinvestering, investeringslogik og organisationsform. Manglen på en stærk videns base for konsekvensinvestering øger risiciene (finansielle risici, legitimitetsrisici og institutionelle risici) for konsekvensinvestering. Derfor undersøger denne afhandling konsekvensinvestering, historisk udvikling, skelnen, investeringsstrategier og deres forhold til investeringsselskaber. Afhandlingen sigter mod at udvikle en større forståelse af konsekvensinvestering. Afhandlingen giver elementer, der skal tilbyde en mere signifikant videns base, som investorer kan basere deres konsekvensinvesterings beslutninger på.

For det første er legitimiteten af konsekvensinvestering knyttet til, hvor godt den udvælger og investerer i sociale virksomheder. For det andet er det meste venturekapital-litteratur fokuseret på investeringsresultater. Effekten af konsekvensinvestering er knyttet til social og kommerciel værdiskabelse. I betragtning af forskellen i målsætninger for (sammenlignet med traditionelle venturekapitalfirmaer) er vores forståelse af, hvordan påvirkning investorer og investerede sociale virksomheder interagerer på det inter-organisatoriske niveau, fortsat svag og skal undersøges. For det tredje betragter de fleste undersøgelser af konsekvensinvestering det kun som en form for investering der har sociale og økonomiske fordele. I betragtning af den enorme institutionelle forskel mellem det globale nord og det globale syd, er det stadig uklart, hvordan sociale og kommercielle forventninger varierer.

Denne afhandling er sammensat af tre artikler, der hver bidrager til en bedre forståelse for konsekvensinvestering ved at trække på indsigt fra institutionel teori, institutionel logik, konsekvensinvestering og social iværksætter-litteratur. Denne afhandling er bygget op omkring en systematisk gennemgang af litteraturen indenfor dette felt, interviews og en række casestudier for at opnå en dybdegående forståelse af processen, strategien og anvendelsen af konsekvensinvestering.

Artikel #1 er en gennemgang af 85 konsekvensinvestering artikler, der udforsker feltets vækst over tid og sammenligner udviklingen af forskning i konsekvensinvestering med det Kuhnianske videnskabelige paradigme. Analysen påpeger, at forskning inden for konsekvensinvestering i øjeblikket er på det udforskende stadium, kendt som det præ-paradigmatiske stadium af videnskabelig undersøgelse. For at forskning i konsekvensinvestering kan udvikle sig til et etableret forskningsfelt, skal akademikere udvide deres tilgang til forskningen ved at studere forskellige aspekter af feltets intra-organisatoriske, inter-organisatoriske og institutionelle kompleksitet ved hjælp af nye teoretiske positioner. Derudover skal forskningsfeltet også forfølge både modeludvikling og test af disse modeller.

Legitimiteten af konsekvensinvestering er baseret på, hvor effektivt den investerer, og hvor godt den forvalter sine investeringer. Artikel #2 er en analyse af seks konsekvensinvesteringsfirmaer og de Indiske virksomheder der investeres i, der udforsker det inter-organisatoriske samarbejde mellem investorer og de sociale virksomheder der investeres i. Med udgangspunkt i *competing logics*

litteraturen og inter-organisatorisk litteratur giver artiklen indsigt i konsekvensinvestering og de sociale virksomheder der investeres i. Artiklen anbefaler yderligere en række empiriske strategier for langsigtet engagement og bæredygtig værdiskabelse mellem konsekvensinvestering og sociale virksomheder.

Det dominerende syn på konsekvensinvestering som forskningsfelt er, at det mangler dybde og bredde. Artikel #3 udforsker spørgsmål relateret til forskellighed blandt konsekvensinvestering på globalt niveau og undersøger indflydelsen af investeringsstrategier. For at besvare disse spørgsmål præsenteres i artiklen interviews om konsekvensinvestering med 22 konsekvensinvestering firmaer. Baseret på konteksten foreslår artiklen tre forskellige kategorier af konsekvensinvestering. Derudover foreslår artikel #3, ved hjælp af kontekst og litteraturen om værdiskabelse, tre separate konsekvensinvestering strategier. Desuden diskuterer artiklen implikationerne af disse forslag på vores forståelse af hvordan konkurrerende mål bliver kombineret.

Disse tre artikler udgør tilsammen kernen i afhandlingen og giver et bredt overblik over, hvad der i øjeblikket undersøges, hvad der mangler, og hvad der skal tages i betragtning ved konsekvensinvestering. For det første giver afhandlingen en klar forståelse af den aktuelle vækst i konsekvensinvestering og fremtidige forskningsmuligheder. Artiklerne bidrager også med en liste over konsekvensinvesteringsstrategier, som konsekvensinvestorer bør forfølge. Derudover diskuterer artiklerne hvordan konsekvensinvestorer og de sociale virksomheder der investeres i skal interagere for at etablere et bæredygtigt samarbejde, der sikrer langsigtet værdiskabelse. Overordnet set så bidrager afhandlingen væsentligt til konsekvensinvestering og udvidelse af videns basen for praktikere, der investerer i sociale virksomheder.

**Nøgleord:** Konsekvensinvestering, Socialt Iværksætteri, Social Finansiering, Måltrettet Investering, Strategi, Institutionel Teori, Institutionelle Logikker, Competing Logics, Inter-Organisatoriske Forhold

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## **Part A**

# 1. Introduction

## 1.1 Background and Aim

The developing world faces multiple levels of socio-economic crises, primarily caused by poverty, lack of water, climate change, public health crises, unemployment, and lack of skilling and education (Banerjee & Duflo, 2011; Sachs, 2005). The following factors compound the difficulties in addressing the causes of these crises. First, there is an inefficient allocation of resources by the state, resulting in the need for a multi-sector organized effort to deploy resources efficiently (Yunus, Moingeon, & Lehmann-Ortega, 2010; Powell, Gillett, & Doherty, 2018). Second, a lack of entrepreneurial ecosystems hinders the development of markets that efficiently allocate resources to solving issues like climate change, unemployment, and wealth generation (Dorado & Ventresca, 2013; Gümüşay, 2017). Third, the traditional financial credit lines that support social innovation addressing causes of socio-economic problems that use innovative market-based financial strategies are under developed (Hudon, Labie, & Reichert, 2018; Kent & Dacin, 2013). Fourth, there is a lack of multi-institution and multi-stakeholder organized effort toward addressing the fundamental socio-economic problems (Kraatz & Block, 2008). Finally, institutions and stakeholders themselves lack the knowledge base, solutions, and vision to solve these problems. There are multiple policies and strategies that communities, governments, and organizations can use to address poverty, unemployment, public healthcare challenges, climate change, and lack of skilling and education. My dissertation researches **private sector investing**; in particular, I study “**impact investing**” (i.e., investment by firms in social enterprises, socially relevant projects and ideas aimed at solving socio-economic problems while using a financially prudent strategy).

The impact investing field is an emerging interdisciplinary field involving social development, social entrepreneurship organizational studies, and sustainability. It concerns investing in socially relevant enterprises and projects with the intention of creating socio-economic benefits for the marginalized while ensuring the impact investment’s financial viability. Impact investing is gaining confidence in both the private and public sectors at a tremendous rate, yet lacks sufficient knowledge base. Impact investing firms are projected to have between USD 400 billion and USD 2 trillion worth of assets under management by 2022 (Tekula & Shah, 2016). The current knowledge base is not grounded on peer-reviewed academic studies and science, potentially increasing the

risks of impact investments (Evans, 2013; Mahn, 2016; Richardson, 2011). Therefore, it is imperative to generate rigorous empirical insights and theoretical frames. This dissertation is a contribution towards increasing our understanding of impact investing. The broader set of research questions this thesis addresses are as follows.

### **Research Question 1**

Currently, the contemporary scholars writing on impact investing consider it as a socially positive practice that has the potential to bring about favorable socio-economic change in society (Ann Alexander, Jha, & Pandey, 2019). The scholars have not yet discussed the nuances and variances among impact investing firms. There are many factors (institutional, organizational, and individual) that may influence impact investment thesis and strategies (Agrawal & Hockerts, 2019a). In this thesis, I particularly focus on institutional and organizational level factors and how do they influence impact investing strategies.

- “What institutional and organizational factors influence impact investing strategies? And How do these factors influence impact investing firms’ categories and investment strategies?”

### **Research Question 2**

Recently, academic interest has shifted to describing impact investing as a unique organizational form, whose primary intent is to create social value, and in doing so, they also create financial value (Glanzel & Scheuerle, 2016; Weber, 2016). So far the study of social enterprises has tended to focus on the creation of unique organizational forms that are able to address the societal needs and remain financially sustainable (Battilana & Dorado, 2010; Pache & Santos, 2012; Parekh & Ashta, 2018). However, such new organizational forms also require new sources of investing (Morgan & Rockefeller, 2010; Michelucci, 2016; Tekula & Shah, 2016). This changes the research perspective from the intra-organizational tensions within the social enterprise towards the inter-organizational tensions between impact investors and investee social enterprises (Castellas et al., 2018; Daggers & Nicholls, 2016; Huybrechts & Nicholls, 2013). It is in this new and previously unresearched area that my dissertation aims to make its contribution. By addressing this research space, I hope to shed light on the strategies of impact investors as well as the effect that institutional logics have on them.

- “How do impact investors balance their social and financial goals along with those of their investees? In particular, what role do institutional logics play in shaping the strategies that impact investors use in their interaction with investee firms?”

Impact investing is an emerging phenomenon which uses finance as an agency to bring about positive socio-environmental changes. The dissertation is placed in that context, where I am studying an emerging field about which very little is understood. Therefore, the thesis is exploratory in nature and addresses questions related to impact investing. The thesis is divided into three articles. Article #1 explores the extant research, evolution, and terms closely related to impact investing and research agenda. The legitimacy of impact investing is tied to its investees; therefore, it is important to understand the investor-investee relation in the context of impact investing. Article #2 explores the interaction between investee social enterprise and impact investing firms at the inter-organizational level using multiple cases. Finally, article #3 explores the similarities and differences among impact investing firms and how those differences influence their investment strategies.

## 1.2 Research Questions Addressed in the Articles

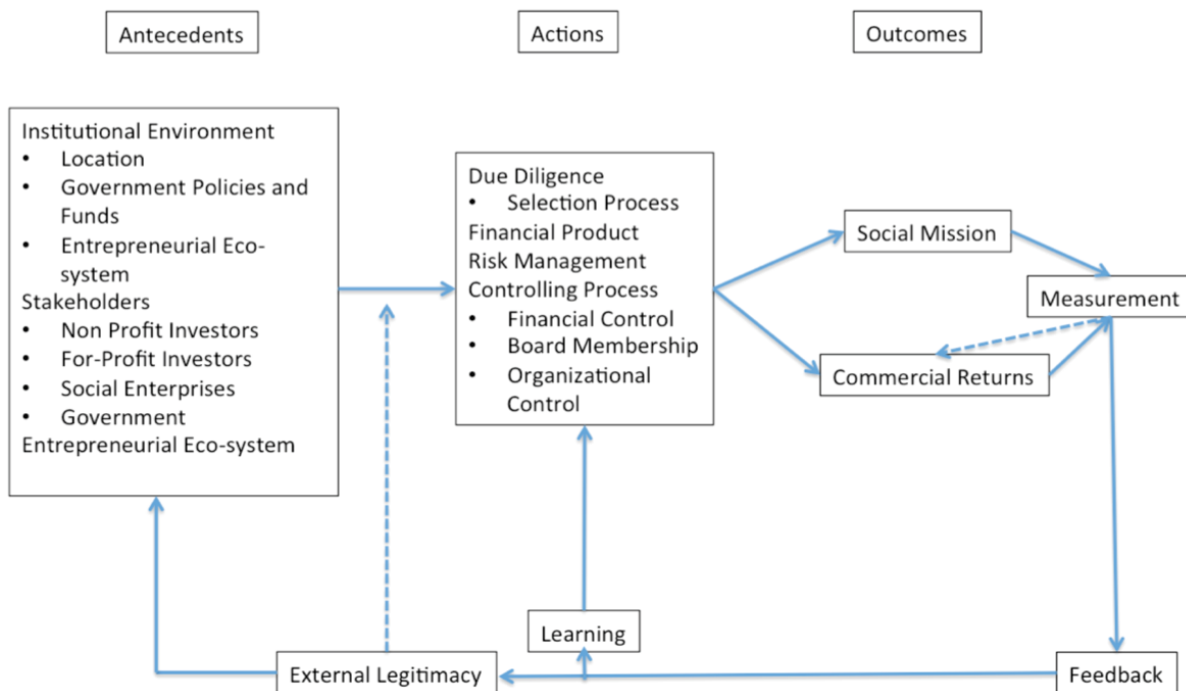
Compared to traditional financing options, such as private equity, traditional banking finance, and venture capital, impact investing is the art of investment in socially relevant projects, ideas or, a social enterprise with a strong mission to create social value and ensure returns on investment (Agrawal & Hockerts, 2019a). These specific characteristics make impact investing a unique financial form which is attracting multiple investors from different sectors and segments. However, the knowledge base around impact investing is primarily practitioner-driven. The field needs a strong theoretical base to drive risk-free decisions or advocate diverting public funds towards this field (Brown & Swersky, 2012; Agrawal & Hockerts, 2019a).

Figure 1 summarizes the impact investing process, depicting significant stakeholders involved, process and actions, and outcomes. The figure gives a bird's-eye view of the impact investing process, risks and rewards, and major drivers (and impediments). Academics, policymakers, and investors must understand each of the components and their relationships with one another (as depicted in **figure 1**) to understand the impact investing process, complexities, stakeholders, and risks. Impact investing is highly contextual. It is influenced by its investors, policymakers, market rate, and returns. An impact investing firm must undertake strategic business decision-making,



make investments, and control mission drift. It needs to measure and report its social impact and ensure it gets adequate social legitimacy. A greater understanding of each component would strengthen the investment thesis.

Figure 1 Framework of Impact Investing (Author's Own)



### 1.2.1 Research Questions and Articles

Impact investing is still evolving, and it lacks clear frameworks for understanding the dual performance results and investment thesis. The field needs to develop frameworks to identify and hedge for risks and maximize both social and financial returns (Evans, 2013). Another issue with impact investing is that too many researchers are advocating uniformity in measures (Tekula & Shah, 2016) when, in fact, each investment thesis is contextual. Some scholars are trying to create an ecosystem to link impact investing with capital markets (Mahn, 2016), which may make the field vulnerable and its mission objectives subservient to profits. Further, there is insufficient knowledge base surrounding the fiduciary and compliance practices of the impact-fund manager (Mahn, 2016; Richardson, 2011). This thesis attempts to answer a few questions to increase our understanding of impact investing field and would reduce risks during the investing process.

Impact investing has stakeholders and adheres to specific institutional set-ups. The primary stakeholders are the beneficiaries, investees, and investors. The location and financial regulations are institutional set-up that structures the impact investing organization. Taking inspiration from the literature on institutional isomorphism and stakeholder theory, enough scope exists to explore how stakeholders and institutional environments shape impact firms. In **article #3**, I examine the categories of impact investing as a function of impact investing firms' antecedents.

One key insight from **article #1** is the duality dilemma that impact investing firms face. Impact investors must carefully steer between the two goals of creating social and commercial value and using limited resources to sustain their external legitimacy. To unravel the complexity of impact investing, one must understand the relationship between impact investors and investee social enterprises (which are the principal instruments through which impact investors create social and economic returns). The critical question here is how impact investors manage hybridity with their investee social enterprises. This work forms the basis of **article #2** of this thesis.

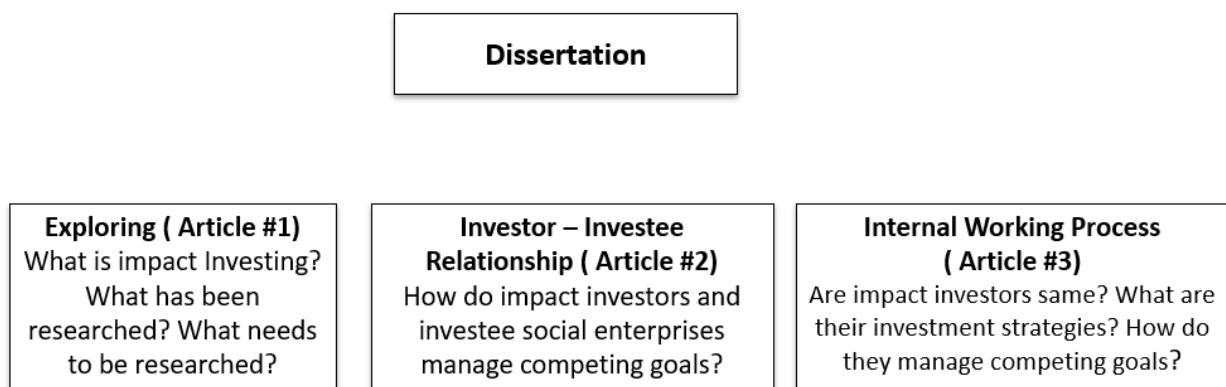
Significant activities of an impact investor (such as those of venture capitalists) involve seeking suitable investees that have the potential to create social impact using financially sustainable means, signaling the investors for further funds, and managing investees. Each of these activities must be comprehensively explored. The success of impact investing depends on achieving the expectations that are tied to the social and commercial outcomes (Austin, 2000; Huybrechts & Nicholls, 2013) of the investment. The legitimacy of impact investing is greatly linked to the success of its investments in investee social enterprises. The entrepreneurial risk is greater among social entrepreneurs than among impact investors. An impact investor must find the right investee, while the social entrepreneur must do all the work, such as organizing, controlling, and reporting. To understand the risks and rewards associated with impact investing, research must uncover firms' investee selection processes, their investing strategies, and their interaction with the investee social enterprises. **Article #2** explores the common goals that enable inter-organizational alignment between impact investors and their investee social enterprises.

The current research on impact investment explores the legitimacy of the social impact created, the authenticity of the social impact measurements, the effectiveness of impact investment (McHugh et al., 2013), competing logics within impact investing, base of the pyramid (BoP) business models

(Nicholls, 2010b), types (Achleitner et al., 2011), and moral legitimacy (Bugg-Levine & Emerson, 2011a). Several researchers argue that social mission is explicit and central to impact investment organizations (Miller & Wesley II, 2010; Scholtens & Sievänen, 2013). However, to understand the effectiveness of impact investing, one must also recognize how the impact is created. **Article #2** of this thesis explores the interaction between impact investors and investee social enterprises and examines the dynamics between the two.

Many similarities exist between impact investing firms and venture capital firms (Mrkajic et al., 2017; Novogratz, 2009). The difference between venture capital investing and impact investing lies in how socio-economic problems are recognized as opportunities for investments and how resources are mobilized for transforming those socio-economic problems into real solutions (Austin et al., 2006; Baker & Nelson, 2005; Geoffrey Desa, 2012; Phillips & Tracey, 2007). The impact investing continuum is an indication that not all impact investing firms are similar; some are closer to venture capital while others are closer to philanthropies, but all focus on a common anchor (i.e., investing for social value creation). **Article #3** explores impact investing strategies as a function of antecedents and the social and financial motivations of impact investing. Decision support tools for impact investors have been slowly emerging; however, they are still not adapted systematically (Reeder, 2014; Serrano-cinca, C., Gutiérrez-nieto, 2010). This uncertainty makes the due diligence process for impact investors both more complicated and important. Therefore, **article #3** explores the impact investing strategies of impact investors in greater depth. **Figure 2** depicts the structure and research questions answered in the dissertation.

Figure 2 Structure and Research Questions Answered in the Dissertation



### 1.3 Definition, History, and Continuum

Social enterprises address socio-economic issues related to the empowerment of women (Datta & Gailey, 2012), lack of sustainability (Kai Hockerts & Wüstenhagen, 2010), and social and economic marginalization (Yunus, Moingeon, & Lehmann-Ortega, 2010) by creating socially innovative, commercially oriented solutions. Social enterprises require financial resources to operate and scale (Bloom & Chatterji, 2009; Evans, 2013). Traditional financial firms, such as banks, venture capital, and private equity investors, find it hard to consider social enterprises as financially viable investment options (Harji & Hebb, 2010). At the moment, they consider social enterprises as risky investment options, as they do not have a strong market orientation, they lack dedicated focus on the sale of products and services, and their financial success stories are anecdotal (Bugg-Levine & Emerson, 2011a; Bugg-levine & Goldstein, 2009). However, banks do finance those social enterprises that have accumulated enough resources to ensure securitization of risk. Therefore, an opportunity exists to have an alternative financial system aimed at investing in projects and enterprises that create socio-economic value for the community and society while ensuring fiduciary compliance and financial prudence. There is a void in which social enterprises lack access to the financial resources necessary to fulfil their demand for capital that is empathetic toward their mission and innovative approach (ibid.), and consumer movements that acknowledge social enterprises (Hibbert et al., 2002). Addressing this void, impact investment is emerging as a reliable funding source for social enterprises (ibid.).

In 2007, the Rockefeller Foundation convened a meeting at the Bellagio Center in Italy on the topics of philanthropy and developmental finance, where the term “*impact investing*” was adopted for the first time (Bugg-Levine & Emerson, 2011a). Impact investors such as Acumen Fund, Aavishkaar Capital, and Villgro Innovations have been operational long before 2007, but it was only then that the term “*impact investing*” gained widespread recognition. After the 2008 financial crisis, public confidence in the financial industry was severely impacted (Geobey, Westley, & Weber, 2013; BusinessWeek Online, 2008). One strategy adopted by investors to regain the public trust was to invest in socially relevant projects. After the 2008 financial meltdown, the practice of impact investing markedly began to gain momentum, as can be seen based on the increase in the number of publications on the topic.

#### 1.3.1 Defining Impact Investing

***From 2005 to 2012***, the definitions of impact investing were general, broad, and aimed primarily at differentiating the term from charity and venture capital (Julie Battilana et al., 2012). Pepin (2005) defined venture philanthropy as investing (time, resources, and capital) in social enterprises. Scholars conceptualized impact investing as a process of using venture capitalist strategies to provide impact capital to organizations whose primary purpose is to create social value (Geobey et al., 2012a; Moore, Westley, & Brodhead, 2012). In addition, impact investment firms were seen as investing in enterprises with a clear social mission, where often, these investee enterprises consisted of an earned income component (Hebb, 2012; J. F. Jones, 2010; Bugg-levine & Goldstein, 2009). The definitions of impact investing from 2005–2012 were conceptual, definitional, and demarcated it from philanthropy and venture capital while signaling an emerging field (Nicholls, 2010).

***From 2012 to 2016***, the definitions became more precise, more clearly demarcating the field from already existing terms such as venture philanthropy, socially responsible investing, microfinance, and social impact bonds. Impact investors were defined as those who invest in organizations with a well defined social mission, clearly outline a theory of change, and depending on the mandate of the fund, earn income capacity (GIIN, 2013; Jackson, 2013b). This would involve high engagement, tailored financing, extensive support, organizational capacity building, and performance measurement (Achleitner et al., 2011; Hebb, 2013). Lazzarini, Cabral, Ferreira, Pongeluppe, and Rotndaro (2014) developed a model of impact investing that theorizes and operationalizes its social and commercial impact as a function of investor intention, while Ranjan et al. (2014) discussed the mandate of impact investing as a function of social and financial returns and risks. At this stage of scholarship, one could see more clarity in the definitions, with a particular emphasis on either social value creation or financial returns (Glänzel & Scheuerle, 2016; Tekula & Shah, 2016).

***From 2016 to present***, the definition of impact investing has become more nuanced, in which

authors define it based on stakeholders, profit, and social motives. Rizzello et al. (2016); Rebecca and Shah (2016); and Rizzi, Pellegrini, and Battaglia (2018) developed models of impact investing that identify it as the intersection of four fields, namely impact entrepreneurship, sustainable finance, public policy, and their hybrid outcomes. Roundy et al. (2017) define impact investors as those seeking ROI and SROI, while delineating that those who seek only one of the two might not be considered an impact investor. Their definition attempts to quantify impact investing in terms of ROI and SROI. Furthermore, Quinn and Munir (2017) emphasize the role of the degree of pro-activeness among impact investors while managing their investment. Such definitions help to operationalize impact investing by including not only operationalization for social and commercial value creators but also the concept of inter-organizational interaction between investors and investees. **Table 1 below** provides a list of impact investing definitions commonly used by practitioners and researchers from 2005 to 2017.

Table 1 Definition of Impact Investing (source Article #1)

Study	Definition(s)
Roundy et al. (2017)	"Impact investors are those seeking some degree of both financial ROI and SROI. If an investor seeks only financial returns or only the creation of social value, then he/she is not operating as an impact investor."
Quinn & Munir (2017)	"Impact investing refers to the use of investment capital to help solve social or environmental problems around the world with the expectation of financial returns. Unlike ethical investing or socially responsible investing (SRI), which focuses on the negative [...], impact investing is positioned as taking a proactive approach actively identifying businesses with the intent to achieve a financial return and create a positive social or environmental impact."
Glänzel & Scheuerle (2016)	"Measurable social and ecological impact as dominant goals here, with the potential for a financial upside."
Weber (2016)	"Definitions of Impact Investment are based on two common principles: 1 The blended value principle, claiming that social finance products and services can and should achieve both financial and social returns (positive social impacts). 2 The principle of sustainable financial return, guaranteeing the long-term financial viability of social finance institutions."
Tekula & Shah (2016)	"Impact Investing is dual-purpose financing: the pursuit of social benefit together with financial profit."
Daggers & Nicholls (2016)	"Social Impact Investing" as an umbrella term to refer to both "Social Investment" and "Impact Investing" define SI as: "investments in organizations that deliberately aim to create social or environmental value (and measure it), where the principal is repaid, possibly with a return."
Rajan, Koserwal, & Keerthana (2014)	"SVC investing is typically characterized by investments in early-stage enterprises that are servicing people in the BoP; they have high-risk tolerance and a longer time horizon for investments compared to VC investments. SVC investors give equal importance to financial returns and social returns."
GIIN (2013)	"Impact investments are investments made into companies, organizations, and funds to generate measurable social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances."

Jackson (2013)	“Mobilizing capital for ‘investments intended to create a positive social impact beyond financial return.’ Two key components of this definition are, first, the intent of the investor to achieve such impacts, and, second, tangible evidence of the impacts themselves and the final component is a theory of change. Impact investment must account for the theory of change.”
Hebb (2013)	“Impact investing is a sub-set of responsible investing. Here the investor intentionally invests to achieve positive social and environmental impact in addition to financial return.”
Moore et al. (2012)	“Social finance is more than just the flow of money into social or environmental projects. It is conceived as an ethos about the way money is used . . . social finance can be seen as the discourse around such flows that are developing in concrete terms in the new institutions of supply, intermediation, and demand.”
Battilana, Lee, Walker, & Dorsey (2012)	“[Impact investors] are comfortable with hybrid models and their blend of social value creation and commercial revenue.”
Rangan et al. (2011)	“The commonly accepted definition for impact investing is an investment that creates social or environmental benefits while also providing a return of principal, with returns ranging from zero to market rate.”
Nicholls (2010)	“Social investment in practice is innovation in terms of the institutional logics and norms that govern the relationships between its investment logics (focused on the outcomes of placing capital) and investor rationalities (focused on the objectives of placing capital)”
Bugg-Levine & Goldstein (2009)	“Helps to address social or environmental problems while generating financial returns.”
Pepin (2005)	“Venture philanthropists (impact investors) desire a close relationship with the social entrepreneur, investing time, human and financial resources and intimately helping to achieve the business plan targets.”

### 1.3.2 Impact Investing Continuum

The interest of academics and practitioners in impact investing is recent (Peredo & McLean, 2006; Short et al., 2009), as this field successfully combines a series of actions and organizational forms that address social issues using market means (Dacin et al., 2010; Robinson et al., 2009). Many of the literature reviews on impact investing and social entrepreneurship (J. G. Dees, 1998; Defourny & Nyssens, 2008; Hoogendoorn & Pennings, 2010; Huybrechts & Nicholls, 2012) identify impact investing firms as organizations between the continuum of non-profit and for-profit organizations that address social issues affecting marginalized people or communities. Emerson (2003) conceptualized a continuum for blended value investing (*see Table 2*). The extremes of the continuum included traditional charity firms which maximize the social impact, and purely for-profit financial service firms which maximize profits. Between the extremes, one finds venture philanthropy, community financing (as in the UK), and social venture capital funds. A critical reflection of the continuum suggests that impact investing is highly dependent on social and commercial goals, and it is highly likely that it lacks an exact location on social and commercial goals (*or axis*).

Table 2 Spectrum of Investor Institutions and Factors Related to Their Activities (adopted from Emerson (2003))

Traditional Philanthropy	Venture Philanthropy	Community Debt Financing	Community Development Equity	Angel Investors and Social Venture Capital	Socially Responsible Funds	Traditional Capital
Seeks to Maximize Social Return	Seed Capital for innovative social or economic programs	Positive Financial Return (fixed rate)	High Risk	Seed funding of business start-ups	Seeks Market rate financial returns	No calculation of SROI and Seeks to Maximize Financial return
Majority of applied funds not viewed as type of investment	No Market ROI	Positive assumed social impact	No liquidity Event	Seeks Market rate financial returns	Seeks to minimize negative social, environmental or other impacts	May engage in CRA lending, but not part of core mission
May engage in Program Related Investments	Documented SROI	Modest financial returns on investment compared to market rates	Financial Returns Minimised	"Qualitative" or anecdotal social impact assessment	Pro-active social, environmental or other screen for investing	Analysts "observe" performance and make no direct effort to influence the operation of the investee corporation
"Evaluation" used to assess relative social impact	Application of Venture Capital practice within Philanthropic context	Includes CDFIs Community	Low/No economic benefits, so how do you assess risk/reward?	"Do no harm" screen or perhaps facilitate some type of social good	Engages in Social Audits and "follow-along" monitoring Shareholder Activism	May engage in traditional philanthropy by making grants to non-profit organizations

The outcomes and risks of impact investing are measured based on two goals: social goals and financial goals. Both types of goals compete with each other for organizational resources (capital, time, and people), and increasing the focus on one thereby increases the pressure and risk on the other. Impact investing can be categorized based on its stakeholders and its social and profit motives. **Figure 3** below presents the classification of impact investing in the two-dimensional scale of social and commercial value creation. The vertical axis represents the **expectation of commercial returns** on investment, and the horizontal axis represents the **expectation of social returns** on investment. The purpose of the figure is to present various financing mechanisms and identify the boundary that would best define impact investing.

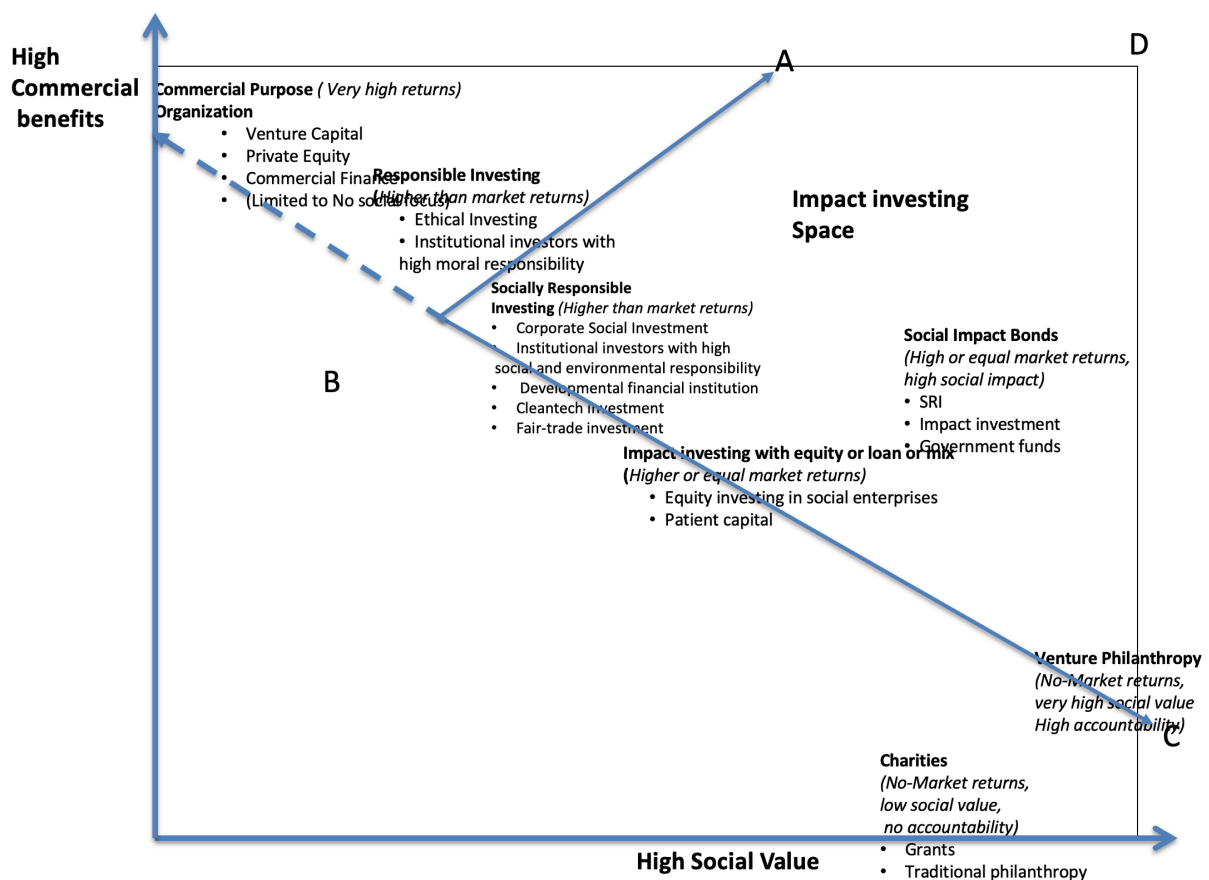
In the lower right of **figure 3** are the public grants, traditional philanthropy, and charities, which generate high social returns for a given investment. These entities face no expectations of financial returns nor is there any control or interference post investment by the donor. In contrast, displayed on the top of the vertical axis are the venture capitalists, private equity investors, and commercial banks that are driven primarily by financial motivations. Both venture capitalists and private equity



investors have a high degree of control over their investee and follow standard audits and compliance reporting methods. These types of investors generate high financial returns while generating low social value. Positioned between these two extremes are investors who are motivated to invest with a purpose.

The line **CB** in **figure 3** is a straight line approximately joining the two extremes of investment goals (purely commercial benefits and high social benefits). I conceptualize the ABCD space in **figure 3** as “impact investing space.” Therefore, the central area **ABCD** in **figure 3** represents responsible investing, socially responsible investing, microfinance, sustainable investing, impact investing, venture philanthropy, and social impact bonds. The central area of the figure has higher social and commercial returns. Consequently, these forms of investing are expected to create both social and commercial value. Point D is an ideal type that each investor aspires to be; however, in reality there are multiple trade-offs between financial and social goals. **AB** is an imaginary line defining the boundary of impact investing.

Figure 3 Impact Investing Continuum along Profit and Social Axes (Authors’ own)



From **figure 3** and **table 2**, one can conclude that impact investing is a large grey area between two extremes bounded by strong financial goals and strong social goals. Impact investing firms use a range of investment strategies depending on social and commercial goals. This bounded range of impact investing creates doubts about its efficacy. It is important to understand the impact investing space in greater detail, particularly, what drives a specific investment thesis. *Thesis articles #1, #2, and #3 fill this gap and discuss this impact investing space in detail.*

## **1.4 Structure of the Dissertation**

My doctoral study spanned a considerable length of time, during which I wrote around 16 research papers and published 10 research papers in peer-reviewed outlets. This dissertation consists of an “umbrella document,” and the three research articles focus specifically on impact investing. The umbrella document aims to draw connections and conclusions across the three articles and presents a research agenda. Therefore, the umbrella document serves as an opportunity to discuss the implications of the findings from this research.

The structure of the thesis is as follows: First, the motivation for this Ph.D. research is provided in the introduction, followed by a discussion on the context of this research. Chapter 2 is an introduction to the main theoretical frameworks, namely the impact investing and social entrepreneurship paradox, institutional logics, and inter-organizational relationship that aim to address the research questions. Chapter 3 introduces the research strategy and methods, while Chapter 4 discusses the primary results of the articles. Chapter 5 is the discussion, and Chapter 6 follows with the conclusion. Furthermore, each of Chapters 8, 9, and 10 represents a research article that forms the core of this dissertation.

**The three research articles that comprise the body of this dissertation are the following.**

### **Article # 1: Impact investing: review and research agenda**

Authors: **Anirudh Agrawal and Kai Hockerts**

Publication Year: **2019**

Journal of Publication: **Journal of Small Business & Entrepreneurship**

## **Article #2: Impact Investing Strategy: Managing Conflicts between Impact Investor and Investee Social Enterprise**

Authors: **Anirudh Agrawal and Kai Hockerts**

Publication Year: **2019**

Journal of Publication: **Sustainability**

## **Article #3: Impact Investing Categories, Strategies and Hybridization (Under Review)**

Author: **Anirudh Agrawal**

Throughout my Ph.D., I have authored and co-authored several book chapters and an edited volume. While these publications have informed my dissertation, I have not included them in this dissertation document. Furthermore, I have presented my work at several international conferences. The following list presents the articles published during my Ph.D. journey that are not part of this dissertation document but have been influential for my final dissertation.

### ***Peer-Reviewed Articles Published During Ph.D. Studies and Not Part of the Dissertation***

- Sahasranamam, S., & Agrawal, A., 2016. Corporate social entrepreneurship in India. *South Asian Journal of Global Business Research*, 5(2): 214–233.
- Agrawal, A., & Khare, P. (2019). Social Entrepreneurship in India: Models and Application. In E. Bidet & J. Defourny (Eds.), *Social Enterprise in Asia Theory, Models and Practice* (First). New York: Routledge, Taylor Francis Group.
- Anirudh Agrawal / Effectiveness of Impact-Investing at the Base of the Pyramid: An Empirical Study from India. In: *Social Entrepreneurship and Sustainable Business Models: The Case of India*. Ed. /Anirudh Agrawal; Payal Kumar. : Palgrave Macmillan 2018, p. 207-246
- Anirudh Agrawal; Payal Kumar / Preface In *Social Entrepreneurship and Sustainable Business Models: The Case of India*. Ed. /Anirudh Agrawal; Payal Kumar. : Palgrave Macmillan 2018, p. xv-xx
- Anirudh Agrawal; Sebastian Schaefer; Thomas Funke / Incorporating Industry 4.0 in Corporate Strategy In *Analyzing the Impacts of Industry 4.0 in Modern Business Environments*. Ed. /Richard Brunet-Thornton; Felipe Martinez. Hersley, PA: IGI global 2018, p. 161-176
- Anirudh Agrawal / Venture Capitalist Enabled Entrepreneurial Mentoring: An Exploratory Study. In: *Exploring Dynamic Mentoring Models in India*. Ed. /Payal Kumar. : Palgrave Macmillan 2018, p. 89-107
- Agrawal, Wade (2017), *Social Entrepreneurship* O.P Jindal Global University, *Social Entrepreneurship Courses in India: A Compendium*, Editor Dr. C Shambu Prasad, Publisher: IRMA, India

- Anirudh Agrawal; Kai Hockerts / Institutional Theory as a Framework for Practitioners of Social Entrepreneurship In *Social Innovation: Solutions for a Sustainable Future*. ed. /Thomas Osburg; René Schmidpeter. Heidelberg: Springer Science+Business Media 2013, p. 119-129 (CSR, Sustainability, Ethics and Governance)

### ***Edited Volume***

- Anirudh Agrawal (Editor); Payal Kumar (Editor) / *Social Entrepreneurship and Sustainable Business Models: The Case of India*. Publisher: Palgrave Macmillan 2018, 253 p. Anthology

### ***Conferences Proceedings***

- EGOS 2019 – Edinburgh  
Agrawal, A. (2019). Review of social impact assessment measures used by impact investing firms. In *35th EGOS Colloquium* (p. 15). Edinburgh, United Kingdom: EGOS 2019.
- EMES 2019 – Sheffield, UK  
Agrawal, A. (2019). Review of Social Impact Assessment Measures used by Impact Investing Firms. In R. Ridley-Duff & M. Nyssens (Eds.), *EMES 2019*. Sheffield, UK: Sheffield Hallam University.
- Mareppagol, K., & Agrawal, A. (2019). Empowering Women Through Social Entrepreneurship: A case of PAHAL initiative. In R. Ridley-Duff & M. Nyssens (Eds.), *EMES 2019*. Sheffield, UK: Sheffield Hallam University.
- AOM 2018 – Big Data Special Conference – Surrey UK  
Agrawal, A. (2018). Incorporating Industry 4.0 in Firm Strategy. In *Academy of Management Global Proceedings 2018*. Surrey, UK: Academy of Management Global Proceedings 2018.
- ESU 2017: Conference Paper – Leuphana University  
Effectiveness of Impact-Investing at the Base of the Pyramid: An Empirical Study from India.
- EMES 2017: Conference Paper – Brussels  
Effectiveness of Impact-Investing at the Base of the Pyramid: An Empirical Study from India.
- AOM 2016: Conference Paper – Anaheim, USA  
Aligning Competing Logics at the Inter-organizational Level: How Impact Investors and Investees Synchronize Logics
- ESU 2014: Conference Paper – Lund University, Sweden  
Aligning Competing Logics at the Inter-organizational Level: How Impact Investors and Investees Synchronize Logics
- EURAM 2014: Conference Paper  
Managing Hybrid Logics: The case of Danish social entrepreneurial startups

- EGOS 2014: Conference – Rotterdam

Aligning Competing Logics at the Inter-organizational Level: How Impact Investors and Investees Synchronize Logics

- EMES 2013: Conference Paper - Liege University

Review of Social Entrepreneurship

- Oikos Saint Gallan, Ph.D. conference 2013

Markets vs. Mission: Cross case analysis of SKS vs. Grameen Bank

## **2. Analytical Framework**

The following chapter introduces the theoretical concepts used in this study. The dissertation primarily draws on the extant research on impact investing, social entrepreneurship, and institutional logics. The study uses an institutional logics framework for a conceptual perspective to understand the hybrid organizational forms and competing goals.

### **2.1 Analytical Frameworks for Studying Impact Investing**

The impact investing field is in the nascent phase and lacks an established knowledge base (Höchstädter & Scheck, 2014). During the initial phase of the field's development, the academics cited multiple articles from social entrepreneurship. The field borrows much of its fundamental frameworks and conceptualization from social entrepreneurship (Weber, 2016; Agrawal & Hockerts, 2019a) and hybrid organization literature (Julie Battilana et al., 2012; Emerson, 2003). The debate on social and commercial goals among social entrepreneurial scholars has inspired similar debates among impact investing scholars (Geobey et al., 2012a; Moore, Westley, & Nicholls, 2012a), who have borrowed literature from the social entrepreneurship field to conceptualize, reflect, and study impact investing. In particular, the debate on balancing social and commercial goals forms the primary analytical lens for exploring the impact investing field in this doctoral dissertation. Beyond the social and commercial debate, only recently have the scholars of impact investing begun to use other established theories (J Daggers & Nicholls, 2016).

During the initial period of scholarly development, publications explored the practical feasibility and promise of impact investing, while drawing parallels with social entrepreneurship (Geobey et al., 2012a; Moore, Westley, & Nicholls, 2012a). A 2012 special issue on impact investing in *Journal of Social Entrepreneurship* by Geobey, Westley, and Weber (2012) explored the 1) promise of impact investing, 2) potential risks and weaknesses of impact investing, and 3) relationship between social innovation and impact investing, and 4) how the impact investing field can help scale the social entrepreneurial impact. Scholars agree on the promise of impact investing, but they emphasize the need for substantial empirical and conceptual studies. It is imperative to undertake further conceptual and critical studies using multiple theoretical frames and case studies, and conduct risk analysis and performance studies (similar to those conducted for traditional investors) to gather scholarly prominence (Morgan, 2010; Daggers & Nicholls, 2016). My doctoral project fills this gap by providing empirical and conceptual studies on impact investing.

Impact investors are surrounded by different actors and institutions such as investors, regulatory bodies, donors, grant-giving organizations, ministries, markets, social enterprises, consumers, and beneficiaries who work to create social impact and generate financial returns (Michelucci, 2016). Dacanay (2012) studied stakeholders and institutional design to understand the institutional set-up of social entrepreneurship firms with the poor as their major stakeholders. Her studies pointed at the impact of stakeholders on organizational performance, legitimacy, and values, and further highlighted the importance of investor and investor location in how the structure of the organization is preserved and sustained. It is essential to reflect on the importance of stakeholders and capital providers in controlling the mission drift. Institutional theory helps to understand the behavior of firms when complex stakeholders are involved (Battilana & Dorado, 2010, Pache & Santos, 2012). Smith, Gonin, and Besharov (2013) suggested multiple theoretical frames to study hybrid organizations. In particular, they discussed the use of institutional theory to understand the complexity of hybrid organizations when multiple stakeholders are involved. Article #3 explores the influence of context and stakeholders on impact investing typologies.

Salzmann's (2013) essay on sustainable investments specifically mentioned that the "*mechanism through which corporate behavior turns into morally right action depends considerably on the institutional framework, formal rules as well as informal values,*" which underlines the importance of institutional set-up and mindset in ensuring sustainability along with financial returns. It also implies how actors operating under institutional pressures may get influenced. This can affect the impact investor's decision rationality, compelling them to put investor interests (profitability) over the stakeholder interests. Such a scenario may lead to the dominance of financial logic over social logic (Castellas, Ormiston, & Findlay, 2018). Therefore, institutional theory and institutional logics have an enormous role to play in impact investing studies, and these theories form the core of this doctoral thesis. Articles #1, #2, and #3 invoke the use of institutional theory and institutional logics.

Institutional theory helps analyze the institutional context of an actor or organization and consequently aids in understanding their behavior (Agrawal & Hockerts, 2013; DiMaggio & Powell, 1983). Articles #1, #2, and #3 rely on institutional theory to understand the growth, development, and underlying functional issues of impact investing. Institutional logics is a sub-theory within institutional theory (Agrawal & Hockerts, 2013) and helps in analyzing the hybrid nature of impact investing (Julie Battilana et al., 2012; Quinn & Munir, 2017). Articles use institutional logics and hybrid logics literature when discussing the process of impact investing,

mission drift, and degree of hybridity. This dissertation uses institutional logics, legitimacy, and the competing goals lens in **article #2** and **article #3** to understand the process of impact investing and the hybridization of competing goals.

## **2.2 Social Entrepreneurship as an Analytical Framework to Study Impact Investing**

Social enterprises are organizations that use entrepreneurial means to pursue a social mission, addressing social issues, and create social value while attempting to remain financial viable (Dacin et al., 2011; Yanfei & Lounsbury, 2016). Defourny and Nyssens (2010, 2017) define social enterprises as *“not-for-profit private organizations providing goods or services directly related to their explicit aim to benefit the community. They rely on a collective dynamics involving various types of stakeholders in their governing bodies, they place a high value on their autonomy, and they bear economic risks linked to their activity.”* The social aims of social enterprises could be varied, but they must address social, community, or state needs through their products and services. Focus on social mission and financial independence are inherent characteristics of specific types of social enterprises.

Social entrepreneurship is a process of bricolage in which, using markets and entrepreneurial ability, the social disequilibria in society is converted into an “social entrepreneurial” opportunity and that opportunity is addressed using an organizational form known as social enterprise (Cai et al., 2019; Mair & Marti, 2009a; Hockerts, 2010). The pursuit of dual mission, that is, the mission to create social and environmental value as well as financial sustainability, are the defining characteristics of social enterprises (Doherty et al., 2014). The social entrepreneurship literature is divided into two streams: one holds an Anglo-Saxon approach to social entrepreneurship (J Gregory Dees & Anderson, 2003) and the other advocates the European approach to social entrepreneurship (Defourny et al., 2013; Hoogendoorn et al., 2010). There are many definitions of social entrepreneurship, but this thesis uses Hockerts’ (2010a) definition: “Social entrepreneurship generates market and non-market disequilibria through the discovery of opportunities to generate social impact.”

Social enterprises could be completely market oriented, with limited social value creation. They could also be completely community oriented, with limited possibility of financial returns (Dees & Anderson 2003). They could be cooperatives that serve both the community and the markets with hybrid returns. They could be similar to organized advocacy groups, working with public and civil



society to create institutional change (Kibler, Salmivaara, Stenholm, & Terjesen, 2018). The social enterprises with pure market orientation might have a weaker social purpose, while those with a strong community focus might have a weaker market focus. Each of these social enterprises requires specific financial support to sustain its operations and organization. Each of these social enterprises requires **impact investing**.

Organizational theorists find the study of social enterprises intriguing because they present a unique organizational form that “creatively” combines social and financial goals into organizational DNA (Julie Battilana & Dorado, 2010; Pache & Santos, 2012, 2010; Smith et al., 2013). Many similarities and interdependencies exist between social enterprises and impact investing firms. Primarily, both share the common mission of creating social value using economically viable means (Agrawal & Hockerts, 2019a,b); therefore, the institutional complexity related to competing goals found among social enterprises is also seen among impact investors.

Many scholars who have previously published in the area of social entrepreneurship are currently publishing in impact investing and drawing heavily from social entrepreneurship scholarship and literature (Agrawal & Hockerts, 2019a). Studies on social enterprises reveal that an increased focus on one goal (social or commercial) might lead to adverse consequences on organizational legitimacy or financial sustainability (Castellas, Ormiston, & Findlay, 2018). Impact investing has dual goals and experiences similar tensions to social entrepreneurs; therefore, social entrepreneurial scholarship is an important stream of literature to conceptualize impact investing.

While there are certain similarities between impact investors and social entrepreneurs, there are differences between the two as well. Harji and Hebb (2010) present impact investing as an impact of change that influences the demand-side and supply-side perspectives. The demand-side perspective suggests studying impact investing as a natural market-driven outcome to the growing financial requirements of social enterprises. Meanwhile, the supply-side perspective suggests studying impact investing as a financial service in which the *investors' intent* is to create social and financial value through investing. Based on the two positions, the instrument that assists an impact investor in achieving its social goals is an *investee social enterprise*. Each impact investor and investee social enterprise has unique objectives and therefore, they experience tensions among themselves (Barinaga, 2018; Bruneel et al., 2016; Vangen et al., 2015).

Differences in objectives could create tensions between the two (investor and investee), and a more significant impact of these tensions could result in the breakdown of the relationship or the loss of social legitimacy of the impact investor (Cobb, J. A., Wry, T., & Zhao, E. Y., 2016). Moreover, it could lead to the loss of legitimacy of the impact investor. Article #2 specifically explores pre-investment and post-investment strategies to manage an investor-investee relationship and thereby explores strategies to manage mission drift.

An institutional logics framework is used to study social enterprises because they help to understand organizations with dual goals (Frumkin & Keating, 2011; A. Robinson & Klein, 2002; Cobb, J. A., Wry, T., & Zhao, E. Y., 2016). Roundy et al. (2017) suggest that despite the symbiotic relationship between impact investing and investee social enterprises, *“it is unclear from research on social entrepreneurship how impact investors interact with and evaluate social ventures and other investments.”* In this dissertation, I draw upon institutional logics to reflect on the differences among different impact investing firms, their investment strategies, and their relationship with investees. Article #2 and article #3 explore the interaction between impact investing and investee social enterprises, investment strategies, and the hybridization of competing goals.

## **2.3 Institutional Logics**

Institutional theory is the broad over-arching theory of organizational studies that has branched into multiple streams, such as institutional logics, institutional entrepreneurship, organizational legitimacy, embedded agency, and institutional work (Julie Battilana, 2006; Lawrence & Suddaby, 2006; Scott, 2001; Thornton et al., 2012). Among different streams, institutional logics is primarily used as a meta-theory to study organizations with dual goals. Impact investing firms have dual goals of creating measurable social impact and ensuring returns on investment and therefore, this dissertation employs institutional logics as one of the core frameworks to study impact investing.

Friedland and Alford (1991) conceptualized institutions for sensemaking the contradicting practices and beliefs inherent in institutions present in first-world societies. According to them, capitalism, state bureaucracy, and political democracy are the three competing institutional orders that shape different practices and individuals' beliefs and logics. Thornton, Ocasio, and Lounsbury (2012) define institutional logics as *“the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality.”* Thornton and

Ocasio (2013, pp 106) describe the institutional logics framework as a meta-theory with a tremendous capacity to accommodate multiple research fields and levels of analysis, such as how institutions, through their underlying foundations (practices, rules, and norms), affect individuals and organizations.

Institutional logics help us to understand the organizational behavior when organizations respond to multiple institutions pressures. Thornton and Ocasio (2013, pp 111) explain how institutional logics exert pressure on individuals and organizations when they identify with the collective identities of an institutionalized group, organization, profession, industry, population, or social movement. Individuals and organizations are embedded in multi-institutional fabrics that influence their decision making, sensemaking, and social networks (Julie Battilana, 2006). This embeddedness causes organizations to have multiple logics (such as world views and knowledge base categories) that affect both decision-making and strategizing processes (Kok , de Bakker & Groenewegen, 2019). Individuals and organizations identify with specific collective identities, cooperate with the social group, and seek to protect the interest of the collective and its members against contending identities. This further constrains decision making, which is reflected in organizational behavior (Kok , de Bakker & Groenewegen, 2019). All these theoretical concepts help us to reflect on organizational behavior and, in particular, on how organizations with multiple goals organize and engage in meaningful actions. Therefore, institutional logics form an ideal setting for studying organizational forms having multiple goals (Smith et al., 2012, 2013), such as impact investing firms.

Institutional logics has been used by many scholars to study social enterprises. Battilana and Dorado (2010) employ institutional logics to study hybridity among impact investing banks in Latin America and how conflicts arise among microfinance organizations. Xing et al. (2018) uses institutional logics to understand the entry strategies of foreign hospitals (conceptualized as social enterprises in the article) in China and how institutional logics in China influence the performance of foreign hospitals there. Cherrier et al. (2018) has used institutional logics in their case study to reflect on the institutional complexities among Indian social enterprises, examining how institutional logics function both as constraints as well as enablers. In this dissertation, I operationalize institutional logics to study impact investing.

### ***2.3.1 Institutional Logics in an Impact Investing Context***

Battilana and Lee (2014) define hybridity in an organization as a way to “*combine multiple identities where each identity is defined as the central, distinctive, and enduring feature of an organization.*” Doherty, Haugh, and Lyon (2014) define hybrid organizational forms as “*structures and practices that allow the coexistence of values and artifacts from two or more categories.*” In impact investing organizations, social and financial goals are distinct identities, and the consequences of combining these two in an investment process might differ significantly compared with organizations formed around unique identities. Impact investing firms have the advantages of drawing resources from multiple sources but also have the disadvantages of not receiving full recognition from traditional financing sources. In addition, those hybrid organizations that struggle to steer hybridity are at a higher risk of losing legitimacy and resources (Doherty, B., Haugh, H., & Lyon, F., 2014 pp 425).

Institutional logics are formidable theoretical tools for analyzing hybrid organizations. Many scholars from the social entrepreneurship field (e.g., (Doherty, Haugh, & Lyon, 2014; Pache & Santos, 2012; Vurro, Dacin, & Perrini, 2011; Agrawal & Hockerts, 2013)) have applied an institutional logics lens in understanding social entrepreneurship. One reason why the field of social entrepreneurship is gaining interest among institutional logics scholars is because it engages actors committed to contrasting institutional logics; in doing so, they can create sustainable social and commercial value (M. T. Dacin et al., 2011; Dart, 2004).

Similar to social entrepreneurship, impact investing firms are also hybrid organizations that can be studied using institutional logics (Julie Battilana et al., 2012). Ideally and morally, it is prudent that in the long run, organizations create both socio-economic and financial value. Organizational tensions are likely to emerge when actors committed to contrasting institutional logics are engaged, such as the organizational tensions found between actors committed to either pragmatism and morality or markets and values (Scott, 2014). In practice, both of these goals compete with each other for organizational resources, causing tensions and affecting organizations’ ability to successfully perform on both social and commercial goals. To theoretically construct impact investing, the dissertation considers impact investing firms as a hybrid organizational form which is influenced by two competing institutional logics (*see Table 3*). The multiple logics in the context of impact investing comprise of the following: the *social logic* of ensuring social value creation and the *commercial logic* of ensuring financial sustainability (*see Table 3*). Article #2 and article #3 rely

on the institutional logics lens to study the phenomena of impact investing. The social and commercial institutional logics used in this dissertation are defined in the following manner (*see Table 3*).

Table 3 Institutional Logics Acting on Impact Investing (Agrawal and Hockerts [2019] – Article #2)

<b>Levels of differences/ Institutional Logics</b>	<b>Commercial Logic</b>	<b>Social Logic</b>
<b>Ownership</b>	Group owns the enterprise through investment or equity ( <i>Pache &amp; Santos, 2011</i> )	Group protects and spreads the social mission ( <i>Pache &amp; Santos, 2011</i> )
<b>Sources of legitimacy</b>	Return on investment, performance, effectiveness, efficiency ( <i>Nicholls, 2010a</i> )	Hero entrepreneur, beneficiaries, social change, disruptive change ( <i>Zahra, Gedajlovic, Neubaum, &amp; Shulman, 2009</i> )
<b>Mission</b>	Efficient allocation of resources; earned income while serving for the society ( <i>Ruebottom, 2013</i> )	Creating socially relevant and innovative solutions to serve the society ( <i>Ruebottom, 2013</i> )
<b>Central Values</b>	Self-interest, a consumer instead of a beneficiary, earned income, growth ( <i>Tracey &amp; Jarvis, 2007b</i> )	Social value creation, equality, social justice ( <i>Zahra, Gedajlovic, Neubaum, &amp; Shulman, 2009</i> )
<b>Model of Governance</b>	Governance towards defined objectives and performance, linear and rational ( <i>Ruebottom, 2013</i> )	A democratic form of governance, high importance to the interest of beneficiaries, ( <i>Ruebottom, 2013; Defourny &amp; Nyssenes, 2012</i> )
<b>Logic behind Decision</b>	Profit maximization and fulfilling fiduciary duty ( <i>Battilana &amp; Dorado, 2010</i> )	Social value creation, Welfare ( <i>J Battilana &amp; Dorado, 2010</i> )

### 2.3.2 Institutional Logics at the Inter-Organizational Level

The influence of competing goals (social versus commercial in the case of impact investing) on post-investment decisions is one reason behind the tensions and subsequent breakdown of the dyadic relationship between collaborating organizations. While the management and stabilization of intra-organizational institutional logics within social entrepreneurship are well explored (*Battilana & Dorado, 2010; Pache & Santosa, 2010*), it is not entirely clear how competing logics align with one another at the inter-organizational level, particularly during inter-organizational collaboration.

Inter-organizational collaboration is a cooperative relationship among organizations based on the mutual interests arising out of the requirements of resource dependency, reduction of transaction costs, reduction of uncertainty, and the lack of market information (Huybrechts & Nicholls, 2013; Nelson Phillips et al., 2000).

The rules and resources associated with the institutional fields provide the context in which collaboration occurs (Nelson Phillips et al., 2000). Recent work on cross-sector organizational collaboration discusses the issues of legitimacy, power, and institutional logics (Di Domenico et al., 2009; Huybrechts & Nicholls, 2013) to understand the effect of inter-organizational collaboration on overall performance. Inter-organizational collaboration promises value creation for the organizations, as resources, knowledge, and markets are shared. Such collaboration also causes tensions when organizations encounter competing or contradictory pressures in the process of jointly creating value (Fenema & Loebbecke, 2014). The discussions by Austin (2000) and Yunus, Moingeon, and Lehmann-Ortega (2010) on cross-sector strategic collaboration suggest that there remains a lack of understanding regarding how relationship breakdown occurs and how relationships can be sustained at the inter-organizational level, especially among hybrid organizations. Article #2 answers some of the questions on inter-organizational alignment by exploring strategies that would help organizations to manage social and commercial tensions arising at the inter-organizational level.

Article #2 studies the collaboration between impact investors and investee social enterprises and uses the institutional logics framework to understand the nature of inter-organizational collaboration between organizations with competing institutional logics. Both the impact investing firms and investee social enterprises must independently deal with their respective intra-organizational logics and together address their inter-organizational institutional logics. In the case of inter-organizational institutional logics, tensions can arise between the investor and investee regarding the financial package, financial liquidity, social mission, and the scaling and future strategy of the social enterprise. Contextualizing the investors and investees on their background, mission, environmental pressures, and future strategy can help identify the reasons for conflict and eventually improve future collaboration strategies. Article #2 studies the dynamics and the strategies for successful collaboration at the inter-organizational level.

### ***2.3.3 Institutional Logics and Intra-Organizational Alignment***

The investing processes among for-profit investors are predominantly motivated by the expectation of return on investment. Some of the most critical variables that influence a for-profit investor's decision are the product/service, degree of innovation, market and industry potential and growth, entrepreneurial background and team, and projected growth of the business plan (Maxwell, Jeffrey, & Lévesque, 2011; Nelson & Blaydon, 2004; Paul, Whittam, & Wyper, 2007). Venture capital scholars on investee selection inform us that variables such as return on investment, product-to-market potential, expected market potential, and market demand (Parhankangas & Ehrlich, 2014) are vital factors that influence an investment decision.

Despite many successful examples and the rapid proliferation of impact investing firms across various regions, empirical and theoretical knowledge regarding their distinct evaluation and investing processes is scant. Do all impact investors follow the same investing process? During the investing process, how do social and commercial goals influence each investor's investing decision? There are few studies on impact investing strategies, and even fewer on theorization of the impact investing selection process taking into account various factors, such as antecedents and social and commercial return expectations. Article #3 examines the management of issues related to hybridization among impact investors and offers suggestions on how to study the field.

Social and financial goals are essential components of impact investing, in which the degree of proclivity is toward financial returns on investment categories of impact investing (Bonini & Emerson, 2005; Weber, 2016). Scaling a social venture requires intensive capital, which is difficult for social entrepreneurs to raise, as the traditional funding agencies consider mostly financial metrics (G Desa & Koch, 2014). Raising capital from for-profit investors might change the social mission objectives (ibid.). Article #3 analyzes the qualitative data and explores impact investors' investment strategies.

The institutional logics perspective is particularly relevant for studying the evaluation process by impact investors, because it provides the conceptual toolbox to identify and assess the critical differentiating elements and themes. The study of antecedents of impact investors (using institutional logics framework) would help in theorizing the motivations of investing and the sources of tensions (between social and commercial goals). Using traditional venture capital firms as the anchoring point, article #3 explores the impact investing categories and investment strategies; in doing so, it also explores how impact investors balance hybridity in their investing process.

### **3. Research Methodology**

In the following section, I present the research method design and its epistemological assumptions. Across all the submitted articles, the methodological choices are based on a model of engaged scholarship and multiple case studies.

#### **3.1 Engaged Scholarship**

Researchers studying social change using entrepreneurial strategies draw on many schools of thought. The predominant discussions in recent decades have centered around Anglo-Saxon scholars (Jess Dagers & Nicholls, 2016; J Gregory Dees & Anderson, 2003; Harold et al., 2007) and Continental Europeans (Defourny & Nyssens, 2008). The focus has increasingly expanded to include academic perspectives from emerging economies such as India (Agrawal & Kumar, 2018). Theories that have been drawn on in the study of social change through entrepreneurial strategies include stakeholder theory, competing institutional logics, and organizational legitimacy, to name a few. These theoretical points of view may compete with or complement one another. Despite multiple theories and multiple schools of thought, the field is still nascent and evolving and relies on practitioner perspectives. Impact investing is primarily driven by practitioners and has only recently attracted serious academic inquiry. Therefore, I have relied on engaged scholarship to collect and analyze data.

Before beginning my doctoral journey, I was actively engaged in many entrepreneurial and social entrepreneurial endeavors. My family, friends, and community regularly engage in various types of social entrepreneurial activities. My master's thesis and work experience in the developmental sector reinforced my belief in social entrepreneurship and social entrepreneurial strategies to create social change. My sense of self is genuinely driven by the notion of creating social and sustainable solutions rather than pro-market solutions. For this project, I selected engaged scholarship (Franz, 2009) because I deeply empathize with the journeys of the entrepreneur and the impact investor, and in that space, I wish to develop solutions that have theoretical relevance for an academic audience as well as pragmatic relevance for a practitioner audience. Engaged scholarship is defined by Van De Ven (2007) as a *“participative form of research for obtaining the advice and perspective*



*of key stakeholders (researchers, users, clients, sponsors, and practitioners) to understand a complex social problem.”* The field is primarily driven by insights from the practice in which arguments are advanced by practitioners rather than academics (e.g., (Bornstein, 1996; Bugg-Levine & Emerson, 2011b; Drayton, 2002)). Consequently, I tried to be part of the practice of impact investing in order to deeply understand the field, in addition to attending multiple conferences and interviewing several impact investors, social entrepreneurs, and beneficiaries.

Van De Ven and Johnson (2006) consider this a “*knowledge transfer problem*” primarily encountered in fields where research is driven by practical observations. Engaged scholarship is driven by the phenomenon in which the research involves dialogue with multiple stakeholders. The interpretation of observations is led by the scholar, aided by theoretical frames at the background with a motivation to create knowledge that has a more comprehensive understanding and implications.

Van De Ven (2007) suggests four steps in participatory research. The steps are (not necessarily in sequential order) as follows:

*“(1) research problem formation by situating, grounding, diagnosing, and resolving a problem;*

- *Lack of knowledge on impact investing*
- *Lack of understanding about how investor and investee balance their competing goals*
- *Lack of understanding about how impact investing firms invest*

*(2) theory building through creation, elaboration, and justification;*

- *Greater understanding of impact investing process*
- *Understanding competing goals*
- *Analyzing impact investing strategies*

*(3) research design using variance and process models; and*

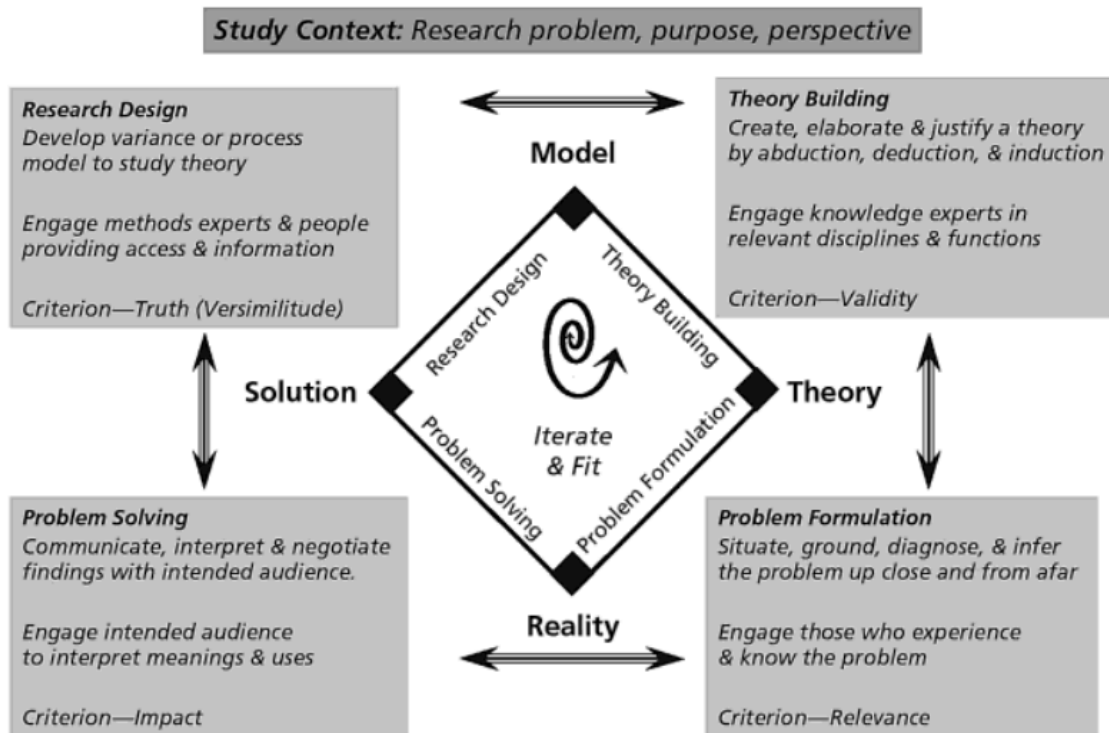
- *Interviews with multiple stakeholders*
- *Interviews with multiple impact investors and investee social enterprises*

*(4) problem-solving that includes social processes of research, mainly communication and politics” ( adopted from Franz, 2009).*

- *data collection and data analysis*
- *theoretical analysis*

Engaged scholarship means that researchers can step beyond their ideal world, engage with different stakeholders (directly involved with the phenomenon), and be informed by the interpretation of others in performing each step of the research process (*as illustrated in Figure 4*).

Figure 4 Engaged Scholarship Diamond Model; As illustrated in Van De Ven (2007)



The research questions reported in the articles are accordingly based on interaction with both the theoretical readings and practitioner meetings, which reveals several inconsistencies. By engaging with practitioners and reflecting on the existing literature, it is possible to develop deeper insights and uncover differences that might have broader implications. I come from India, which has one of the highest concentrations of poverty, deepest dichotomies between the rich and poor, and dwindling resources (Esposito et al., 2012; UNDP, 2014). Here, developing social entrepreneurial strategies to address the needs of the poor is not a choice but a necessity for survivability and sustainability (UNDP, 2014). While researching social entrepreneurial solutions that address socio-economic problems in India, I encountered the emerging phenomenon of “investing in social entrepreneurial initiatives” to create socio-economic value for the community while ensuring the financial prudence of the investments. Throughout the process, I developed multiple articles that explored social entrepreneurial models and theoretical frames in India. While developing these articles, I studied both the literature and the practitioners’ perspective on impact investing and

discovered several inconsistencies, which have led to the development of articles (article #2 and article #3) that form the core of this thesis.

### 3.2 Critical Realism

The research for this thesis has been conducted using a critical realist approach. The realist approach is based on the following assumptions. The world has a physical reality, governed by man-made laws, physical forces, and materiality, that is independent of our cognitive biases and constructions. Scientific knowledge generation must take into consideration multiple variables and stakeholders, and require conformity from multiple sources. The knowledge thus generated should withstand the rigors of critical questioning and have an element of generalizability. The whole process of knowledge creation should be repeatable.

This thesis employs critical realism as the underlying reasoning behind data collection and analysis. According to Van De Ven (2007 :15), “*Critical realism views science as a process of constructing models that represent or map intended aspects of the world, comparing them with rival plausible alternative models where engaged scholars adopt a participant frame of reference to learn about and understand a subject through discourse with other stakeholders.*” Critical realism is an approach that both criticizes and integrates the positivist and constructivist perspectives of research. The foremost tenet of critical realism is that the world exists independently of what we think about it. This importantly causes us to accept the fallibility of our knowledge and the possibility of being incorrect. The construction of knowledge is based on our readings and interactions with the environment. Critical realism distinguishes between the “*real*,” the “*actual*,” and the “*empirical*” (Bhaskar, 2013).

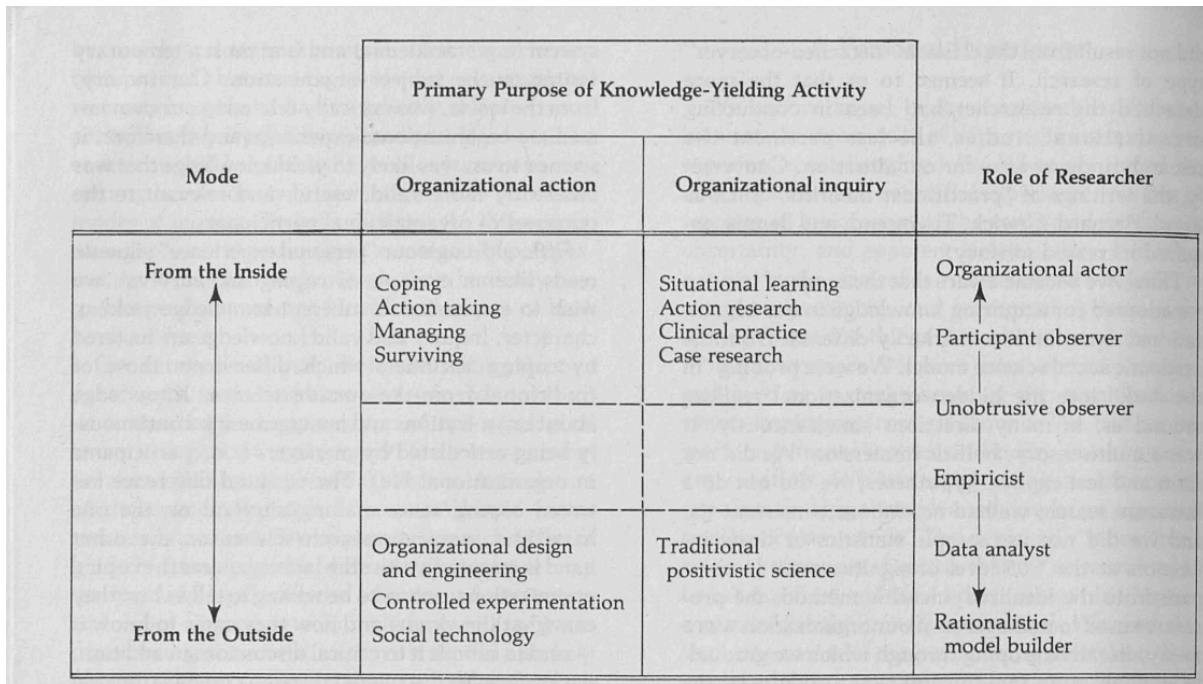
Considering my personal interest and professional journey—in which my family and I have continuously attempted to create solutions to help the poor and to fund organizations and actions that aim to alleviate poverty and related problems—and my liberal political views, I have world views that might influence analysis. However, “*critical realism mirrors the language and procedures we routinely adopt and the explanations that we create. We use causal language without thinking. Critical realists argue for the use of causal language with thinking. Critical realism is particularly well suited as a companion to case research. It justifies the study of any situation, regardless of the numbers of research units involved, but only if the process involves*

*thoughtful, in-depth research with the objective of understanding why things are as they are”* (Easton, 2010).

I am an active agent in the research process. I derive data points from multiple sources of information to reduce bias (lessen the influence of my position or an existing theoretical framing). The research process actively employs an engaged scholarship strategy. I involve a dialogue between the published research and practitioners of the field, and I link the research to interpretivist epistemology. The knowledge creation is an outcome of “*a social development involving many points of view and influences of various types of meaning determining the subject’s knowledge of reality which is then an interpretation of reality, not a strict definition of reality*” (Andrews, 2012). The thesis follows the process of critically evaluating sources of information using the experience developed through interactions, academic publications, theoretical frameworks, interviews with practitioners, and publicly available information.

The social enterprises and impact investing firms studied in this research are grounded in many layers of reality, where they can thus be interpreted in many ways. In the research project, the aspects of legitimacy, social value creation, and institutional logics are interpretable constructs but are not explicitly empirically observable. According to Evered and Louis (1981), “***Inquiry from the inside*** is characterized by the experiential involvement of the researcher, the absence of a priori analytical categories, and an intent to understand a particular situation. ***Inquiry from the outside*** calls for detachment on the part of the researcher, who typically gathers data according to a priori analytical categories and aims to uncover the knowledge that can be generalized to many situations.”

Figure 5 as illustrated in (Alternative Modes of Inquiry (Evered & Louis, 1981))



As an engaged scholar, I am not entirely detached from reality, while at the same time, I am not entirely inside that reality. I consider myself somewhere between empiricist and participant-observer, a role that, following Evered and Louis, can be described as an *unobtrusive observer* (see Figure 5). The *articles* (#2, #3) are inspired by the experience I gained in India, and I use a predefined analytical frame to analyze the data, readings of published literature, an academic discourse of the topics, interviews with practitioners, and publicly available information.

### 3.3 Case Study Method

This dissertation primarily uses a multiple case analysis research strategy. According to Yin (2001; 9), the multiple case method strategy is relevant when “a *how or a why question is being asked about a contemporary set of events over which the investigator has little or no control.*” Yin (2001, 13) defines case study as “an *empirical inquiry that 1) investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident.*” Impact investing is an emerging phenomenon without any known databases or standard measures. Even though related publications are increasing, most studies are still exploring the questions of “how” and “what.” Thus, to understand an emerging phenomenon, qualitative case studies are best suited as they support and facilitate emerging aspects that are

interesting but not well understood (Mair & Marti, 2009b). I have used multiple case studies as they enable researchers to replicate findings across cases as well as understand points of similarities and differences across cases. Studying multiple cases also controls for self-selection bias and increases the generalizability of the study (Yin, 2003; Eisenhardt, 1989).

Furthermore, Yin (2003) states that “*developing theory from cases is useful when studying new topical areas [impact investing and corporate impact investing in this thesis project] because resultant insights may be validated by more rigorous research techniques as research progresses.*” Article #1 in this dissertation identifies that of the 85 studies on impact investing published until 2010, only 3 were quantitative, and 10 were case studies. One of the findings from article #1 is that the field lacks empirical studies. Given the paucity of data, the case study method is one of the most used research methods to develop detailed understating of an emerging phenomenon. The case research method might involve single or multiple cases, and each case might include multi-level studies. In this study, I use the multiple case study method for empirical articles.

For example, in answering the first research question: “What institutional and organizational factors influence impact investing and how do these factors lead to variance in impact investing strategies?”, the case study method fits closely with the object of the research. The prominent questions start with “what” and “how.” These are questions that typically require qualitative inquiry, which can be achieved by employing the case study method. While different case studies might contain different types of data (qualitative or quantitative, or both), the multiple studies included in this Ph.D. research contain only qualitative data. The data used in constructing the cases involve interviews with key informants as well as secondary data available on websites, published reports, news reports, and other forms of communication (social media). The primary sampling strategy is to ensure that the range of variation in the target population is adequately represented in the study’s sample of observations.

For this study, I use non-probability sampling, which refers to the nonrandom selection of cases for the study. Article #2 involves a cross-case analysis of six case studies from India. Article #3 consists of the study performed on impact investing strategies involving multiple cases and interviews across geographic boundaries. The case studies are used to answer different research questions, formulate propositions, develop models, and create categories according to the engaged scholarship research paradigm. **Table 4** contains detailed information on the data collection and data analysis strategy.

### **3.4 Data Collection**

The data collection for case studies involved multiple strategies. As a researcher and observer, I attended multiple conferences on social entrepreneurship, impact investing, entrepreneurship, and private equity firms. These conferences helped me understand the positioning of the field of impact investing. I was able to compare the vocabulary used in impact investing with that used in the private equity industry to find that the two are notably distinct. I spent many hours at the Copenhagen School of Entrepreneurship, Social Impact Lab in Frankfurt, and TechQuartier Frankfurt to understand the financial needs of a social entrepreneur. I interacted with multiple impact investors and social entrepreneurs to imbibe the requirements of the impact investing and social entrepreneurship ecosystems. My position as an observer and researcher was neutral outside the system when I engaged with the phenomenon by holding discussions, spending hours understanding the problem, and observing how impact investors and investee social enterprises interacted with their beneficiaries. These experiences, along with a strong theoretical foundation, were fundamental drivers in the questionnaire development and data collection strategy.

### **3.5 Issues of Validity with Case Study Research Method**

The case study method needs to be adequately accounted for by citing critical issues related to content validity, face validity, internal validity, external validity, reliability, and generalizability. I address these issues in the following way.

#### **Interview Guide**

The interview guide was driven by institutional logics based theoretical frames, engaged scholarship, and literature on social entrepreneurship, impact investing, and venture capital. My interview guide primarily relied on competing goals literature within institutional logics and engaged scholarship with venture capitalists, private equity players, social entrepreneurs, and impact investors.

#### **Reliability and Validity**

**Triangulation** is one of the methods through which I have tried to address the issues of validity and reliability. Before each interview, I developed a short 2- to 3-page case overview of each impact investing firm and investee social enterprise. I developed the cases using secondary data available in the public domain shared on their website, news reports (accessed via Google), and their Twitter, Facebook, and LinkedIn pages. The cases helped to cross-check deviations during both the interview and the post-interview analysis process. The interview and observation data were triangulated with secondary sources, providing ample context for understanding the dynamics of impact investing, which is assumed to increase the reliability and validity of the study.

## **Reliability**

Leung (2015) states that “*in quantitative research, reliability refers to the exact replicability of the processes and the results. In qualitative research with diverse paradigms, such definition of reliability is challenging and epistemologically counter-intuitive.*” There are five ways to address reliability issues in a qualitative research setting (Silverman, 2009). These are:

1. Refutational analysis: I envisioned myself as part of the impact investing ecosystem, and gathered data from multiple sources along the entire value chain of impact investing. This, I hope, has given me an understanding to reflect on my analysis critically.
2. Constant data comparison: I collected data over a considerable period of time. I have presented the articles in conferences and have also sent the articles for review. This ensures reliability and outsider reflection.
3. Comprehensive data use: I collected data from multiple sources, and used those data points in the articles.
4. Inclusive of the deviant case: For article #2 and article #3, I have used multiple cases with variances. There are some cases with higher financial logic and some cases with lower economic logic.
5. Use of tables: Articles #1, #2, and #3 all have multiple associated tables illustrating the data and analysis.

## **Validity**

Validity in qualitative research means “appropriateness” of the tools, processes, and data used. According to Leung (2015), validity refers to “whether the research question is valid for the desired outcome, the choice of methodology is appropriate for answering the research question, the design is valid for the methodology, the sampling and data analysis is appropriate, and finally the results and conclusions are valid for the sample and context.” Research design elements like interview



guide and questionnaire, research questions, research setting, sampling, theoretical constructs, and existing literature help in ensuring validity.

**Questionnaire:** I developed the interview questions following my interaction with social entrepreneurs, impact investors, private equity investors, venture capitalists, and social entrepreneurship researchers. Therefore, engaged scholarship helped me in developing the questionnaire, establishing the research gap (along with the existing literature).

**Research Question:** The research question was primarily guided by my experience as an engaged scholar, and my readings of published works and theoretical constructs.

**Research Setting:** For article #2, the research setting was primarily India. For article #3, the research setting involved multiple interviews from impact investors located in different geographies.

**Sampling:** The sampling strategy involved non-probability selection. I collected contacts of prospective impact investors in EVPA and Sankalp forum conferences and contacted them via email. Those who replied formed the core of my data collection strategy. I collected data from multiple sources to increase reliability and validity. The cases used had variances in location, motivations, and investment thesis.

**Extant Literature:** Article #1 was a literature review. The literature review informed my decision to employ the case-based study method and helped me understand the literature gaps and published research in the field. A strong literature review increases the researcher's critical reflection potential, which may boost reliability and validity.

**Theoretical Constructs:** I used institutional logics, which is extensively used by scholars studying hybrid organizations. Theoretical constructs aid in questionnaire development and data analysis.

### **Internal Validity**

A major criticism of the case study method is that it lacks proper **internal validity**. To address this issue, I not only used data from multiple sources, investors, and investees, but also included multiple cases. The study of data from multiple cases is considered more robust. Verifying the data of the primary source with secondary sources also increases robustness and internal validity (Lee, 2000).

As an engaged scholar, where I was part of multiple teams and multiple stakeholders cooperating in impact investing ecosystems, I was generally critical of my reflections and analysis. Also, referring to established theoretical frames further helped reduce the bias.

## Generalizability

One frequent criticism by scholars of the case study method is that over-dependence on a single case limits the generalizability of the findings. A single case increases the richness of the study but also increases the specificity of the study to a particular event, place, and time. I manage this criticism by using multiple cases (Yin, 2003, 2009; Eisenhardt, 1989) for articles #2 and #3. Employing multiple cases helps in reducing the selection bias in the findings (a weakness among qualitative research methods) and increases their generalizability to a wider sample.

Scholars argue that the propositions developed in the case-study method lack generalizability. However, Yin (2009) suggests that a difference exists between statistical generalizability and analytical generalizability. Case study propositions might be referred to as analytical generalizations, in which previous research is compared for reducing oversimplification, over-generalizations, and scholar bias. It is critical enough for specific statements that might amount to some degree of generalizability (Yin, 2009). For articles #2 and #3, I use multiple cases which increases the generalizability of the findings. Both Eisenhardt (1989) and Yin (2009) have suggested that including multiple case studies increases the generalizability of the findings over a larger population. It is a qualitative study where I develop models. I hope to use these models for a more in-depth quantitative study during my post-doctoral academic life.

### 3.6 Research Methods used in Articles #1, #2, and #3

Following **table 4** is a summary of the research methods employed. The table summarizes the element of engaged scholarship used in each of the articles and how the research method addressed the issues of validity and reliability.

Table 4 Summary of the Research Methods Used in Articles #1, #2, and #3

	Article #1	Article #2	Article #3

<b>Type of Study</b>	Systematic Literature Review	Multiple Case study (6 case studies)	Multiple case study (22 case studies) + Multiple interviews
<b>Data Source</b>	Design: Systematic Literature Review Data: Initial Search yielded 1,000 articles; Subsequent analysis reduced the search to 85 articles-book chapters-practitioner reports	Design: Case Study Method: 6 cases of impact investors and their investee social enterprises Data: Competing Logics Framework	Design: Exploratory empirical study Method: Interview analysis for developing a process, Data: Interviews with impact investors from Latin America, India, East Asia and Europe (22 case studies)
<b>Form of Engaged Scholarship</b>	N/A	Outside	Outside
<b>Researcher Perspective</b>	Outside View/ Data Collection and Analysis	Middle (Abductive)	Middle (Abductive)
<b>Time Span</b>	First Lot: 2015, Revised again, Dec 2017-Feb 2018	June 2014-June 2016 ( <i>Check Appendix 1 and 2</i> )	Jun 2014-Aug 2014; Jul 2016-Jul 2017 ( <i>Check Appendix 1 and 3</i> )
<b>Primary Data Collection</b>	Literature Review and analysis	Interviews	Interviews
<b>Secondary Data Collection</b>	Study of 100 impact investors from all over the world (not mentioned in article #1)	Online Reports, Websites, and Twitter and Facebook Pages	Online Reports, Websites
<b>Validity</b>	STR literature review process,	6 case studies, triangulation	Multiple case studies from different countries instead of one
<b>Reliability</b>	Standard systematic literature review, covers most of the articles on impact investing	6 case studies, triangulation by sourcing data from multiple sources	Multiple case studies from different countries instead of one
<b>Generalizability</b>	N/A	Multiple case studies, known theoretical frame helps in generalizability of the findings	Multiple case studies from different countries, larger scope for generalizability

### 3.6.1 Research Method for Article #1—Systematic Literature Review

The review-conducted searches using the *Harzing Publish or Perish 6* software cover the period from January 2005 to December 2017. I used the search term “*impact investing*.” The term was searched in the title, topic/subject headings/subject terms, and abstract. The initial search yielded 990 articles, reports, edited volumes, working papers, and magazine articles with at least one citation. Subsequently, of the list, only journal articles written in the English language were selected

for the study. In addition, publications without any apparent relationship to the concept of impact investing were excluded. Upon further analysis, only those articles that had citations of 10 or more were selected for the study, as indicated by the *Harzing Publish or Perish* software.

Furthermore, the study attempted to avoid similar articles written by the same author, and later included some specific articles that were recommended by experts in the field but not revealed in the search. The list also included a 1999 article written by Porter and Kramer, in addition to two articles published in 2018. The study included six book chapters on impact investing published in an edited volume in 2016. The final list included 57 journal articles, one book, six chapters from two edited volumes, 18 reports, and three working papers. The academic articles were further cross-checked with the EBSCO, Science-Direct, and JSTOR databases. Throughout the data analysis and coding phase, my position as a researcher was outside the phenomenon. The articles were studied and coded based on origin, research question, research method, theoretical framework, and findings. The articles were critically analyzed based on what is discussed and what more can be done.

### ***3.6.2 Research Method for Article #2—Multiple Case Study***

This article analyzed six cases of impact investment firms operating in India. The article selected the cases based on information-oriented sampling, as diverse cases reveal more than do similar cases (Michael Gibbert et al., 2008). Each case represents a different impact investment strategy, conception of impact, impact focus, and organizational structure; thus, they cover a complete discourse of impact investment in India. All cases have more than 10 investments in the social sector. All the selected organizations are more than four years old and have a dedicated investment team and advisory board members. The study conducted 27 interviews with company members and local cooperation partners to substantiate and complete the information regarding research questions. The interviewee list included the fund managers responsible for making the investment decisions, impact reporters, CEOs of investee organizations, investors of impact investing organizations, and experts in the field. All the interviews were conducted in English and were between 20 and 70 minutes in length, with an average duration of 45 minutes. One working day prior to the interview, the interview guideline was sent to all interviewees via email (*Check Appendix 1 and 3*).

During the data analysis and coding phase, my position as a researcher was outside the phenomenon. First, the article developed knowledge about the inter-organizational alignment

between impact investors and investee social enterprises. Furthermore, the competing logics lens and inter-organizational lens were used to analyze the inter-organizational alignment between the two (impact investor and investee social enterprise), which also increased the internal validity of the investigation (Suddaby, 2006). Furthermore, to ensure construct validity, the article used data triangulation (Eisenhardt, 1989; Glaser & Strauss, 1967; Yin, 1981) to compare the claims of the informants with a collection of publicly available reports.

### **3.6.3 Research Method for Article #3—Multiple Interviews**

This article explores impact investing at the global level, examines the similarities and differences among different impact investors, identifies the factors that make impact investors different, and also studies different impact investing strategies and issues related to hybridization. This research uses the case study-based approach, which is often recommended for investigating emerging research avenues and acquiring a fresh perspective. *“Like most research methods, it is a combination of inductive and deductive approaches, and like all methods, the investigator focuses the research according to a conscious selective process”* (Stern, 1980). This research method follows Stern (1980) by using empirical data to understand the emerging phenomenon and inductively develop a theoretical model based on the phenomenon. This study used a theoretical sampling approach and selected firms that not only comply with the predefined strict definition of impact investing but have also invested in a minimum of five social enterprises. The study developed a database of 115 impact investing firms spread across different geographies. The informants were selected based on their involvement in the investment decisions process. To maintain anonymity, the names of the impact investing firms interviewed for this study have been anonymized.

In total, 22 interviews were conducted. Primary data was gathered through semi-structured interviews. The interviews were 60–90 minutes in length and captured data from key organizational informants, as they possess the most comprehensive knowledge of the organization’s characteristics, strategy, and performance. Secondary data was collected through company websites and third-party reports such as intellectual, GIIN, EVPA, and AVPA, which helped in the triangulation. Prior to each interview, a three-page summary case of each impact investment firm was written and coded. The developed case assisted in the interview process and helped in validating the data available in the public domain (*Check Appendix 2 and 3*).

The data analysis was guided by a previous understanding of the selection procedure followed by for-profit venture capitalist firms. According to Suddaby (2006), such a data analysis strategy also helps in minimizing theoretical bias and increases the focus on addressing the research question. The study uses a multiple case study method of data analysis (Eisenhardt, 2007). Groups of data were selected and fed into an MS Excel worksheet that was later converted into a reference table. The first round of analysis resulted in many concepts. These concepts represented the basic idea of what the interviewee was attempting to convey. Finally, returning to the literature, the emergent themes and propositions were compared, with the literature seeking both differing and similar views. The new concepts that emerged throughout this process were then discussed and interpreted with implications derived for theory and practice.

#### 4. Key Findings of Articles (#1, #2, and #3)

Most research publications on impact investing have focused primarily on the field level, some on the firm level, and few on the individual level. The key findings of this dissertation go further by being located at three levels: i) the broad field level, ii) the inter-organizational level, and iii) the firm level.

At the **field level**, the thesis aims to develop a greater understanding of impact investing. Articles #1, #2, and #3 make contributions that can substantially enhance our understanding of the practice of impact investing. The most relevant contribution at the field level comes from article #1, which summarizes research on impact investing and presents a research agenda. Article #2 and article #3 further increase our understanding about the operationalization of impact investing, focusing on investing strategies and inter-organizational relationships. Together, the three articles contribute to the field of impact investing by increasing our understanding of the current status, complexity, future agenda, and methods to operationalize the field.

Impact investing firms create social and financial value by investing in social entrepreneurial firms, projects, and ideas. The inter-organizational relationship is an essential component of the impact investing process because its strength significantly influences the overall performance of the impact investing firm. Article #2 and article #3 discuss impact investing strategies, hybridization, and inter-organizational relationships. In particular, they highlight the intermediaries' role in the context of balancing social and commercial goals associated with social entrepreneurship, not just within the organization (as discussed in previous literature) but across organizational boundaries, namely between impact investors on one hand and social enterprises on the other.

Firm-level research primarily studies the relationship between organizational strategies and firm performance. At the **firm level**, article #2 and article #3 discuss the strategies that impact investing firms must employ to create both social and commercial value. The articles dwell on competing logics—that is, how conflicts (between social impact outcomes and financial performance) can be managed and negotiated within impact investing firms. These results contribute to the pre-existing understanding of competing logics by using them as the analytical reference to study the *impact investing firm level* for article #3 and the inter-organizational level for article #2. The key findings

from the research are summarized below in Table 5.

Table 5 Summary of the Articles

	Research Question	Theoretical contribution and main Argument	Findings
<b>Article #1:</b> Impact Investing: Review and Research Agenda	What is the current state of research in impact investing? How has the field evolved over of last 15 years and what are the future research possibilities?	Impact investing might be confused with certain similar practices; hence, a systematic review is required. Chronological analysis of impact investing research subsequently draws inferences for future research possibilities	1) Clarifies the term Impact Investing from SRI, Green Finance, Microfinance, Social Impact Bond, Philanthropy, Social finance 2) Explores the current state of research and what is missing 3) Develops a Future Research Agenda
<b>Article #2:</b> Aligning Competing Logics at the Inter-organizational Level: How Impact Investors and Investees Synchronize Logics	How is the dyadic relationship between impact investor and investee social enterprise anchored? What resources and factors lead to their alignment? What actions lead to long-term alignment?	Contribution to the work on competing logics framework especially at the inter-organizational level, strategies for effective collaboration at the inter-organizational level between firms having competing intra-organizational goals	Among the findings: To effectively manage non-alignment of goals at the inter-organizational level <i>impact investors</i> , on the one hand, use four approaches: due diligence, specialization, engagement, and sharing of social networks and business skills. Moreover, to effectively manage non-alignment of goals at the inter-organizational level, <i>investee social enterprises</i> must engage in social impact reporting and documentation of their earned income strategies to control and influence the investors' decision making processes.
<b>Article #3:</b> Impact Investing Typologies, Strategies and Hybridization	What are the similarities and differences among different impact investors? What are the factors that make impact investors different? What are the different impact investing strategies and issues related to hybridization?	Building on the extant literature on impact investing, social entrepreneurship and hybridization of competing goals; Among the findings, the major one is that hybridization largely depends on the typology of impact investing and impact investing strategy (its social and financial goals).	There are three significant contributions. First, the study presents three unique typologies of impact investing as a function of their antecedents. The findings make it clear that impact investing is highly contextual. Second, the findings discuss impact investing strategies. These strategies give us a knowledge base to strategize field level investments. Third, the findings give us insights on the hybridization of social and financial goals



#### **4.1 Article #1: Impact Investment: Review and Research Agenda (Published)**

Authors: **Anirudh Agrawal and Kai Hockerts**

Publication Year: **2019**

Journal of Publication: **Journal of Small Business & Entrepreneurship**

This article is an exhaustive review of the emerging academic and practitioner literature on impact investing, covering 85 studies from 1999 to 2018 and focusing on how impact investing is defined, what has been published, and what future contributions are needed. This article contributes to the existing literature on impact investment by providing an overall picture of how the field is branching, what the possible avenues of research are, and what should be the possible tools to make research relevant to both an academic audience and practitioners.

This study builds on previous literature reviews (Jess Dagers & Nicholls, 2016; Höchstädter & Scheck, 2014). The study delineates impact investing from socially responsible investing (SRI), microfinance, philanthropy, and social impact bonds, and it provides greater clarity on the definition of what impact investing is and is not.

The review studied the various research questions answered, research methods used, and themes explored. It found that the research questions were primarily exploratory with only one confirmatory study. The research methods were predominantly qualitative, with 10 case-based methods and only three quantitative studies. One significant thematic finding was that the current discussion is more focused on how to commercialize social enterprises. The recently published articles explored strategies on how impact investing could help in building an ecosystem for the commercialization of social entrepreneurs.

Finally, the article suggests future avenues for research. The suggestions include the scholarship to understand stakeholder management in the context of the institutional environment. At the firm level, the research must study strategies of investment and investment management. Furthermore, at the outcomes level, serious inquiry into SROI measurement and social impact assessment methods might bring more legitimacy to the field of investigation.

## **4.2 Article #2: Impact Investing Strategy: Managing Conflicts between Impact Investor and Investee Social Enterprise (Published)**

Authors: **Anirudh Agrawal and Kai Hockerts**

Publication Year: **2019**

Journal of Publication: **Sustainability**

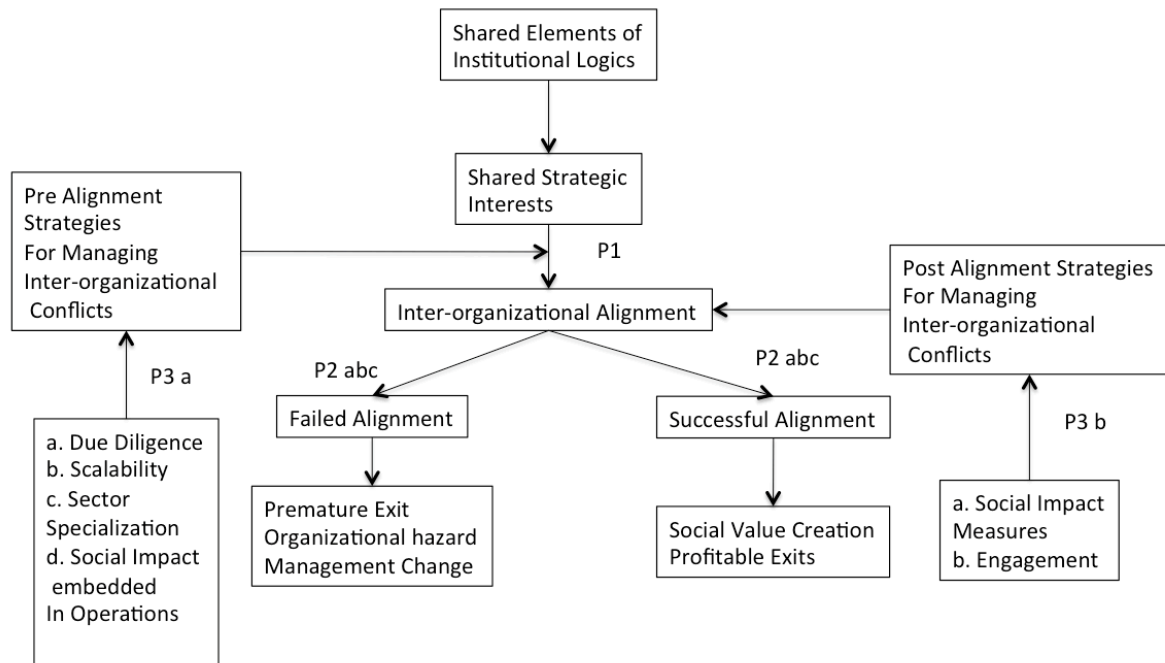
This article had two objectives. The first objective was to understand the interaction between impact investors and their investee social enterprises at the inter-organizational level. The second was to explore the strategies that can aid impact investors and investee social enterprises in achieving their social and commercial goals. This study directly helps to understand how to resolve conflicts at the inter-organizational level and efficiently manage investments in social enterprises. The findings are derived from the analysis of six impact investor and investee social enterprise dyad cases in India using the institutional logics lens.

The findings reveal that as with for-profit or single logic enterprises, the reasons for alignment among binary logic enterprises are pragmatic and influenced by the immediate benefits accruing from the inter-organizational collaboration. The benefits such as potential economic gains, social legitimacy, and mutually aligned motivations to achieve common goals are some of the pragmatic interests that outweigh competing logics during inter-organizational alignment.

The study suggests that for impact investing to be successful, the firms must ensure that strategies such as due diligence, social impact measures, and sector knowledge are essential for creating sustainable social and commercial value and for the external legitimacy of impact investing. Moreover, the findings suggest that failure to follow such strategies could lead to a breakdown of a relationship, change in management, or premature exit.

The findings suggest that the best strategy prior to making any impact investment decision is to ensure that there is proper due diligence and fit between the collaborating organizations. Investments should be pursued within the specific sector in which the investor has developed sufficient knowledge. The social impact of the investee social enterprise should be embedded within the operations, and the possibility of scalability should be signaled appropriately. Finally, the study develops a model of aligning competing logics for impact investing (see Figure 6)

Figure 6 A Model of the Alignment of Competing Logics for Impact Investing



### 4.3 Article #3: Impact Investing Categories, Strategies, and Hybridization (Under Review)

Author: **Anirudh Agrawal**

**Under Review with Journal of Cleaner Production**

The legitimacy of impact investing lies in the ability of firms to create social and commercial value, which is accomplished by investing in social entrepreneurial projects and enterprises. Although investment is the most critical component of impact investing firms, their strategies and decisions during the investment process and how they aim for social and commercial goals remain under-explored research gaps. Based on the analysis of semi-structured interviews with 22 impact investing firms spread around development and developing economies, three significant contributions are made. First, the study presents three unique typologies of impact investing as a function of their context. The findings make it clear that impact investing is highly contextual. Second, the findings discuss impact investing strategies, which provide us a knowledge base to strategize field-level investments. Third, the findings offer insights into the hybridization of social and financial goals.

The study suggests that investment strategies are moderated by contexts of impact investing firms. It suggests that in each step, the social values and social mission become the defining characteristics of the selection process. The study suggests three “possible categories” of impact investors as a function of their contexts and social and financial motivations. These are **influencers, pursuers, and empathizers**. The study finds three impact investment strategies, namely **the impact creation strategy, impact capture strategy, and impact distribution strategy**, each of which has a different social and financial goal.

These categories offer an indication that impact investors have different investing motivations, social goals, financial goals, and methods for addressing issues of hybridization. Influencers and empathizers focus more on social goals rather than financial goals. Influencers are primarily backed by public funds or international aid organizations, while empathizers’ investees are bootstrapped and function in a market environment. Pursuers’ investees are highly innovative, with a robust social business model backed by a strong financial bottom-line. The categorization of impact investors into influencers, pursuers, and empathizers in this article extends the understanding of the differences among impact investors based on geographical location, social and financial goals, and their struggles with hybridization.

The findings suggest three distinct impact investing strategies. First, *value creation investment strategy* focuses on investing in social enterprises that solve complex socio-economic problems and address issues related to perpetual poverty, grave socio-cultural issues, and complex socio-environmental issues. They take increased risk and focus on social innovation, which has the potential to create a disruptive social effect. Second, the *value distribution investment strategy* focuses on investing in social enterprises that engage in market creation. The analysis found that developmental financial institutions with an impact investing fund invest in social enterprises to scale their reach and impact toward beneficiaries. These impact investors have higher capital and public mandate to efficiently increase the scope of their services and help in creating markets for socially relevant products and services. Finally, *value capture investment strategies* entail investing in a socially relevant sector with strong market potential. Value appropriation investment strategies use investment strategies similar to those employed by venture capital funds.

## 5. Discussion

The following chapter discusses the theoretical and practical implications of research findings in the broader context of impact investing. Table 6 below summarizes the implications of this doctoral research.

**Table 6 Summary of the Implications**

	<b>Main Theoretical and Practical Implications</b>
<b>Article #1:</b> Impact Investing: Review and Research Agenda	<p>1) Unlike the previous review, this review is an exhaustive analysis of 85 studies from 2005-2017, provides a longitudinal perspective of the field, and suggests that for the field to move from the pre-paradigm stage to normal science, it needs deterministic-confirmatory studies</p> <p>2) Clarifies the term Impact Investing from SRI, Green Finance, Microfinance, Social Impact Bond, Philanthropy, Social finance; practitioners must use impact investing in specific scenarios involving well-defined projects (or social enterprises) with a strong management structure and revenue model</p> <p>3) Until now, very few theoretical frames have been used; Scholars must use theories such as Institutional logics, Stakeholder theory, Portfolio Theory</p> <p>4) Legitimacy of impact investing is tied to social value creation; hence, social impact measurement and reporting needs to become more consistent and measurable</p>
<b>Article #2:</b> Aligning Competing Logics at the Inter-organizational Level: How Impact Investors and Investees Synchronize Logics	<p>1) Previous studies discuss the balancing of competing logics at the intra-organizational level, this study provides strategies that help in balancing competing logics at inter-organizational level.</p> <p>2) To effectively manage non-alignment of goals at the inter-organizational level due to competing logics, firms must use the following approaches: due diligence, sector specialization (social sector/social problem), and clear articulation of investee goals by investees are essential strategies for alignment.</p> <p><b>Due diligence</b> reduces information asymmetry and aids in aligning the competing social and commercial logics.</p> <p><b>Sector Specialization</b> (like industry specialization among VCs) helps in creating capabilities for a particular social sector. This helps in better understanding a given social enterprise and its goals, and ensures higher value creation.</p> <p><b>Articulation of investee goals, scalability potential, and exit potential</b> ensures a clear understanding of the risks, long-term engagement, resource allocation.</p> <p>3) For long-term successful alignment, the firms must engage in frequent engagement and communication of social impact and social impact reporting.</p> <p><b>Frequent engagement</b> ensures assuaging of tensions when firms have issues or when they are not aligned</p> <p><b>Social impact</b> is an important performance parameter that gives legitimacy to both investor and investee. Increased legitimacy reduces any possible tensions due to competing goals.</p> <p>4) The major findings such as due diligence, engagement, sector specialization, reporting of social impact are generalizable in multiple sectors involving cross-sector collaborations.</p> <p><b>Sector specialization</b> in the social sector is a relatively novel approach within social entrepreneurship. Practitioners must develop social sector specialization. Practitioners should be able to apply the findings in studying inter-organizational relationship involving public private partnerships, a cross-sector collaboration between private entities and non-profit organizations</p>
<b>Article #3:</b> Impact Investing Categories, Strategies and hybridization	<p>1) Impact investing is described as an investment strategy with social and commercial impact, without any elaboration on the differences within impact investors, their goals or regional differences; this study identifies three different categories among impact investing firms: Pursuers, Influencers, and Empathizers; each with specific social and commercial goals; thus elaborating on currently held views on impact investing</p> <p>2) The current perspective on impact investing is that the investment strategy is highly dependent on profitability and social mission. Drawing from the literature on value creation</p>

	<p>and value appropriation, the article proposes three impact investing strategies, namely; Value creation, Value distribution, and Value capture investment strategies. These investment strategies help us understand the intent of impact investing firms.</p> <p>3) Scholarship on Hybridization of competing goals primarily focuses on intra-firm structuration (goals, team); this study suggests that it is highly dependent on context and investment strategies. This should help scholars studying hybridization of competing goals to consider the context, location, and objectives when exploring the tensions related to competing goals.</p>
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## 5.1 Importance of Impact Investing

### 5.1.1 Business Case for Impact Investing

Social entrepreneurs and innovators differentiate themselves from commercial entrepreneurs and innovators by substantially changing the social milieu of a community or the socio-economic situation of an individual or family. The lack of any collateral or expectation of returns makes it difficult for traditional financial firms to support socially relevant initiatives. On the other hand, governments can support social entrepreneurs and social innovators. Still, they lack the **speed and capacity** to conduct assessments, sanction capital, and provide services, unlike a professional financial services firm (e.g., venture capital, private equity, and dedicated MSME bank) (Kent & Dacin, 2013). There are many policies and avenues to address this demand and supply gap. This thesis suggests that one such avenue to address these demand and supply gaps is impact investing. Impact investors select a social enterprise or socially relevant project, analyze its potential for social value creation and financial returns, and make investment decisions.

Consider a case of a social enterprise that specializes in developing **high-quality educational toys** (*one of the investees in article #2*) that improve the classroom experience and increase math score, and sells this innovation in the peri-urban or rural market close to the cost price to make it affordable for disadvantaged school-going children. The banks mostly provide loan based on the collateral. In this case, it would be challenging for a typical loan-giving bank to evaluate the market value of such an innovation and the pricing of the product/service offered, making the loan highly risky. The for-profit venture capital funds might invest, but they would force the social entrepreneur to move its market focus from more impoverished locations to high-income locations and change the product's pricing, but that could potentially erode the social mission. In such a scenario, for the social entrepreneur to organize and develop the social enterprise, they might either invest their own

capital (which in most cases is limited) or raise it from other sources. These additional sources can be foundations, high-net-worth individuals, philanthropic firms, or impact investors. Each of these has different motivations that drive its investment decisions, and each of these seeks different legitimacies. Some seek higher social legitimacy, others find higher financial returns (Agrawal and Hockerts, 2019a). Impact investing is one such innovative finance strategy that is trying to provide financing to such social enterprises. The legitimacy of impact investing is tied to the success of investees. This thesis primarily explores impact investing strategies, the factors that influence those strategies, and the tensions that may arise between investors and investees. In doing so, the findings in articles #1, #2, and #3 suggest a robust business case for impact investing.

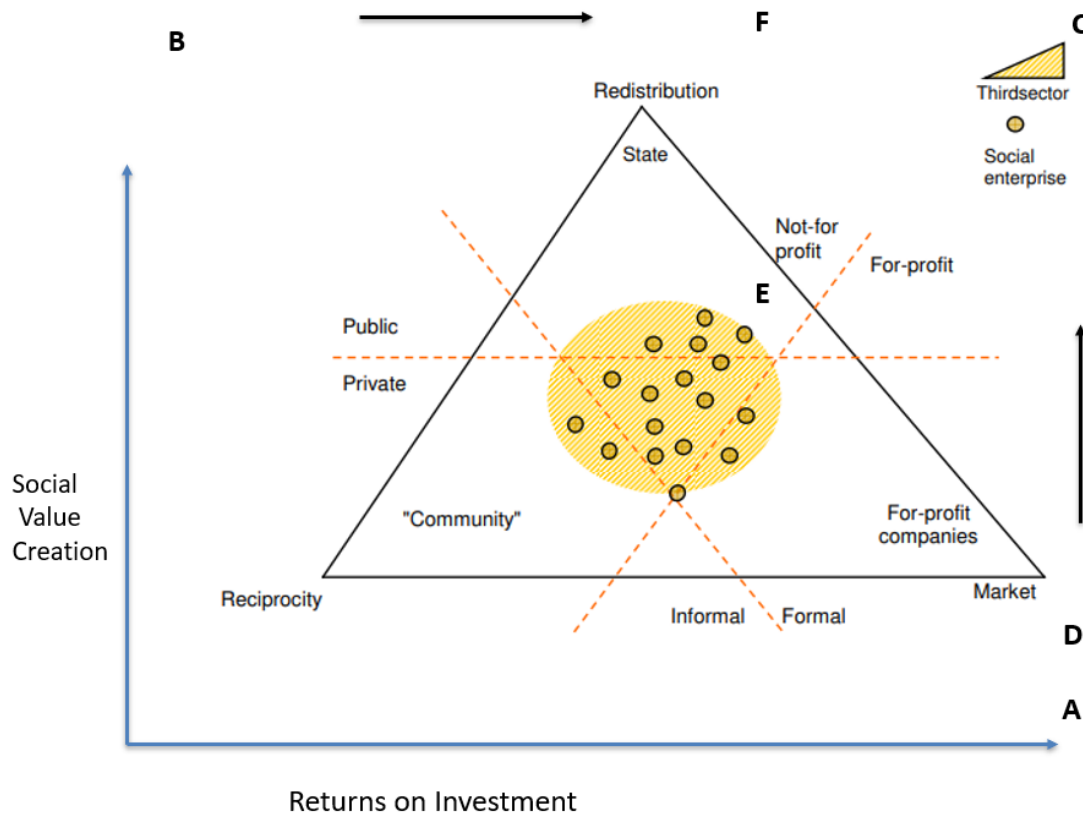
### ***5.1.2 Impact investing Space and impact investing differences***

The triangle in **figure 7** was conceptualized by Defourny and Nyssens (2010), and it represents a range of social enterprises whose goals are a combination of various actors, institutional logics, and resources that are compared along with social value creation and financial returns on social entrepreneurs' investment. The performance of impact investing firms depends on how well they select their investees. I draw X-axis as financial returns and Y-axis as social value created around the Defourny and Nyssens (2010) triangle (see figure 7) to discuss the variance in impact investing.

**Figure 7** commences with the impact investors' decision to finance a social enterprise. It has multiple options to make a choice of social impact or returns on investment. Points A, B, and C represent the ideals. The regions around point A represent investments in social enterprises that purely create commercial value without any expectation for social returns. The regions around point B represent investments in social enterprises that purely create social value without any commercial interests. The regions around point C constitute an ideal impact investing scenario with a high degree of social value creation as well as high financial returns on investment.



Figure 7 Impact Investors' Social and Financial Motivations (adapted from Defourny and Nyssens, [2010])



The region bounded by points **B-F-C-E** represents a scenario in which the impact investment makes scalable social impact but expects low returns on investment. Such investments have a strong social public-sector stake-holding. Such impact investors could also be funded by international aid organizations, developmental funds, and for-profit impact investors. The region bounded by points **C-E-D** represents a scenario in which the impact investor expects high returns on investment and little social impact. The impact investors in this region are profit-oriented and invest in enterprises with purely market mission and some social mission.

The aim of mapping social enterprise goals and impact investing goals is to reveal the potential variances among social enterprises and impact investors. The social entrepreneurship triangle by Defourny and Nyssens (2010) represents multiple social enterprises with different social, market, community, and public goals. Each of these social enterprises requires some form of financing or funding. Impact investing firms provide them with innovative investment to address social disequilibrium, scale their reach, and run their operations.

The above discussion demonstrates that not all impact investors and social enterprises have similar goals (as seen based on **Figure 7** above). **Figure 7** provides a snapshot of impact investors, their motivations, and the potential decision-making choices based on their alignment along social and commercial goals. Article #1 and article #3 explore these different impact investing firms and their investment strategies. Each of these different nuances is expressed in investment strategy and investor-investee relation. Article #2 explores the investor-investee relation applying institutional logics at the inter-organizational level.

## **5.2 Implications for the Impact Investing Field**

### ***5.2.1 Definitional Evolution***

Article #1 contains a review of 85 studies, and it is one of the first studies to provide a longitudinal perspective on impact investing and how it has evolved in the past two decades. It discusses the challenges that could potentially affect the legitimacy of the impact investing field and how researchers and practitioners can address those challenges. Article #1 demonstrates through a literature review that the earlier definitions of impact investing were conceptual, and simplified impact investing as venture capital finance in the social sector (Julie Battilana et al., 2012; Pepin, 2005).

The earlier definitions focused on differentiating impact investing from venture philanthropy and venture capital. From 2012 onward, the definitions of impact investing were more specific, focusing on investees, public policy, return on investment, and social return on investment (Rizzello et al., 2016; Tekula & Shah, 2016). The definitional analysis aids in understanding the direction of the field. While the earlier definitions were conceptual, field level, and generic, the more recent definitions highlight performance measures such as ROI and SROI. The analysis helps us to understand that impact investing is at a pre-paradigm stage, which is moving from conceptual studies to more intricate empirical studies. One of the implications of article #1 is that to position the field from the “pre-paradigm phase” to the stage of “normal science phase”, the researchers should use existing survey instruments, collect public data on impact investors and their investees, and make quantitative studies (exploratory and confirmatory).

### **5.2.2 Terminological Clarifications**

Multiple researchers confuse impact investing with microfinance, philanthropy, sustainable finance, or responsible investing. **Article #1** clarifies this confusion.

Article #1 diverts from the suggestion that impact investing could be similar to microfinance. It differs from Ashta and Hudon's (2012) study that drew parallels between impact investing and microfinance. Both in figure 2 and figure 7, microfinance institutions would be positioned at high profit and moderate impact coordinates. Though both are aimed at alleviating the poor by employing financial means, microfinance is essentially a loan, while impact investing could be a grant, credit, or equity finance. The quantum of capital involved under microfinance is substantially low compared with impact investing. The engagement of an impact investor with the social entrepreneur is relatively higher than that of the microfinance services provider. These differences essentially mean that impact investing differs strongly from microfinance.

Article #1 differs from Adam and Shauki (2014) and Saltuk, Bouri, and Leung (2011) on their parallels between socially responsible investing and mirror impact investing. Socially responsible investing funds are mandated to make socially responsible investments in responsible companies and fund of funds (impact investing funds), while impact investment firms primarily invest in early-stage enterprises with a strong social mission and potential to generate financial returns. SRIs have a strong market component, where the investment is market driven.

Both venture philanthropy and SIBs are sub-forms of impact investing. Article #1 further clarifies differences among these terms; the terminological clarifications explained in Article #1 will help scholars and researchers to limit their scope of inquiry into a specific field, such as microfinance, social impact bonds, socially responsible investments, or impact investing. Such a focus would help to unravel the complexities present at the institutional level, firm level, individual level, and inter-organizational level.

Article #1 explores the longitudinal growth of the impact investing scholarship and terminological dilemmas. Article #1 suggests that the term “impact investing” is similar to social finance; however, researchers in the UK, such as Moore, Westley, and Nicholls, (2012); Daggers and Nicholls, (2016); and Glänzel and Schmitz (2016) have mostly used the term “social finance” (to indicate impact investing), while American scholars, such as Bugg-Levine and Emerson, (2011); and Wood, Thornley, and Grace (2013) have used the term “impact investing.” In their review article,

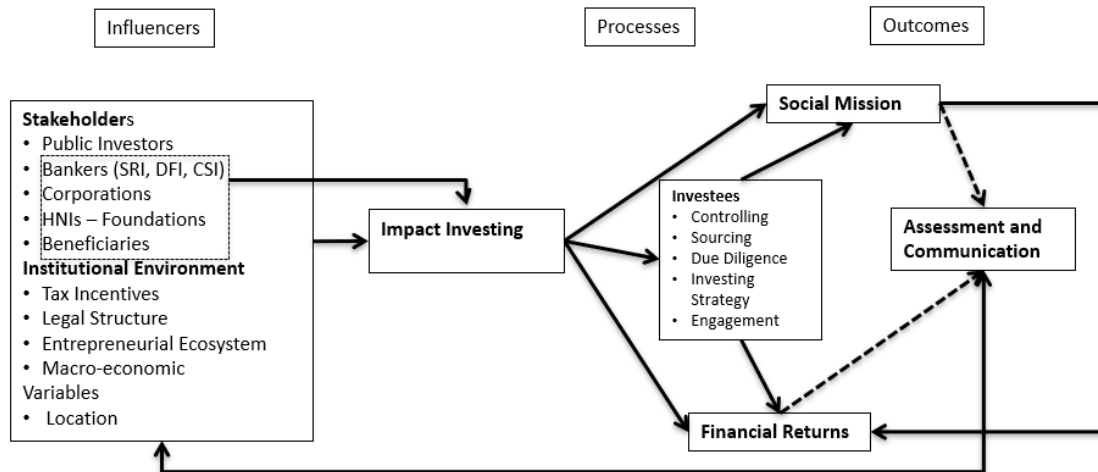
Höchstädter and Scheck (2014) compared social finance with impact investing and suggested that the terms be equated and interchanged. Article #1 in this research also found the same: that both social finance and impact investing are interchangeable terms.

**Figures 2 and 7** illustrate the space of impact investing bounded by the extremes of financial gains and social value creation. There can be multiple activities within this space, which is why many scholars confuse impact investing with other terms. Article #1 provides terminological clarifications. Article #3 further clarifies investment strategies practiced by different impact investors.

### ***5.2.3 Performance: Outcomes and Measures***

The legitimacy of social enterprises is tied to their ability to create social impact, innovate, employ people, and earn a guaranteed income (Dart, 2004; Nicholls, 2010a). Similarly, the legitimacy of impact investing and social enterprises is driven by successfully creating and communicating the social impact that each has created. Figure 8 (*author's own*) below represents the possible outcomes in the case of impact investing and how they are actualized. The social value created and financial returns on investment are the two significant outcomes that reflect the performance of impact investing firms. In the context of the Emerson's (2003) discussion on the impact investing spectrum, returns, and risk (*see Table 2*), article #1, article #2, and article #3 further highlight how different social and financial commitments of impact investors have the potential to affect their investment decisions and outcomes.

Figure 8 Framework of Impact Investing (Author's Own)



The qualitative analysis of impact investing firms presented in the article finds that few impact investing firms have reported returns on investment (ROI) on the order of five to eleven (5X–11X) times (Aavishkaar, 2017) (Ventures, 2012). These returns are much higher than the market returns experienced by traditional financial firms. However, not all impact investing firms experience such high financial performance. There is a risk that such high returns might attract investors who would view the field as a **profit-making opportunity**.

Many social entrepreneurial studies have pointed out that location is an essential factor that affects social entrepreneurial performance. However, available literature on location is contradictory in nature. One side considers institutional voids to be social entrepreneurial opportunities, and another literature stream considers institutional order (rules, regulations, and intermediaries) may reduce entrepreneurial activities. The study in article #3 points out that location is an essential moderating factor in influencing impact investment strategies. Since article #3 was an exploratory study, it found that impact investing firms originating from the global north had lower expectations for profits and focused more on social innovation. In contrast, impact investors located in the global south focused both on social change and financial returns. This is a slightly different outlook compared to the findings by Spiess-Knafl & Aschari-Lincoln (2015), which suggested that impact investing in the global south performs better overall.

The theory of dominant-logic states that sector specialization increases performance (Prahalad & Betti, 1986). Sector specialization, or industry specialization in traditional capital markets, is a well-known practice. For-profit investment firms specialize in specific sectors and industries, and rarely do we see these firms managing multiple sectors and industries. One of the findings of article #2

establishes that sector specialization aids in the positive social and commercial performance of impact investing firms. These findings are significant because the current literature on social entrepreneurship and impact investing does not differentiate or define different social sectors. For example, an impact investing firm specializing in microfinance may show increased social and financial performance than an impact investing firm investing in multiple sectors. These findings call for a more significant discussion on sector specialization within impact investing scholarship. In this study, sector specialists in microfinance and education had higher social or financial performance compared with generalist impact investors.

Most articles define “social” as doing something good for humanity or engaging in morally right decisions. Much of the social entrepreneurial scholarship does not explore the social sectors in detail. Each social sector is different. Social entrepreneurial opportunities in healthcare are completely different from those found in agriculture or microfinance. Some social sector opportunities may be more lucrative financially while other sectors may need higher grant capital and public funds. The findings of this thesis suggest that impact investors must focus on developing sector-specific strengths, which would in turn increase their social and commercial value creation abilities.

#### ***5.2.4 Social Impact Measure***

Castellas, Ormiston, and Findlay (2018) suggest that among the many reasons why impact investing is struggling to be mainstream, a major one is the lack of standardization of social impact measures. The high degree of subjectivity due to thinly spread beneficiaries causes the process of measuring social outcomes to be resource consuming (*Acumen Fund: Measurement in Impact Investing (B)*, 2009; Jackson, 2013c; Serrano-cinca, C., Gutiérrez-nieto, 2010). Articles #1, #2, and #3 discuss the lack of standard impact measures and their importance in the impact investing process and performance. It is time consuming and resource intensive to visit investees or their beneficiaries and record the quality of the outcome. The lack of quantitative measures makes the comparative analysis of impact investing challenging. The lack of social impact measures raises many questions. For example, how would impact investment decisions be influenced if the impact investor and investee social enterprise do not share similar social goals? How would the attainment of social goals be measured?

Nevertheless, the practice of measuring, reporting, and communicating outcomes is essential, as it provides legitimacy to impact investing firms. Articles #2 and #3 suggest that the lack of suitable impact measures adversely affects the performance of the impact investing firm. One implication of the findings from articles #1, #2, and #3 on social impact measures is the need to study and develop methods and processes to internalize social impact measurement and reporting by both impact investors and investee social enterprises. One implication of **article #2** is a suggestion that including a social impact measurement vertical into an organizational function would significantly help in the investing process and in managing logics. Reliable and valid social impact reporting has the potential to influence public policies. One case in article #2 demonstrated that proper measurement, analysis, and communication of its investments in education-based social enterprises increased public-funded primary schools' overall performance. The reports were given due cognizance while formulating education policy and budgeting. Scholars and practitioners should develop strategies to effectively communicate impact investing outcomes by creating space for communication with different stakeholders.

### ***5.2.5 Due Diligence***

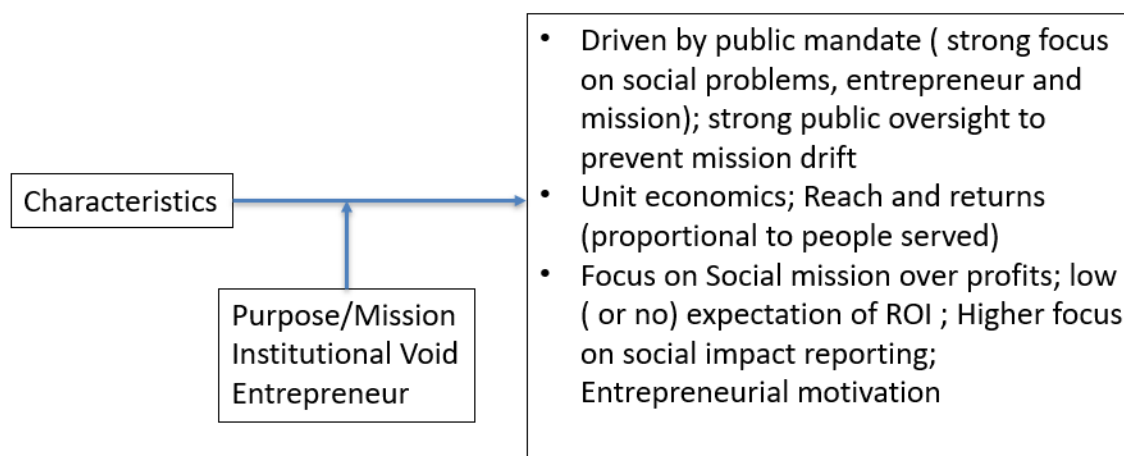
The research on investment-related due diligence has entirely focused on for-profit investment processes, with topics related to for-profit ventures, commercial venture capitals, and their investment performance—which primarily centered on performance, return on assets, return on investment, and profit maximization (Maxwell, Jeffrey, & Lévesque, 2011). Due diligence studies on venture capital (for-profit investors) have found that firm characteristics, products and services offered, characteristics and background of the entrepreneur, team composition, market characteristics, and expected return are major elements that influence the due diligence process (Maxwell, Jeffrey, & Lévesque, 2011). A study by Johansson et al. (2019) on public sector venture capital investment in start-ups shows how cognitive heuristics overpower institutionalized processes. This is particularly important in the case of impact investing, as investors who invest both for both social and commercial returns run the risk where cognitive logic overpowering institutionalized processes. As an engaged scholar, while attending conferences on private equity finance, venture capital and commercial entrepreneurship, I could sense the urgency among the investors for high capital investments, profitable exits, and related valuations. Comparing these conversations to those that happen in impact investing conferences, the focus on “social impact” clearly demarcates and defines impact investing. While, for impact investing field to succeed it is

imperative that the science of impact-investing is well researched, analysed and questioned related to “profiteering” should be critically studied.

Therefore, “social mission screening” while making investment decisions by impact investing firms is an essential element, as it provides legitimacy to impact investing firms. It is important that the best-suited investees get the investment. The screening criteria (due diligence) is a significant topic of discussion in articles #1, #2, and #3. **Article #2** suggests that due diligence should include both internal reflection and external environment. The due diligence must reflect on both the firm’s and the investee’s separate social and commercial motivations. Further, impact investors should consider exit strategies during their investment due diligence, and also acknowledge institutional voids as sources of opportunity (unlike commercial investors).

The literature on social entrepreneurial opportunity discusses how institutional voids are sources of entrepreneurial opportunity (Kistruck et al., 2014; Mair et al., 2007; Mair & Marti, 2009a). However, social entrepreneurial literature lacks significant conversation on the role of financial intermediaries in institutional voids, as traditional financial institutions lack the mandate and knowledge base to finance enterprises operating under institutional voids. Scholars must explore the concept of institutional voids from the investors’ perspective. **Figure 9** adopted from article #3 summarizes the significant responses (criteria) during due diligence that guide the investment decision.

Figure 9 Responses to Due Diligence as a Function of Characteristics and Moderated by Purpose, Institution, Entrepreneur





Article #3 suggests three impact investing strategies based on purpose and institutional characteristics, each of which has different social and commercial motivations. These social and commercial motivations influence their due diligence process. Among the three, influencers and empathizers invest in sectors with high institutional voids and high risks, unlike commercial investors. For example, influencers (from article #3) are impact investing firms (see article #3) that adhere to their core purpose (dominant logic), which forms the criteria of due diligence and investing. Influencers typically invest in a high growth sector with high risk (social and political) and high institutional voids and engage in market creation activities.

### ***5.2.6 Ecosystem for Impact Investing***

The findings from article #2 and article #3 can help in designing systems and processes to create a social entrepreneurial ecosystem. One of the implications of article #2 is that more exit options would encourage more significant impact investment. A developed social entrepreneurial ecosystem would facilitate more impact investment. The review in article #1 suggests that for the field to develop, it needs a unique social entrepreneurial ecosystem and markets, in which social enterprises can sell their products and services. Article #2 and article #3 specifically raise questions related to exit strategies of impact investing firms. One of the most common exit strategies is selling the stake in a given investee social enterprise to another investor, corporation, or social enterprise. For this to actualize, it is necessary to develop a holistic functional and social entrepreneurial ecosystem that allows (without stigma or loss of legitimacy) the transfer of equities from one owner to another.

For social enterprises to grow and scale, Davies, Haugh, and Chambers (2018) suggest that they must focus on their values and mission and collaborate with stakeholders with a similar value system. Currently, the social entrepreneurial ecosystem is small, and the potential of growth beyond a specific size is minimal. For social enterprises to scale and grow, articles #1 and #2 suggest that a strong focus should be placed on creating a social entrepreneurial ecosystem. Such an ecosystem should facilitate the buying of social entrepreneurial produce (**demand side**), the valuation of “social” in social enterprises, and the provision of finance for social enterprises (**intermediaries**), while creating an institutional system that understands the distinctness associated with social enterprises from those that are purely commercial.

One interviewee in article #3 stated that their investments created a new micro-insurance market for the poor in Africa. This social enterprise was later sold to a large commercial insurance company. A significant implication that can be drawn from this study is that by successfully investing in solutions that create markets in difficult and institutionally redundant regions, the exit opportunities increase significantly. Another view is that not all institutional voids have the potential to provide similar opportunities. Social entrepreneurship and impact investing scholars and practitioners must explore strategies to make the social enterprise more accepted in markets and must examine methods to facilitate exit opportunities for impact investors.

### **5.3 Theoretical Implications**

Studies on hybrid organizations focused on mission drift, competing goals, and organizational forms have used institutional logics theory to explore possible structures and solutions to manage tensions. Impact investing firms have many stakeholders. Among these stakeholders, banks and traditional financial firms (Burand, 2012; Jackson, 2013a; Scholtens, 2006) provide running capital and potentially influence entrepreneurial decisions. Then, high-net-worth investors (Bolton & Savell, 2010; Demel, 2012; Tzouvelekas, 2014) provide angel and equity investing and influence decision making driven by their personal social motivations. Furthermore, there are beneficiaries (Corrigan, 2011; Dagher Jr., 2013; Lehner & Nicholls, 2014; Parekh & Ashta, 2018) who receive the products and services, and their well-being determines the legitimacy of an impact investor. Finally, the governments (Bonini & Emerson, 2005; Cabinet Office UK, 2013; Lewin et al., 2011) could potentially create an institution by providing legal legitimacy or collaborating to create public goods. These stakeholders influence the institutional logics of impact investing firms and form the core theoretical frame of this thesis.

#### **5.3.1 Institutional Logics**

Institutional logics are formidable theoretical tools for analyzing organizations that have multiple goals. Many researchers (e.g., (Doherty, Haugh, & Lyon, 2014; Pache & Santos, 2012; Vurro, Dacin, & Perrini, 2011; Agrawal & Hockerts, 2013)) have applied the institutional logics lens to understand hybrid organizations and, in particular, social enterprises. The scholars of social entrepreneurship have predominantly used institutional logics to theorize the social entrepreneurship field and to differentiate it from commercial entrepreneurship (ibid).

After analyzing previous studies on social entrepreneurship and hybrid organizations, article #1 suggests that the field should exploit the existing theoretical frameworks to critically explore applications, processes, and the performance of impact investing firms (and concepts). The review in article #1 found that until 2018, only two studies (i.e., Castellás and Ormiston (2018) and Quinn and Munir (2017)) used institutional logics to theorize impact investing. Articles #2 and #3 in this study draw upon institutional logics literature to understand impact investing, the tensions related to hybridity, and its processes, therefore contributing to both impact investing and the institutional logics literature by extending the use of institutional logics as a theoretical lens to reflect on the inter-organizational relationship between impact investing firms and investee social enterprises.

#### 5.3.1.1 Responses to Competing Goals at the Inter-Organizational Level

Most studies on competing logics have explored the “*organizing for hybridity*” at the intra-organizational level (Scott, 2014; Thronton et al., 2012). Firm-level studies on competing logics have predominantly explored the role of the founder and internal governance mechanisms in navigating institutional complexity and managing tensions due to competing logics. Pache and Santos (2012, 2010) discuss the strategies that social enterprises could employ to attract resources and legitimacy. Depending on the uncertainty, social enterprises use their social and commercial signals to attract resources. Battilana and Dorado (2010) suggest that the social motivations of the founder and those of the human resources working within the social enterprise can help manage the issues related to competing logics. Studies by Pache, Santos, Battilana, and Dorado suggest that creating internal structures within an organization to manage competing goals helps maintain the unique, hybrid form and attract legitimacy. This results in attracting resources from multiple sources and ensures firm longevity. While these studies were primarily focused at the intra-organizational level, they do not answer complications in balancing competing goals when making investments in social enterprises. Article #2 applies institutional logics concepts to study the balancing of competing goals at the inter-organizational level.

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**Article #2** suggests that certain pre-investment and post-investment strategies have the potential to increase social and commercial performance and reduce the risks of tensions from inter-organizational collaboration among impact investing firms and investee social enterprises. The pre-investment strategies must include due diligence, sector specialization, and communication of scalability of reach, return, and social impact. From a logics perspective, the due diligence process

ensures that both investors' and investees' social and commercial logics are aligned. In contrast, the risks related to competing logics are curtailed. Sector specialization by impact investors would ensure that they have specific resources (such as knowledge and assets) to understand the risks and opportunities in a specific social sector, such as health, education, domestic violence, and gender discrimination. Impact investors that specialize in a particular social sector would have a dominant social logic (from that sector) that would influence their investment decisions. In contrast, the commercial logic would be in a stronger position to access the failure risks and returns. Finally, the investees must demonstrate their future goals measured in terms of reach, financial returns, and social impact. Such communication would signal the usage of the investment and exit probabilities.

Furthermore, article #2 suggests that in the post-investment period, the interacting firms must continuously engage. Such engagement would reduce the risk of tensions among competing logics. Since the impact investor draws its legitimacy from social and commercial value creation, the reporting and communication of social and commercial value by the investees would elongate the period of engagement. The study suggests that the "internalization" of these strategies would help align competing logics and promote long-term inter-organizational collaboration.

Tracey and Jarvis (2007) suggests that the cost of measuring, reporting, and communicating the social-impact by social enterprises is high and require extra paid resources. However, SIA should be considered in the light of the 'new organizational identity' ,as, measuring and communicating social impact help define a unique organizational identity. This new identity has the potential to attract resources from multiple sources in multiple forms ( including volunteering). Therefore, the social impact created should be frequently measured and communicated to ensure that the social goals are clearly articulated for the "social" in social enterprise to maintain its legitimacy (Nielsen et al., 2019). Article #2 suggests that post-investing, internalizing (structuring and normalizing) social impact measurement, reporting, and communication would aid in elongating the inter-organizational collaboration. It positively influences organizational legitimacy, the impact measures has the potential to create larger systemic changes, as discussed in article #2 and article #3. Further, higher social legitimacy of an organization would help in managing potential internal and external conflicts arising due to competing goals.

The traditionally held view is that a capital provider has a strong position in an investor-investee inter-organizational collaboration. Huybrechts and Nicholls (2013) suggest that the expectation of

legitimacy and resources dominates the motivations of collaboration. The one who provides these two has a dominant position in the inter-organizational collaboration. Yunus et al. (2010) suggest that the inter-organizational collaboration strengthens when two organizations together engage in value creation activities. It has been observed that, when the organizations have competing goals, there is a higher risk of relationship breakdown (Nielsen et al., 2019). In the case of impact investing and investee social enterprises, the risk of failure is high, as each has multiple goals but limited resources. Given these risks, the suggestions presented in article #2, when implemented, could result in enhanced performance among individual collaborators. In particular, sector specialization, due diligence, focus on social impact, and high engagement would lead to balancing of competing goals and better inter-organizational alignment and performance.

Tilcsik (2010) identified that organizational responses to institutional logics could change over time. The findings in article #2 agree with Tilcsik (2010) and suggest that the immediate motivations of inter-organizational alignment and those that keep the alignment secure for the long term are slightly different. Article #2 suggests pre-investment and post-investment strategies to ensure long-term collaboration. Studies have shown that the role of a founder is essential in defining the characteristics of the hybrid organization and external governance mechanism. One implication of article #2 points at the creation of governance principles to manage the inter-organizational relationship for improved performance during the pre-investment and post-investment phases to aid in better managing the inter-organizational relationship.

The venture capital literature suggests that for-profit investors who practice domain specialization and make investments based on their area of expertise tend to achieve higher returns on their portfolios (Gompers et al., 2009; Lahr & Mina, 2016). Article #2 suggests that the probability of long-lasting collaboration (and higher performance) between organizations increases if the impact investor has specialized sector knowledge. Academic inquiry on impact investing and social entrepreneurship has not developed deeper insights into questions specific to the “social sector.” The findings that a sector specialization of an impact investor would increase the probability of collaboration and therefore increase the social impact and financial return should be further explored. Prahalad and Bettis (1986) suggest that firms must focus on and invest in developing their dominant logic to gain a higher competitive advantage in a market. Article #2 indicates that sector specialization should be one of the dominant logics of impact investing firms. Specializing in a specific “social sector” would increase the performance (social and financial) of impact investing

firms. Institutional logics literature has not explored sector specialization. It has typically called any social section as social logic. Greater emphasis on sector specificity should help firms manage their mission and resolve issues related to competing logics.

The finding regarding sector specialization can be extended to inter-organizational collaborations that involve multi-institutional actors. For example, the probability that a public sector collaboration would be successful is higher when the collaborating organizations have a higher level of expertise in a particular social sector (such as healthcare, education, climate change, or water management). One of the studies by Sahasranamam and Agrawal (2016) suggests that firms with a sector specialization (such as water, farm management, or finance) collaborating or investing in social enterprises within their sector tend to have higher social and financial returns than a simple CSR investment in a non-related activity. Currently, the scholarship on impact investing is sector agnostic, which underlines the need for greater attention on sector specialization.

Article #2 contributes to the literature on cross-sector strategic collaboration (e.g., public-private partnership, corporate social entrepreneurship, corporate volunteering, public advocacy, and agricultural cooperatives). During cross-sector collaboration, the collaborating organizations might have different goals. Article #2 suggests that impact investing firms that engage in rigorous due diligence, develop a specialized competency in a specific social sector, frequently engage with their investee, and employ mutually agreed-upon metrics are more likely to follow their mission successfully. Such strategies would ensure the sustainability of collaboration and long-term social value creation for all stakeholders.

#### *5.3.1.2 Responses to Competing Goals at the Intra-Organizational Level*

Article #2 uses the institutional logics lens to study inter-organizational collaboration among impact investing firms and investee social enterprises. It suggests strategies for managing responses to competing logics at the inter-organizational level. Article #3 helps to understand the responses to competing logics at the intra-organizational level by studying the impact investing strategies that inform investment decisions. Using data from 22 impact investing firms in the global north and global south, article #3 suggests three categories of impact investing firms: Influencers, Pursuers, and Empathizers. Each category has different social and financial goals. Their social and financial

goals drive their due diligence and investment-related decisions and influence their responses to competing goals (see Table 7).

Table 7 Drivers and Responses to Competing Goals for different Impact Investors (adopted from article #3, table 6)

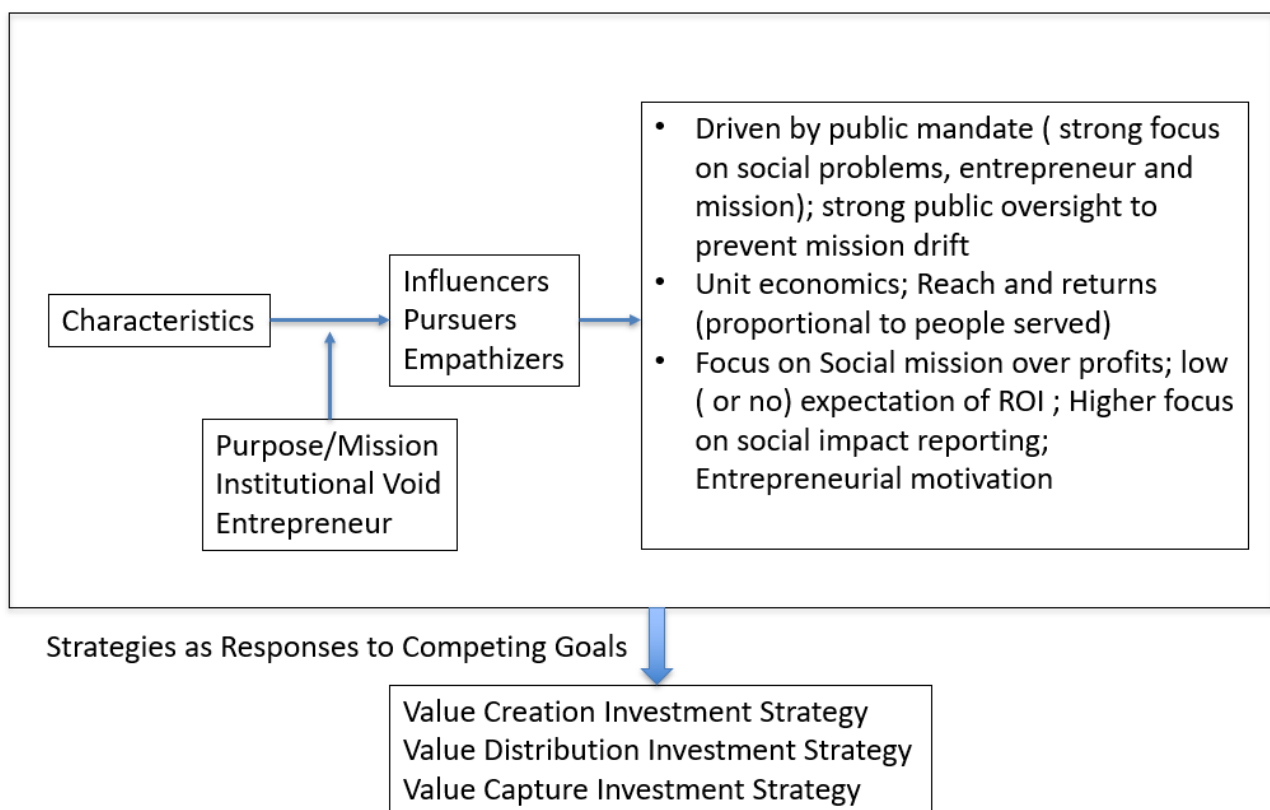
	Influencers	Pursuers	Empathizers
<b>Social Goals</b>	<ul style="list-style-type: none"> <li>&gt;Market creators for complex socio-economic problems</li> <li>&gt;Typically located in Global North and provide large scale capital to solve complex problems</li> <li>&gt;New solutions</li> <li>&gt; Institution driven</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Focus on social mission</li> <li>&gt;Focus on BoP business models</li> <li>&gt;Proven solutions and strategies to address socio-economic problems</li> <li>&gt;Entrepreneur driven who sees a strong market opportunity</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Focus on complex socio-economic problems at low cost</li> <li>&gt;Entrepreneur driven who sees a social opportunity</li> </ul>
<b>Financial Goals</b>	<ul style="list-style-type: none"> <li>&gt;Large scale capital for scaling and replication</li> <li>&gt;Funded from Global North</li> <li>&gt;High capital injection</li> <li>&gt;Value creation, Market creation</li> <li>&gt;Focus on public funds, HNIs</li> </ul>	<ul style="list-style-type: none"> <li>&gt;focus on return on investment</li> <li>&gt; focus on a particular segment or location that can pay</li> <li>&gt;a greater focus on reach (lower price compared to normal market prices)</li> <li>&gt;Focus on market capital (in addition to other sources) to fund</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Lacks funding to scale the impact</li> <li>&gt;Focus on Grants, public funds to fund</li> </ul>
<b>Balancing of Logics</b>	<ul style="list-style-type: none"> <li>&gt;High reporting standards</li> <li>&gt;High ethical standards</li> <li>&gt;High reputation management</li> <li>&gt;Board position</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Return on investment is directly linked to the number of beneficiaries serviced (no. of students, no. of loan seekers, no of users of a particular service)</li> <li>&gt;greater emphasis on impact communication</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Focus on social mission and reach over profitability</li> <li>&gt;Low expectation of financial return</li> <li>&gt;Higher focus on SROI</li> </ul>

Pache and Santos (2012, 2010) theorize that hybrid organizations are positioned strategically to attract resources from multiple sources. Hockerts (2003) suggests that hybrid organizational firms have antagonist assets (skillsets drawn from market and non-market sources) that aid them in attracting resources from multiple sources and gaining competitive advantage. Hockerts (2010) takes a Schumpeterian approach to hybrid organizations and defines “*entrepreneurship in hybrid organizations as a process of generating market and non-market disequilibria through the discovery of opportunities to generate social impact.*” The definition is consistent with the work on institutional voids but does not define **the market and the non-market** (under what conditions, location, sector, and industry). Johanna and Ignasi (2007) and Mair and Marti (2009) suggest that institutional voids are social entrepreneurial opportunities. The concept of institutional voids being

opportunities is somewhat consistent, **but not all institutional voids** lead to social entrepreneurial opportunities.

Articles #2 and #3 suggest that hybrid organizations (i.e., impact investing firms) should be more specific in their identity. Article #2 suggests that impact investing firms whose approach is focused on the social sector tend to have superior social and financial performance over generalists. Article #3 suggests that the responses of impact investing firms to due diligence are driven by their institutional pressures, which in turn are driven by “investor characteristics, location, and social sector” and would influence impact investors’ decision making. Reflecting on these elements and incorporating (structuring) them in decision making would likely sustain the structural hybridity among impact investing organizations (and hybrid organizations) and positively influence their performance.

Figure 10 Categorical Strategies as Responses to Competing Goals ( adopted from article #3, figure 2)





Wolf and Mair (2019) suggest that to manage competing logics, a social enterprise's decision making should be strongly governed by its dominant purpose and commitment toward social mission. The multiple cases studied in article #3 have different investment strategies depending on their institutional context (location), investors (philanthropic foundations or for-profit banks), and core purpose. The findings of article #3 further build on the work of Wolf and Mair (2019). One of the inferences drawn from article #3 is that the external context greatly influences the decision criteria of impact investors (see Figure 10). Hence, along with purpose, commitment, and coordination, the context greatly influences the responses of hybrid organizations to tensions arising from competing logics. For example, an organization raising capital at low interest from a global north country would have a strongly social mission than an impact investment firm raising capital at a high interest from a global south country.

Articles #2 and #3 help understand the importance of underlying institutional context (markets, governments, a background of promoters, and investors). Scholars and practitioners with backgrounds in impact investing, ESG investment, and public investments should apply institutional logics framework in analyzing investment proposals and business plans, in which the outcomes are strongly defined by the potential to create social impact. Scholars should critically explore the findings from article #2 to address issues related to post-investment failure risks and ensure sustainable collaboration during competing logics. The broader implication of this is that structuring elements, such as institutionalizing social impact measurement, driving investment decisions with an exit clause, and stronger due diligence on investee team composition, would mitigate the tensions caused by competing logics.

Firms are rated based on both their social and financial performance. Scholars from the accounting and finance field who study venture capitalists and private equity firms primarily use financial performance data, industry data, and market data to make inferences about the firm's strategies and performance that primarily provide information regarding financial performance. To study and analyze the social and financial performance of firms, scholars should use institutional logics. Finance and accounting scholars should use the institutional logics framework to reflect on investment and accounting practices of hybrid organizations such as social enterprises, impact investing firms, ESG investment funds, public-private partnerships, and other cross-sector organizations.



## 6. Conclusion

The articles find that the depth of institutional context, the intensity of social and commercial risks, and the aspects of complexity surrounding internal and external legitimacy are central constructs around which scholars should anchor their research on impact investing. Article #2 uses the institutional logics lens to study inter-organizational collaboration and suggests strategies to manage competing logics at the inter-organizational level. One implicit finding of article #3 has strong relevance for institutional logics literature in balancing competing logics at the intra-organizational level. Table 8 gives the summary of the conclusion and future research avenues.

Table 8 Conclusion and Future Research Avenues

	Conclusion	Future Research
<b>Article #1:</b> Impact Investing: Review and Research Agenda	1) Exhaustive analysis of 85 studies from 2005-2017, indicating consistent development of the field 2) Impact investing is unique and should not be equated with SRI, microfinance, DFI, Social impact bond etc. 3) Social impact measurement and reporting is an essential component of impact investing; it needs to be developed further	1) The future scholars must undertake confirmatory studies related to impact investing (internal/external structure) and their impact on performance (impact and finance) 2) Need to explore the risks of de-legitimation of impact investing field and develop strategies to mitigate those risks 3) Expand the scope of impact investing in core finance journals
<b>Article #2:</b> Aligning Competing Logics at the Inter- organizational Level: How Impact Investors and Investees Syn- chronize Logics	1) The article brings together different scenarios at the inter-organizational level which includes impact investors and investee social enterprises, their motivations of alignment and risks of possible failures 2) To effectively manage non-alignment at the inter-organizational level, impact investors must focus on due-diligence, specialization, engagement, and sharing of networks and skills 3) Similarly, investee social enterprises must focus on social impact reporting and documentation of earned income strategies	1). Rich data should have longitudinal representation as well, tracing the evolution of logics and their relative balance within and outside the organization 2) Though the data represents diversity, it only represents Indian cases; future scholars should replicate a similar study in a global context (results could be different in Anglo-Saxon context or Welfare European context)
<b>Article #3:</b> Impact Investing Categories, Strategies and hybridization	Three significant contributions. 1)Presents three unique typologies of impact investing as a function of their antecedents. 2)The findings discuss impact investing strategies, furthering our understanding of nuanced differences among impact investing firms. 3)The results give us insights on the hybridization of social and financial goals	1) A qualitative study with a sample size of 22 impact investing firms may yield insights and make generalizable statements, scholars should undertake a survey involving a greater number of impact investors (exploratory and confirmatory) 2) Scholars should resolve the conflict between the legitimation of Neo-Liberal and laissez faire economics and impact investing. Currently, it is seen that impact investing is an extension of neoliberal economic policies, specifically, studies on how impact investing might influence public services and its socio-political impact in the long run

## 6.1 Concluding Discussion

Solving socio-economic problems related to poverty is one of the major global goals (Bidet & Defourny, 2019). One method to address these problems and achieve the underlying target is through social entrepreneurship. The lack of access to finance at a “fair price” is one of the major hindrances that undermines the growth of social enterprises. Both developed and developing economies struggle to fund promising social entrepreneurs. To address this disequilibrium in the finance ecosystem, impact investing is one of the most promising types of innovative financing aimed at making the financial system more inclusive and addressing social entrepreneurs’ needs.

The field of impact investing is growing. It is populated by multiple players who are providing substantial capital to projects and enterprises that have a strong social mission and a promising financial return capability (Nicholls, Paton, Emerson, 2017). The growing investment in the sector lacks sufficient critical reasoning and knowledge base (Ebrahim, 2019). An investment without a strong investment thesis could be dangerous for its investors. Therefore, this thesis aims to develop a greater depth of understanding surrounding impact investing by providing elements that should establish a greater knowledge base for shaping the investment decisions of investors. I particularly study the historical development, terminological distinction, investment strategies, and relationship with the investee firm of impact investors.

This dissertation is composed of three papers, each contributing to the field of impact investing by drawing insights from institutional theory, institutional logics, impact investing, and social entrepreneurship literature. First, the legitimacy of impact investing is tied to how well it selects and invests in social enterprises. Second, most of the venture capital literature is focused on the performance of investees. The performance of impact investing firms is tied to social and commercial value creation. Given the difference in performance objectives (compared with traditional venture capitalist firms), our understanding of how impact investors and investee social enterprises interact at the inter-organizational level remains weak and must be explored. Third, most studies on impact investing consider it a practice of investing with social and financial benefits. Given the vast institutional difference between the global north and global south, how social and commercial expectations vary remains an unaddressed question.

Article #1 is a review of 85 impact investing articles that explore the longitudinal growth of the field. Using the Kuhnian scientific paradigm, the review suggests that the scholarship in impact investing is currently at the exploratory stage, known as the pre-paradigmatic stage of scientific inquiry. The legitimacy of impact investing lies in how effectively it invests and how well it manages its investments. Therefore, article #2 is an analysis of multiple cases of six impact investing firms and their investees based out of India, exploring the inter-organizational collaboration between impact investors and investee social enterprises. Using competing logics and inter-organizational collaboration literature, the article explores inter-organizational collaboration between impact investing firms and investee social enterprises. Article #3 explores questions related to variance among impact investors at the global level and examines impact investment strategies. The article pursues interviews with impact investors from 22 cases of impact investing firms and suggests three distinct categories of impact investors. Also, article #3 suggests three impact investing strategies as a response to context, demands, and internal structuring.

The three articles provide a broad overview of impact investing, drive the field of impact investing substantially forward, and collectively form the core of the dissertation. First, these articles provide us with a clear understanding of the current growth in impact investing and future research possibilities. The articles provide a list of impact investing strategies that impact investors pursue. The articles discuss how impact investors and investee social enterprises must interact to form a sustainable collaboration that ensures long-term value creation. Overall, the dissertation makes a significant contribution to the field of impact investing and expands the knowledge base of practitioners investing in social enterprises.

## **6.2 Limitations and Future Research Directions**

### ***6.2.1 Risk of Profiteering***

Sensing an opportunity in India's microfinance sector, multiple firms began providing unsecured loans to the poor. During the recovery phase of these loans, the firms resorted to coercive actions that resulted in increased suicide rates among the poor. These adverse consequences severely stigmatized the microfinance sector in India (Feasley, 2011). Similarly, there is a risk that when market opportunities are high, for-profit investors may be motivated to appropriate profits and capture value rather than serve the poor and marginalized. Purely value capture actions could risk

delegitimizing (or even stigmatizing) the impact investing ecosystem. To avoid such a risk, the impact investing and the social entrepreneurial ecosystem must follow certain ethical principles (similar to UN-PRI for ESG) that ensure precedence to socio-economic value creation over commercial returns. Scholars must study how self-regulative principles and standards can be co-created to avoid profiteering. Furthermore, the social entrepreneurship ecosystem must have socially constructed norms and valuation systems that give due credit to the social enterprises creating social value. For social enterprises to leverage and value their “**impact**,” they must invest in social impact assessment, evaluation, and communication.

### ***6.2.2 Call for Quantitative Studies***

Currently, the impact investing research is at the conceptual stage, employing qualitative methods. As more data accumulates, scholars would find opportunities to explore impact investing at the firm level and individual level. The results of the analysis in article #1 indicate that the scholarship initially began as exploratory and conceptual and moved toward model building and hypothesis development. The broader implication of this finding is that impact investing is following the Kuhn (2012) scientific paradigm trajectory. The field is currently at the pre-paradigm stage, with mostly exploratory studies. To become a major scientific field, it must focus on a higher number of exploratory and confirmatory studies.

The review article by Agrawal and Hockerts (2019) (*Article #1*) found two quantitative studies. According to Kuhn (2012), for the field to move forward, it must test theories using quantitative studies. First, the scholar must construct a database of impact investors, their returns on portfolio and individual investments, location-wise returns, and sector-wise returns. Using this data, as identified in articles #2 and #3, the scholar must understand quantitative testing to know the impact of location, portfolio, and sector on impact investing. The scholar must also conduct survey research using scales such as empathy, willingness to pay, and propensity to invest.

Scholars should explore impact investing with survey methods using existing scales employed in other studies, such as “willingness to pay in impact investing” and “empathy in impact investing,” and develop greater firm-level understanding. They should combine existing surveys on the investment potential, social entrepreneurial quotient, and investee performance. The scholars must borrow survey methods used in entrepreneurial finance literature and combine them with surveys

conducted in social entrepreneurial research to quantitatively explore the impact investment performance.

The data in articles #2 and #3 is contextual to India, an emerging economy with deep disparities between the rich and poor and limited public services. A strong possibility exists that the interaction between impact investors and investee social enterprises in European welfare economies and American market economies will differ, given their socio-economic progress and intensity of institutional differences. The future research based on this article should replicate a similar study and expand it using survey data to develop a story on the evolving structure of collaboration. Furthermore, it would be beneficial to conduct similar studies in different geographical contexts, such as Scandinavia and North America, and unravel the differences in impact investing.

### ***6.2.3 Call for Longitudinal Studies***

The cases were chosen to increase the diversity of the studied data while replicating selected elements as closely as possible, yet all the decided cases were from India. One limitation of the study is that all the interview data was collected at one particular period. In contrast, longitudinal studies would enable an understanding of how the inter-organizational and intra-organizational logics have evolved over time during the collaboration between impact investors and investee social enterprises. Longitudinal studies might also unravel variations in the context, stakeholders, or organizations' leadership. Governance could impact cross-sector collaboration through an evolution of organizational logics at both sides of the partnership.

### ***6.2.4 Public-Private Impact Investments***

Studies must observe corporate investments in social enterprises as either an intrapreneur or equity owner working in other parts of the world and contribute to the ongoing discussion. One implicit outcome of corporate social investments is that they generate social and political legitimacy (Sahasranamam & Agrawal, 2016). The review on social impact measurement literature (Millar and Hall, 2012; Weber, 2013) identifies that social impact measurement is nascent with limited scales and tools at its disposal. Further studies on social impact measures of CSE initiatives could be one research avenue. In addition, future research could test the propositions we have developed using quantitative methods. Furthermore, the data reveals a lack of interaction between government structures and impact investing in India. It would be interesting to study and develop hybrid models

and platforms in which the impact investors, government, and investee social enterprises can interact, collaborate, and co-create to achieve a more scalable and sustainable social impact.

#### ***6.2.5 Effectiveness of Impact Investing and Impact Measures***

Most articles on impact investing have presented a positive narrative without a solid backing or empirical studies validating the claimed social impact. Therefore, the questions on the effectiveness of impact investing are critical and unanswered (Jardine & Whyte, 2013; Weber, 2013). Without reflecting on the efficiency of impact investing, the legitimacy of impact investing as a field would always remain questionable (Agrawal, 2018).

Impact measurement and reporting is an essential component for studying the effectiveness of impact investing. Articles #1, #2, and #3 discuss the lack of standard impact measures and point toward the lack of shared impact measures. Future researchers, such as those in the field of “sustainable reporting/CSR reporting” must study impact measurement and impact reporting. They must develop measurement tools and reporting standards so that impact investing firms and social enterprises can apply those standards/tools to report and communicate their activities. It would facilitate measuring the externalities because of impact investing and would overall increase the legitimacy of the field.



## 7. References

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## **Appendix 1: Interviewee Questions Article #2**

### **Introduction questions**

1. Can you tell me about your organization?
2. Are you a non-profit social enterprise or a for-profit social enterprise?
3. What are the major operations of your organization?
4. How do you finance the operations of your organization?
5. What is the social impact of your organization?

### **Logic balance**

1. How do you account for mission drift?
2. How do you balance between social and financial pressures in your organization?
3. How much importance do you give to social impact reporting? How do you do social impact reporting?
4. What do you do with the profits? Do you invest back or take as bonus salary? If you invest back, where do you invest your profits?

### **Investor Related questions**

#### **Application Process**

1. How did the firm choose you? Did you apply or did they come to you?
2. Why did you choose Villgro to partner with?
3. Why did you not approach the bank? What do you think could be the reason?
4. How much time did it take from your application of intend to final approval of funding at villgro?
5. Can you take me through the process, describing each step, from application to final approval? like what were their apprehensions, what questions did they ask, what kind of data did they collect?
6. What kind of questions these firms asked you during the application process? Can you write them down
7. Can you explain me how did Villgro achieved the valuation of your social enterprises? ...
8. On what knowledge, arguments did they decide on the total amount of funding?

#### **Role of investing organization after investment**

9. What happened after the investment? What kind of collaboration you and your investor continue to have after the investment?
10. What role did the villgro play in your organization after funding?
11. How often you interact with your investors? Daily, monthly, yearly?
12. Do they take any important decisions on your behalf? What kind of decisions? Any example
13. Can you explain me about the collaboration between you and villgro?

for example : what skills, competencies do Villgro bring to your organization apart from Finance.

### **Type of Finance and Exit**

14. What kind of investments did you receive: equity/ loan?
15. If equity, what are your perceptions about it?
16. What do you reflect on their exit strategy? .Do you support exit by investors? Can you write your reflections?

### **Reporting and Accounting**

17. What kind of reports do you provide to your investors? Do you have a set template for social impact reporting?
18. How many reports do you provide your investors every year?
19. What kind of advice would you like to give to your investors: Villgro?

### **Conflicts**

20. What kind of conflicts does your investors have normally? Can tell me the nature of conflicts? How do you manage them?

## Appendix 2: Interviewee Questions Article 3

### Opening question

1. How do you define success?
2. Any examples?
3. What is success for your investors?
4. What is success for your investees?

### Investors

1. Who are your major investors?
2. What kind of mandate does these investors give you? Any boundary conditions specific to social returns, specific to financial returns.
3. Do you have special documentation and contractual agreements with your investors?
4. How much are your investor part of the team during the due- diligence process?
5. Do you have any boundary conditions for investment?
  - a. What kind of investments you do? (Seed stage, growth stage)

### Deal flow

1. How many firms come to you for investment?
2. How many firms do you select over a period of time?
3. What's your minimum investment?
4. What's your maximum investment?
5. How much do you invest in yearly?
6. What are the returns on investments do you look for?
7. What kind of investments you do? (Equity, loan, or both)
8. How much equity you take in a business?

### Due Diligence Process

1. How do you define success?
2. Describe your due diligence process?
3. Do you have any structured process for due diligence?
4. How do balance the profit and social aspect in the due diligence?
5. How do your account for the mission drift during due diligence process?
6. What are the critical things you look at in your due diligence process?
7. What kind of conflicts you face in the due diligence process?
8. How do you select the investee? (Business plan, recommendation, assets, social network.)
9. At what points does the social mission become more critical than the financial mission?
10. What is more critical to you: social mission or financial mission?
11. Has it ever happened that financial objectives seem more lucrative the social mission, than what do you do?
12. How do you account for risk in your investments?
13. What are assessments for investees going bankrupt?
14. What is your exit strategy?
15. How do you look for exit roots during the due diligence process?
16. How do you valuate your company?
17. What methods do you use to valuate your company?
18. How much impact do you provide to social impact in your valuation process?



**Exit strategy**

1. Can you take us through your exit strategy?
2. How do you intend manage mission drift in your exit strategy?

**Documentation Questions**

1. Do you sign any documents with the investee and investor?
2. What kind of documents do you sign with both investee and investor?
3. Can you share the documents...

### Appendix 3: Timeline of Data Collection

- Data Collection was between Feb 2013 to Jan 2016 (intermittently)
  - Few follow up interviews in 2016/2017
  - Developed a list of impact investors (115)
  - Developed a list of research articles written on impact investing - 85
- First interview calls started in Early 2013
- Field Visit in India Feb 2013, visited social entrepreneurial and impact investing organizations in Feb 2013 in Delhi, Kathmandu and Bangalore
- Field visit to attend Sankalp forum and meeting with impact investing/investee social enterprises/experts in India
- Travelling to attend EVPA conference on impact investing and social entrepreneurship, follow up telephonic meetings
- Visited Delhi Sustainable Development Summit, 2013
  - Interviewed Primary stakeholders of SKS Microfinance and few impact investors
- Sankalp Forum 2013 in April 2013, (Biggest Impact Investing and social entrepreneurship Event in India)
  - Primary Data Collection + Meeting for Telephonic Interviews
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- Sankalp Forum 2014
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- Sankalp Forum 2015
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- EVPA 2013 (European venture philanthropy Association place with global impact investors meet and discuss opportunity and policy)
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- EVPA 2014
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- EVPA 2015
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- EVPA 2017
  - Made a list of potential interviewees (impact investors + their investees)
  - Interview during conference Field notes
  - Emailing and follow up interview calls
- Denmark Private Equity Summit – 2014
  - To contract impact investing with for-profit private equity and venture capital
- Frankfurt Private Equity Summit – 2015

- TBI Summit Copenhagen 2016
- **Interviewees for Article #2 and Article #3**

### Interviewees for Article #2

<b>Cases</b>	<b>First Meeting</b>	<b>Follow UP</b>
<b>AF</b>		
Founder	Dec.2014	Oc.2016 (Notes during conferences)
Emp_Imp_Meas	Jan.2015	
Investor	May; 2014	April.2015 (discussion at Sankalp)
Investee	August.2014	
<b>CSF</b>		
MD	Nov.2014	
Investee	Dec.2014	
Former_Emp		Oct.2016
<b>USV</b>		
Founder	May.2014	
MD	June.2015	Oct.2016 (Notes during conference)
Investee	Nov.2014	
<b>VI</b>		
Investor	July.2014	
Investee	June.2015	
Investee	June.2015	
Emp		Oct.2016
<b>LC</b>		
Investor	March.2014	
Investor	Sept.2014	
Consultant	Oct.2014	Feb.2016 (Notes)
Investee	Nov.2014	
<b>USF</b>		
Founder	April.2014	
Investee	Feb.2013	June.2014
Consultant	Oct.2014	Feb.2016 (Notes)
Emp		April.2015 (Notes)
Investee	Nov.2014	
<b>Experts</b>		
Exp_1	April, 2014	April 2015 (Discussion in Conference)
Exp_2	March, 2014	March, 2016

Exp_3	Aug, 2014	
Exp_4	Aug, 2014	April.2015 (Discussion During conference)
Exp_5	July.2014	

### Interviewees for Article #3

Investors	Country of Origin	Country of Investment	Sectors	Interviewee	Date of Interview
<b>SI 1</b>	France	Africa and Asia	Agriculture and Energy	Investment Manager	Apri;.2013 (Notes); Aug.2014; Nov. 2015 (Notes)
<b>SI 2</b>	Canada	Canada	Organic Farming, Energy Technology	Investment Manager	June.2014
<b>SI 3</b>	Denmark	Denmark	WISE	Investment Manager	Sept.2016
<b>SI4</b>	Denmark	Developing World	BOP, Innovation, Energy, Agriculture, healthcare and Microfinance	Investor	Oct.2014; Meetings in conferences – multiple times
<b>SI 5</b>	Germany	Developing World	BOP, Innovation, Energy, Agriculture, healthcare and Microfinance	Investor Manager, South Asia	Oct.2014; May.2018 (Notes)
<b>SI 6</b>	India	Developing world	Base of the Pyramid, Microfinance, Energy, Healthcare, Education and Agriculture	CEO, Investment Manager, Social Impact Assessor	Oct.2014; Oct.2016 ( also part of article #2)
<b>SI 7</b>	Norway	Developing World	Energy and Agriculture	Investment Manager	Oct.2014
<b>SI 8</b>	Singapore	Developing World	Financial Inclusion	Investment Manager	Nov.2014; Meeting in 2016
<b>SI 9</b>	Switzerland	Developing World	Microfinance, SME, Energy, and healthcare	Research Head	Sept.2014; April.2015 (Notes)
<b>SI 10</b>	Germany	Germany	German Social Enterprises: WISE, Childcare, Refugee Crises, Re-skilling, Abuse	Lab Manager	Dec.2015; April.2016

<b>SI 11</b>	Global	Global	Base of the Pyramid, Microfinance, Energy, Healthcare, Education and Agriculture, Culture, Human Rights	India head	Feb.2013; April.2015
<b>SI 12</b>	Global	Global	Base of the Pyramid, Microfinance, Energy, Healthcare, Education and Agriculture, Culture, Human Rights	Sweden Manager	June.2013; Notes during conference meeting in Nov 2015
<b>SI 13</b>	Hong Kong	Hong Kong and East Asia	Innovation Centric of Social Enterprises	Co-Founder	Sept.2014
<b>SI 14</b>	India	India	Agriculture, Education, Healthcare, and Microfinance	CEO, Investor, and Investee	April 2014, Notes multiple times in Conferences
<b>SI 15</b>	India	India	Innovation related to wages and poverty alleviation	CEO, Investor, India's head	Oct.2016
<b>SI 16</b>	India	India	Elementary Education, Public education	Co-founder, Manager	Nov.2014
<b>SI 17</b>	India	India	Disruptive social Innovation , Social Enterprises	Investor	Jun.2014; July.2015
<b>SI 18</b>	India	India	BOP, Innovation, Energy, Agriculture, healthcare and Microfinance	Investment Manager	April.2014; April.2015 (Notes)
<b>SI 19</b>	Latin America	Latin America	Socio-economic development by investing in social enterprises	Investor Manager	Feb.2015
<b>SI 20</b>	Nepal	Nepal	BOP and Socially scalable ventures	Investee Founder	March 2014 (recorded), Follow-up discussion Feb 2016 (Notes)
<b>SI 21</b>	Nigeria	Nigeria	Agriculture Productivity and Farm Insurance	CEO	Sep.2014
<b>SI 22</b>	UK	UK	Real Estate, Child Care, Education	Investment Manager	June. 2014



## **Part B- Articles**

## **8. Article #1: Impact investing: review and research agenda**



## **Impact Investing: Review and Research Agenda**

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Publication Year: **2019**

Journal of Publication: **Journal of Small Business & Entrepreneurship**

### **Abstract**

Impact investing is an emerging alternative asset class. In the last few years, investments in this class have substantially increased, however, the research on the topic has not kept pace with the growing practitioner interest. This lack of knowledge in relation to the field coupled with the lack of knowledge production within the field could prove dangerous in the long term. Accordingly, this paper presents a systematic review of impact investing. This review consists of the study of 85 published articles and reports. The literature was collected using Harzing's Publish or Perish academic search engine and cross-checked against databases such as JSTOR and the Web of Science. Consequently, this review makes four major contributions. First, using a unique longitudinal perspective, the study reveals how the field is evolving and moving from the pre-paradigm stage to the stage of proper scientific inquiry; within the reviewed literature, the number of empirical works published recently has increased. Second, six characteristics distinguish the field of impact investing, namely; 1) the capital invested, 2) the degree of engagement with the investee, 3) the process of selection, 4) the social and commercial outcomes, 5) the reporting of outcomes, and 6) the government role. Third, the review reveals that thus far the scholarship in the field has been mostly exploratory. The field has only recently begun engaging in confirmatory studies. The research methods have employed existing databases or existing single or multiple case studies. Finally, research in the field must delve deeper into concepts such as the selection process, stakeholder management, opportunity recognition, and performance reporting in order to advance the field and generate applied knowledge.

## 1. Introduction

In 2007, the Rockefeller Foundation convened a meeting at the Bellagio Center in Italy on the subject of philanthropy and developmental finance, within which the term *impact investing* was formally used for the first time (Bugg-Levine & Emerson, 2011a). Although impact investing firms such as Acumen Fund, Aavishkaar, and Villgro Innovations have been operating for some time, the term “impact investing” has only recently gained widespread recognition. After the 2008 financial crisis, public confidence in the financial industry was severely impacted (Geobey, Westley, & Weber, 2013). To regain its public image, one of the strategies adopted by investors involved investing in socially relevant projects (Benedikter & Giordano, 2011). Since that time, the scholarship on impact investing has gradually increased, and an increasing number of specialized conferences and publications are taking place (Hangl, 2014; Harji & Hebb, 2010). This implies there has been an increased focus upon this particular field, which is supported by a number of underdeveloped empirical and critical studies.

Accordingly, the market for impact investments is proliferating and numerous banks, foundations, government agencies, and high-net-worth-individuals are pooling capital (Weber, 2016). The channeling of capital into impact-investing firms has increased with each passing year. In 2013, the U.S. Small Business Administration fund increased its impact funding allocation from USD 80 million to 150 million, and the United States Agency for International Development increased its impact-investing fund to USD 60 million (Tekula & Shah, 2016). Currently, the impact investments category is worth USD 60 billion, while there is more than USD two trillion within the socially responsible investments category (Roundy et al., 2017). The impact-investing sector is projected to grow to USD 500 billion by 2023 (Battilana, Lee, Walker & Dorsey, 2012), hence, the growth in capital investments in this field is promising. The primary reason for the market and institutional

interest in impact investing is that investors can pursue social and financial goals simultaneously (Rizzello et al., 2016). Currently, however, the practice of impact investing is not complemented by relevant empirical, critical, and theoretical knowledge. The growth in the number of studies on impact investing, although gradually increasing, is still surprisingly very low. This lack of knowledge about the field and of knowledge production within the field present increased risks for both the investors and the investees. For this reason, this review aims to understand the terminological and definitional boundaries of impact investing, the current scope of the scholarship, and the future research possibilities. The review analyses the field from a longitudinal perspective discussing the evolution of knowledge over time. Using these learnings as a base, the article proposes a research agenda.

According to Kuhn (2012), for a scientific scholarship to establish itself into a field, the scholarship needs to move beyond conceptual conversations and towards applied science. In order to move the field forward, according to Kuhn (2012), scholars need to understand the extant scholarship, that is, its context, inconsistencies, and terminological and definitional boundaries. This article attempts to further clarify the concept of impact investing by reviewing the current state of the research and proposing a future research agenda using a longitudinal lens.

The recent definitional reviews of impact investing have mainly mapped the definitions as a function of social and commercial performances. The recent work on impact investing explored its potential, conceptualization, definitional and terminological clarifications and categorizations using theoretical analysis (Höchstädter & Scheck, 2014; Daggers & Nicholls, 2016). Yet, many definitional and terminological ambiguities persist. Few reviews have attempted to clarify the typologies of impact investing that are prevalent (Achleitner, Heinecke, Noble, Schöning, & Spiess-Knafl, 2011; Moore, Westley, & Brodhead, 2012), while several articles confuse impact investing with socially responsible investing (SRI), venture philanthropy (VP), and venture capital. This

review clarifies these definitional ambiguities and studies the development of the definition over a period of time, thereby, providing a unique perspective. In addition, there have been extremely few studies that explore the current status and extant of the scholarship, the research questions, and the research methods used. This level of review is essential in order to understand the current status of the scholarship, the problems within the field, and to aid in developing the future research agenda. The systemic review takes a longitudinal perspective and thus gives a unique insight into the present state of the scholarship.

The structure of this article is as follows: Section two discusses the research methodology adopted for collecting the impact-investing literature and subsequently presents the review strategy. The findings section discusses the terminological and definitional dilemmas, and the extant research on impact investing by deliberating upon the research questions and methods and the level of analysis and performance. The critical lens employed in discussing the findings is Kuhn's (2012) scientific paradigm. Following this, future research avenues are focused upon, within which the research possibilities at institutional, firm, and outcome levels are also discussed. Finally, the conclusion and limitations section is presented.

## **2. Research Methodology**

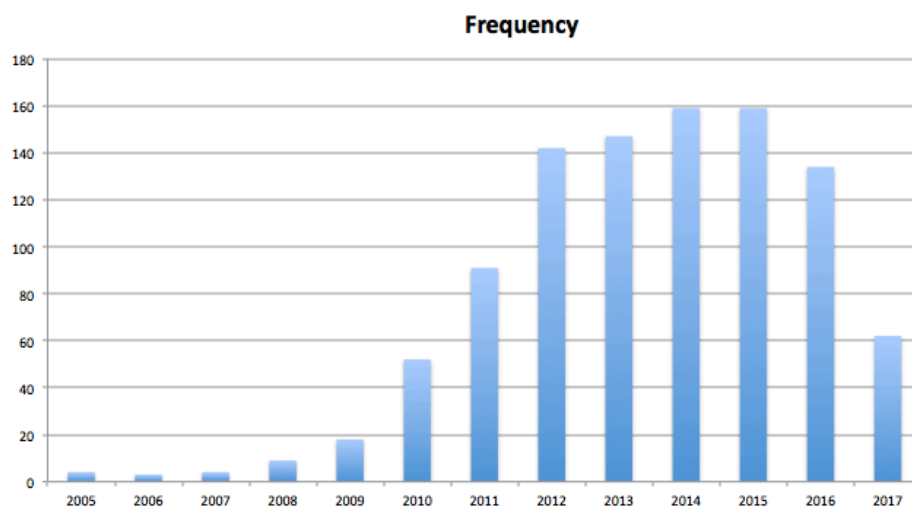
### **Data Collection and Description**

As impact investing is a new and evolving field that is primarily being driven by practitioners, it was essential to use an inclusive search strategy. To identify the necessary literature, the study conducted searches using Harzing's Publish or Perish software version 6, covering the time period from January 2005 to December 2017. The Harzing software incorporates reports and working papers that are not present in the standard databases searchable on the Web of Science (commonly used for literature reviews), thereby, providing a more comprehensive overall view of the field. The

study used the search term *impact investing Or impact investor*. The search terms were a part of the title, abstract, and keywords.

The initial search yielded 990 articles, reports, edited volumes, working papers, and magazines articles with at least one citation. The list was saved on Microsoft Excel for further analysis. Empty rows and rows without any citations were deleted. The subsequent number of articles was 984.

Figure 1 represents the number of articles, reports, and working papers published containing the search term “impact-investing” from 2005 to 2017 (source Harzing’s Publish and Perish-6)



*Figure 1: Articles, reports, and working papers containing the search term “impact investing” from 2005 to 2017*

Following this, the researcher chose journal articles written in English from the list (the list included articles written in Spanish, German, and French). Publications without any apparent relationship to the concept of impact investing were also excluded. Upon further analysis of the list, the articles were narrowed down to those which had ten or more citations, as shown in Harzing’s Publish or Perish search software.

A friendly reviewer also suggested including an article by Porter and Kramer published in 1999, and two articles published in 2018. The study also included six book chapters on impact investing published in an edited volume in 2016, which quoted some of the most cited scholars in the field. Fifteen reports and six working papers were also included in the study. These reports and working papers were highly cited (as revealed in Google Scholar). This list revealed 57 journal articles, one book, six chapters from two edited volumes, eighteen reports, and three working papers. In total, this review contains 85 works. The academic articles were further cross-checked against the EBSCO, ScienceDirect, and JSTOR databases. Table 1 provides an overview of the data description.

*Table 1: Overview of the selected and reviewed data*

Journal Articles	57
Reports	18
Edited Volume Chapters	6
Working papers	3
FT 50 Journal Articles	2
Articles and Reports from Developing Country	4
Articles with used existing theoretical lens	Ten articles and two reports
Method	3 quantitative; 10 case studies

The articles and reports found in the data collection had many commonalities with those analyzed in reviews upon impact investing conducted by Daggers and Nicholls (2016), Hangl (2014), Höchstädter and Scheck (2014), and Rizzello et al. (2016). However, this review of impact investing is more recent and comprehensive and focuses on the current state of the research and possible research agenda while providing clarification on terminological and definitional ambiguities.

### **Data Analysis: A Framework for Organizing the Literature**

Hoogendoorn, Pennings, and Thurik (2010) and Short, Moss, and Lumpkin (2009) coded the extant publications in social entrepreneurship using the following themes: definitions, the research

questions explored, the research methods, and the level of analysis. This study uses a similar approach to analyze and theme code the extant research on impact investing in order to understand the development of the field. Using the already published research on categorizing and defining social entrepreneurship, the articles and reports on impact investing were broadly theme coded into academic articles and reports, and conceptual papers.

The empirical papers were further coded as quantitative and qualitative papers, types of investments, the social sector of the investments, the locations of the impact investors, the locations of the investees, definitions, social impact measures, the market potential of various impact-investing products, and the different stakeholders. The thematic analysis sought definitions and typologies of impact investing, the research method employed, the theoretical framing employed, the impact-investing model developed, research questions, findings, problems, and the research agenda. After identifying the relevant published literature, the study moved to thematically categorizing them.

### **3. Findings from Thematic Data Analysis**

The review found that the research on impact investing is evenly divided among conceptual works, reports endorsed by practitioners, and scholarly publications. Only two articles in the FT50 journal list present impact investing as a major research question. Since the field is new and emerging, substantial publications on this subject are still lacking among the FT50 ranked journals. However, the increasing number of publications, conferences, seminars, and study groups with the theme of impact investing indicate a higher probability of such publications appearing in the top-ranking journals in the near future.

This section first presents terminological and definitional clarifications. Thereafter, the current research is discussed with a particular focus upon the research questions, the methods used, the level of analysis, and the outcomes of each study.

## Terminological Distinction

The thematic analysis of the published articles identified different terms that shared many similarities and characteristics with impact investing. The review articles by Heinecke, Achleitner, and Spiess-Knafl (2011) and Höchstädter and Scheck (2014) were anchored in clarifying the different terminologies and definitions of impact investing. The review by Rizzello et al. (2016) presented the similarities between SRI, social impact bonds (SIBs), microfinance, and VP, while Bouslah et al. (2013) presented the differences between these terminologies and impact investing. One of the major terminological confusions that became apparent was the use of the term *social finance*, which was often used interchangeably with the term *impact investing*. Furthermore, the review found a number of distinctions between the terms SRI, SIBs, microfinance, VP and impact investing, which place the latter in a unique asset class. Several articles (*See Table 2*) stated that these terms were similar to or even interchangeable with impact investing. *Table 3* presents the factors through which these terms can be differentiated.

*Table 2: List of articles that merged the term impact investing with similar terms such as SRI, microfinance, SIB, philanthropy, and social finance.*

Harji and Hebb (2010)	Socially Responsible Investing, Social Investing, ethical Investing, Double and triple bottom line investing, responsible investing (ANSER Conference)
Wood and Hagerman (2010)	Socially responsible investing, community investing, shareholder advocacy, responsible investment, sustainable investment, impact investing, economically targeted investing, double- or triple-bottom-line investing, and others.
Rizzello et al. (2016)	Social Impact investing, Social Impact Bond, Responsible Investment, Microfinance, Mission Investing, Sustainable investment, pay for success, Social finance, Philanthropy
Michelucci (2016)	Microfinance, Social Bond, Social Fund, Venture Philanthropy, Soft Loan, Lending Crowd Funding



Daggers and Nicholls (2016)	Community finance, Alternative Finance, SIB, Impact Investing, Social Finance, Cooperative and mutual finance, crowd-funding, ethical banking, SRI and ESG, Developmental finance, SRI
Arena, Bengo, Calderini, & Chiodo (2016)	Early stage financing, startup financing, early growth financing, growth financing, social impact investing
Junkus & Berry (2015)	SRI for Green Investing, Sustainable Investing, Ethical Investing, Impact Investing, Community Investing
Hangl (2014)	SIB, MF, SF, SII, SRI, SC,
Mendell and Barbosa (2013)	SII, SE, Market Inter, SRI, Second Markets
(Jackson, 2013a)	Social Impact bond is one of the applications of impact-investing
Nicholls (2010)	Three broad types: Focus on capital, Blended value and Value driven
Bishop (2013)	SII, SIB, SRI, Philanthropy
Rajan, Koserwal, & Keerthana (2014)	impact investing, socially responsible investing, blended value, mission-driven investing, mission-related investing, triple-bottom line, social investing, values-based investing, program-related investing, sustainable and responsible investing, ethical investing, patient capital
Busch, Timo Bauer, Rob Orlitzky, Marc (2016)	SRI with deeper focus on the impact
Rath & Schuyt, (2014); Bell, (2013); Porter & Kramer, (1999)	Entrepreneurial Philanthropy, Philanthropic Capitalism, Venture Philanthropy
Lehner & Nicholls, (2014)	Clarifies the difference between impact-investing, social finance, and crowd-funding develops a model with the government as a driver can create markets for social entrepreneurial finance using crowd-funding model

*Social Finance vs. Impact Investing:* The review found that most of the U.K.- and Europe-based researchers, for example, Daggers and Nicholls (2016) and Nicholls and Pharoah (2008) use the term “social finance,” while “impact investing” is predominantly used by North American (Geobey, Westley, & Weber, 2012) and Asian researchers (Rajan et al., 2014) to represent a similar context. The review by Höchstädter and Scheck (2014) considered “impact investment” to be interchangeable with “social finance.” Before the term impact investing was officially recognized, (Nwankwo et al., 2007) used “social investing through community enterprise” while Bonini and Emerson (2005) used the term “blended value investing.” However, since 2007, most researchers have used either impact

investing or social finance as terms. From here on, this article identifies “impact investing” and “social finance” as two interchangeable terms.

*Microfinance vs. Impact Investing:* Several articles in the thematic analysis cited microfinance as a form of impact investing (Ashta & Hudon, 2012; Brett, 2013; Hangl, 2014). However, further analysis revealed that impact investors are different from microfinance organizations. The first notable difference between the two is that the capital invested by an impact investor is significantly higher than that loaned by a microfinance organization (Astha, 2012). The review of impact-investing firms showed that impact investors (e.g. Leapfrog, Lok Capital, Aavishkaar) are investors in microfinance organizations. Second, impact investors have more interaction with their investees than a traditional microfinance organization does (Roundy et al., 2017). The third difference between the two is that microfinance investment is rarely equity based, while impact investing in developing countries is mostly equity based (Intellectap, 2013; Unitus Capital, 2014). Finally, the interest rates of microcredit firms are higher than debt-based impact investors (Davis, 2011; Einhorn & David, 2010). Hence, this study asserts that microfinance cannot be equated with impact investment, however, impact investors can also be investors in microfinance organizations.

*Socially Responsible Investing vs. Impact Investing:* The articles on impact investing also cited SRI (Adam & Shauki, 2014; Arjaliès, 2010; Busch, Bauer, & Orlitzky, 2016), investing by developmental financial institutions (Saltuk, Bouri, & Leung, 2011), sustainable banking investments (Benedikter, 2011), and corporate social investments (Oh, Park, & Ghauri, 2013; Salzmann, 2013) as closely mirroring impact investing. Socially responsible investing involves investing in publicly traded securities that favor strong environment, social and governance (ESG) policies. This review found that SRI is an umbrella term that encompasses the interests of different stakeholders; for example, institutional investors, banks, governments, developmental financial institutions, socially responsible mutual funds, and foundations—and involves investments in

activities and organizations that create social and environmental impacts (Scholtens & Sievänen, 2013; Höchstädter & Scheck, 2014; Wood, Thornley, & Grace; 2013). Impact investing is a more proactive investment (compared to SRI) in enterprises whose missions are to create both social and commercial value (JP Morgan & Rockefeller Foundation, 2010). Many SRI funds invest some percentage of their allocated capital in impact-investing firms, however, the levels of engagement among SRI investors is less than that of impact investors. This review rejects the view that equates SRI with impact investing.

*Venture Philanthropy vs. Impact Investing:* Venture philanthropy focuses on maximizing social returns on investments and establishing accountability among the investees, but without emphasizing any financial return on philanthropic investment ( M. E. Porter & Kramer, 1999; Defourny, Nyssens, Thys, & Xhaufleur, 2013). Impact investing shares many commonalities with VP depending upon the social and financial goals, the types of stakeholders and investor practices, the investment size, and the emphasis upon social and commercial reporting. In this regard, the similarities between the two consist of the following: Firstly, both engage with their investees. Secondly, both emphasize maximizing social impact compared. Thirdly, both emphasize fiduciary accountability.

*Social Impact Bonds vs. Impact Investing:* Social impact bonds are payments based on results (McHugh et al., 2013) within which the financial returns are ensured after certain predefined social goals are attained (Rizzello et al., 2016). Social impact bonds are a multiple-stakeholder arrangement between a government, a social enterprise, and an investor facilitated by an intermediary organization (Social Finance LTD, 2009). The extant literature consistently refers to SIBs as a type of impact investing, though they involve a considerably higher level of stakeholder engagement and impact measurement (Joy & Shields, 2013; Social Finance LTD, 2009) compared to impact investing. Its functions involve optimizing the operations and finances of public services with the help of private players under strict accountability clauses. Table 3 summarize the difference between impact-investing and contextually similar terms.

*Table 3: Factors through which impact investing differs from similar sounding terms*

	ImInv Vs Microfinance	ImInv Vs Social responsible investing	ImInv Vs Social impact bonds	ImInv Vs Venture philanthropy
Sum of Capital Invested	Higher	Lower	Equal	Similar
Degree of engagement with the investee	Higher	Higher	Lower	Similar
Process of Selection	Similar to venture capital	Higher	Different	Similar
Social and Commercial Outcome	Depends on the fund mandate	Higher	Depends on the mandate	no commercial outcomes for VP
Reporting of outcomes	Higher	Higher	Similar	Similar
Government role	Depend on stakeholders	Depend on stakeholders	Depends on the stakeholders	Depends on stakeholder

*Table 2* contains a list of articles which consider impact investing to be closely related to one of the terms mentioned above. Conversely, this review perceives that there are significant differences between the terms microfinance, SRI, SIB, VP, and impact investing, while it considers the terms

social finance and impact investing to be interchangeable. The differences and similarities are summarized in *Table 3*. Ultimately, researchers should consider the following factors when considering impact investing over similar investment options (microfinance, SRI, SIBs, VP): 1) the amount of capital invested, 2) the degree of engagement with the investee, 3) the process of selection, 4) the social and commercial outcomes, 5) the reporting of the outcomes, and 6) the government role (*see Table 3*).

## Definitional Development

The reviewer observes shifts in how scholars have defined impact investing since 2005. The reviewer infers that the reason for these slight differences is because the field is still developing, and new knowledge is driving the definitional shifts. Table 4 provides a list of impact-investing definitions.

*Table 4: List of impact-investing definitions proposed by scholars.*

Study	Definition(s)
Rizzello et al., (2016) Rebecca and Shah (2016) Rizzi, Pellegrini, and Battaglia (2018)	Presents models of impact investing incorporating public institutions, private investment, and impact investors and outcomes.
Roundy et al. (2017)	Impact investors are those seeking some degree of both financial ROI and SROI if an investor seeks only financial returns or only the creation of social value, then he/she is not operating as an impact investor
Quinn & Munir (2017)	Impact investing refers to the use of investment capital to help solve social or environmental problems around the world with the expectation of financial returns. Unlike ethical investing or socially responsible investing (SRI), which focuses on the negative screening of alcohol, tobacco, and firearms, and a range of businesses and activities which do not damage society, impact investing is positioned as taking a proactive approach actively identifying businesses with the intent to achieve a financial return and create a positive social or environmental impact.
Glänzel & Scheuerle, (2016)	Measurable social and ecological impact as dominant goals here, with the potential for a financial upside.
Weber (2016)	Definitions of Impact Investment are based on two common principles: 1 The blended value principle, claiming that social finance products and services can and should achieve both financial and social returns (positive social impacts). 2 The principle of sustainable financial return, guaranteeing the long-term financial viability of social finance institutions

Tekula and Shah (2016)	Impact Investing is dual-purpose financing: the pursuit of social benefit together with financial profit.
Daggers and Nicholls (2016)	Social Impact Investing” as an umbrella term to refer to both “Social Investment” and “Impact Investing.” A general definition of SII is: “investments in organizations that deliberately aim to create social or environmental value (and measure it), where the principal is repaid, possibly with a return.
Rajan, Koserwal, & Keerthana (2014)	SVC investing is typically characterized by investments in early-stage enterprises that are servicing people in the BoP, they have high risk tolerance and a longer time horizon for investments compared to VC investments. SVC investors give equal importance to financial returns and social returns.
GIIN (2013)	Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.
Jackson (2013)	Mobilizing capital for ‘investments intended to create positive social impact beyond financial return’. Two key components of this definition are, first, the intent of the investor to achieve such impacts, and, second, tangible evidence of the impacts themselves and the final component is a theory of change. Impact investment must account for the theory of change.
Hebb (2013)	Impact investing is a sub-set of responsible investing. Here the investor intentionally invests to achieve positive social and environmental impact in addition to financial return.
Moore et al. (2012)	Social finance is more than just the flow of money into social or environmental projects. It is conceived as an ethos about the way money is used . . . social finance can be seen as the discourse around such flows that is developing in concrete terms in the new institutions of supply, intermediation, and demand.
Battilana, Lee, Walker, & Dorsey (2012)	Who are comfortable with hybrid models and their blend of social value creation and commercial revenue.
Rangan et al. (2011)	The commonly accepted definition for impact investing is an investment that creates social or environmental benefits while also providing a return of principal, with returns ranging from zero to market rate.
Nicholls (2010)	Social investment in practice is innovation in terms of the institutional logics and norms that govern the relationships between its investment logics (focused on the outcomes of placing capital) and investor rationalities (focused on the objectives of placing capital)
Bugg-levine & Goldstein, (2009)	Helps to address the social or environmental problems while generating financial returns.
Pepin (2005)	Venture philanthropists (impact investors) desire a close relationship with the social entrepreneur, investing time, human and financial resources intimately helping to achieve the business plan targets.

*Between 2005 and 2012*, the definitions of impact investing were general, broad, and largely focused upon differentiating impact investing from charity and venture capital (Julie Battilana et al., 2012). The term impact investing was institutionalized in 2007. Between 2005 and 2007, the term impact investing was referred to as “blended value investing” (Bonini & Emerson, 2005) or “social investing through community enterprise” (Nwankwo et al., 2007) or VP (Pepin, 2005). In this

regard, impact-investing firms used venture capital strategies to provide impact capital to organizations whose primary purpose was to create social value (Geobey et al., 2012a; Moore, Westley, & Brodhead, 2012). Impact investment firms invested in enterprises that had a clear social mission, and most often these investee enterprises contained an earned income component (Hebb, 2012; J. F. Jones, 2010; Bugg-levine & Goldstein, 2009). The definitions of impact investing between 2005 and 2012 broadly highlight the importance of social and commercial goals (Nicholls, 2010). However, the definitions possessed many similarities with other forms (e.g. microfinance), without the sense of distinction that was needed to demarcate the field from other similar forms.

*Between 2012 and 2016*, the definitions of impact investing seemed more developed and nuanced, demarcating the field from already existing terms such as VP, SRI, microfinance, and SIBs. Impact investors invested in organizations with a clear social mission, a clearly outlined theory of change, and—depending upon the mandate of the fund—earned income capacity (GIIN, 2013; Jackson, 2013b). Impact investing involved a high level of engagement, tailored financing, extensive support, organizational capacity building, and performance measurement (Achleitner et al., 2011; Hebb, 2013). Lazzarini, Cabral, Ferreira, Pongeluppe, and Rotandaro (2014) developed a model of impact investing that theorized and operationalized its social and commercial impact as a function of investor intention, while Ranjan et al. (2014) examined the mandate of impact investing as a function of social and financial returns and risks. At this phase of the scholarship, the definitions had been provided with more clarity with particular emphasis placed upon either social value creation or financial returns (Glänzel & Scheuerle, 2016; Tekula & Shah, 2016).

*From 2016 to the present*, the definitions of impact investing previously discussed possessed greater complexity, whereby, the authors incorporated elements such as stakeholders, profit, and social motives. Roundy et al. (2017) defined impact investors as those seeking ROI and SROI while outlining that those who sought only one of the returns might not be considered to be impact

investors. Rizzello et al. (2016), Rebecca and Shah (2016), and Rizzi, Pellegrini, and Battaglia (2018) have each further defined impact investing by incorporating major fields such as impact entrepreneurship, sustainable finance, public policy, and their hybrid outcomes. Quinn and Munir (2017) highlighted the role of the degree of proactiveness among impact investors in managing their investments. This definition attempts to quantify the outcomes of impact investing using financial terms such as ROI and SROI indicating a shift towards quantification. These definitions are more developed, indicating greater complexity, and incorporate higher elements of stakeholder and policy and lower elements of measurement (e.g. public institutions, investees) than simply dual goals. Such definitions help in operationalizing impact investing.

The review from 2005 to 2017 provides a longitudinal perspective of how the definitions of impact investing are evolving. All the definitions point towards social value creation and maximizing SROI, even though the degree of ROI varies between the different definitions. The definitions in the early days were broader, while in recent years, they have become more specific and quantifiable. The review strongly indicates that the definition of impact investing has been evolving since 2005 and will evolve further as more studies are published.

### **Review of Existing Research on Impact Investing**

The evolution of the field can be observed from the types of questions being explored from 2005 to the present. The questions asked in the reviewed papers mainly reflected the pre-paradigm (Kuhn, 2012) status of the field. In 2005, the research was more conceptual, broad, and strategic, while in 2017 the research questions were more specific and reflected upon the operational characteristics of impact investing. Table 5 summarizes the major peer-reviewed articles and chapters published on impact investing and summarizes the research questions, theoretical approaches, methods adopted, data collected, and the findings.

*Table 5: Summary of the peer-reviewed articles on impact investing.*



Study	Research Question and Findings	Theoretical Approach	Research Method/Data
Rizzi et al . (2018)	Studies the Structuration process in social finance; Main categories of actors: Government, Mainstream finance, Investees, Investors, outcomes-outputs, legitimacy of the field.	structuration theory, legitimacy	Case Study, Interviews
Castellas, Ormiston, & Findlay, (2018)	The analysis reveals the nature of institutional complexity in impact investment and highlights the risk that the impact logic may become overshadowed by the investment logic if the difference in rigor around financial performance measurement and impact performance measurement is maintained. The paper discusses the implications of these findings for the development of the Australian social enterprise sector.	Institutional theory, logics	Mixed method
Roundy et al. (2017)	Motivations of impact investing, what is impact investing, process of impact investing	None	Qualitative, interviews
Quin and Munir (2017)	how social actors navigate and maintain social and political arrangements in hybrid organizations? : 1) institutional setting 2) creating and defining new identity 3) Leveraging dual character to get resources 4)	Hybrid logics, Legitimacy, Power, Stakeholder theory	Single Case Study
Weber (2016)	Review on opportunities and challenges for impact investing; theory of change for impact investing; Provides a Model of Impact Investing: Capital providers, Investors, Investees, investee actions, outcomes and outputs	None	Review Article and quantitative data of Impact asset 50 cases
Tekula and Shah (2016)	Model of impact Investing: 1) Intermediaries 2) Impact Investors 3)Activity 4) Outputs 5) Outcomes	None	Conceptual
Rizzello et al. (2016)	Mapping the thematic and terminological landscape of impact investing : Model development : Finance, Social Entrepreneurship and Public Policy		Structured Lit. Review
Gregory (2016)	How to manage risk in impact investing? : Due Diligence, Proven and replicable Business models, Stage of investee, team, location, type of investment, exposure to degree of social	None	Conceptual
Michelucci (2016)	Defining the Italian SII ecosystem: Proposes increased focus on public sector and institutional mechanism	none	Qualitative, Multiple cases
Glänzel & Scheuerle, (2016)	This study explores the impediments to impact investing in Germany. The findings are: revenue models are weak, lack of observable and measurable social impact, high transaction costs, lack of intermediary structure	none	Qualitative, Multiple Interviews
Apostolakis, Kraanen, & van Dijk (2016)	Willingness to pay for RI and impact investment portfolio? Findings: Awareness increases the likelihood for investment	Willingness to Pay, Empathy Scale	Quantitative testing model for willingness to pay
Barman, Emily (2016)	-How market ecosystem values impact investing and impact invested ideas and firm? -Creation of market infrastructure, institutional ecosystems to separately (from financial valuation) value the impact and then make holistic judgement.	None	Multiple Case studies
Spiess-Knafl and Aschari-Lincoln (2015)	Studies venture philanthropy fund investees quantitatively testing the characteristics that determine the use of grant or commercial financing instruments : Age, Location, Public/Private, Non-Profit/For profit,Types of beneficiaries: Findings: 1) the investees' organizational and beneficiary characteristics determine their access to financial resources. 2) investees' organizational and beneficiary characteristics strongly predicts grant versus commercial financing outcome. 3) the venture capital nature of venture philanthropy funds can be inferred from their financing instrument decision-making	Extant Literature on SE and Impact investing	Quantitative/342 investee and Impact Investing
Jones & Turner (2014)	How can Impact Investing help SMEs? What can be done to improve impact investing for the SME sector? Findings: 1) Increase technical assistance and capacity building for impact investing 2) fundamental business practices 3) Impact measurement 4) create room for Multiple actors 5) Investment managers are crucial	None	Single Case Study
Höchstädter and Scheck (2014)	Review, definitional clarifications, schools of thoughts : 1) definitional clarification 2) terminological clarification 3) schools of thought 4) investee clarification 5) investment sectors and location clarification	Structure review	None

Rajan et al. (2014)	Exploratory study of the landscape of impact investing around india, problems invested, performance of investees and future possibilities	none	Quantitative study
Lehner and Nicholls (2014)	Model development of social entrepreneurship involving crowdfunding, social banks, impact investors and government bodies; Model of Impact investing, crowd-finance, government gurantee and social entrepreneurial actions	None	None
Mendell and Barbosa (2013)	How to develop secondary market for SII and SE?1) SII and SE ecosystem 2) Public Policy 3) Market acceptance 4) Small firms listed 5) Trading of social enterprises in secondary markets	None	Multiple Case Study
Geobey et al. (2012)	Major Issue is the measurement and communication of social impact created; Risk vs return debate	Portfolio Strategy	None
Ashta (2012)	how venture capital firms use the concept of co-creation to create a multi-pronged attack on poverty while maintaining a profit motive: Use this concetp to develop a VC model for MFIs	None	Single Case Study
Moore et al. (2012)	Barriers to social innovation and how social finance can bridge and help in social innovation?	Structuration theory, Legitimacy, Resilience theory	None
Wood and Hagerman (2010)	This paper addresses the landscape of mission investing and asks; how can foundations better leverage their endowment assets to achieve their mission? The purpose of this work is to explore how the US foundations define mission investing, and how they explore the challenges and opportunities the field represents.	Conceptual	None
Nicholls (2010)	Placing SII within Investment landscape? Problematising, categorising the landscape of impact investing, further discusses the way forward for the field (focussing on institutional legitimacy)	Weber Ideal types, Institutionalism, Legitimacy of the field	None
Jones (2010)	How IAD and Commons approach and Social finance can help in the development? : 1) used to answer ethical question of mission drift 2) framework for local organizations engaging in social finance	Commons, Institutional Analysis and Development	Single Case Study
Choi, Gray, & Carrol, (2008)	List of Outcomes desired by Social investors, issues related to legitimacy of outcomes	None	Case based/40 Finance-SoCents
Slyke and Newman (2006)	Venture philanthropist as an entrepreneur, actioner, bricoleur, further discusses the Grantee - Investor relationship, investor as entrepreneur	None	Qualitative/ Single Case
Brown (2006)	How does equity financing is structured in UK CICs, what can social enterprises learn?	None	Exploratory institutional analysis of UK CICs
Porter and Kramer (1999)	Philanthropy redefining itself by changing the process of investment: Impact, Selection and its impact, SROI (defining); Strategy development	None	Conceptual

## Research Questions and Research Methods

Most of the initial studies on impact investing were either practitioner reports or conceptual studies, which involved definitions of impact investing, explored the potential of the field, and involved brief cases of successful impact investors. They lacked strong empirical analysis or conceptual

development. The review found that the initial research questions concerning impact investing reflected a broad and top-down view of its possibilities and promise. The questions focused on the conceptualization of an investment that could create both social and commercial benefits. The movement from philanthropy to VP and how VP could embrace markets was the point at which the review observed the emergence of impact investing (Pepin, 2005; M. Porter & Kramer, 1999; Slyke & Newman; 2006; Wood & Hagermann, 2010 ). Brown (2006) conceptualized how equity investments in U.K.-based social enterprises could mainstream the sector, without explicitly defining impact investing. It was one of the first studies to ratify impact investing in the UK before the term “impact investing” was formally adopted in 2007.

*From 2010 to 2014*, we observe the emergence of exploratory single case studies (*see Table 4*). The qualitative studies involved both interviews and secondary data. For example, Jones (2010) studied the application of impact investing at the base of the pyramid (BoP) segment; Hummels and Leede (2014) and Astha (2012) focused on the application of microfinance in impact investing; Jones and Turner (2014) focused on impact investing in small- and medium-sized enterprises and Lehner and Nicholls (2014) on the application of impact investing in crowdfunding. These studies explored the applications of impact investing in small- and medium-sized enterprises, microfinance organizations, crowdfunding, and BoP segments and highlighting risks, promise, and performance of impact investing. Most of these studies explored the potential and performances of impact investing and lacked critical and theoretical components. These studies explored the boundaries of impact investing. Single case studies are also the initial stage of theory development.

*From 2014 to the present*, we see a higher number of empirical studies including both multiple case studies and quantitative studies. Newly published studies have explored questions concerning public policy, organizational hybridity, and market intermediaries by employing single or multiple case studies. In particular, discussions on market intermediaries, market creation, and the market

acceptance of impact investing have predominated (Barman, 2015; Julie Battilana et al., 2012; Busch et al., 2016). This indicates that there has been a greater focus on understanding impact investing, that is, its boundaries and operations as functions of different factors.

From 2014 onwards, we observe a greater number of country-specific studies on impact investing and its effects. Rajan, Koserwal, and Keerthana (2014) explored the impact-investing sector in India and its potential to create profitable outcomes for its investors from market position; Glänzel and Scheuerle (2016) studied the impact-investing sector in Germany; and Castellás, Ormiston, and Findlay (2018) studied its growth and applications in Australia. These studies are location specific and take into account the effect of both the government policies and the markets. Although these studies are still early efforts, they strongly demonstrate the effect of location on impact investing. One can also infer from these observations that the field has become more applied and scholars are asking more specific questions. Going forward, we will observe more studies on country- and institutional-specific factors and their impact on social and commercial performances.

The review found only three studies that used quantitative research methods. Among these, two were exploratory and one involved theory testing (*see Table 4*). Rajan, Koserwal, and Keerthana (2014) and Spiess-Knafl and Aschari-Lincoln (2015) presented quantitative exploratory studies exploring the potential and performance of impact investing within different sectors and markets. Apostolakis, Kraanen, and van Dijk (2016) used the standard *willingness to pay* to measure the inclination to pay against the ESG performance using the standard Dutch pension fund database. Willingness to pay is a standard measurement scale used extensively in crowdfunding and entrepreneurship studies at the individual level. This was the only confirmatory study in the review that pointed towards the possibilities of impact investing, corporate governance, and the fiduciary duties of impact investors. These studies were published in 2014, 2015, and 2016, further indicating the potential of theory testing as the field continues to develop. There is scope to develop the

research by using the exploratory survey method and developing new measures and questionnaires and integrating them with the existing ones.

### **Level of Analysis**

*Institutional level:* Nicholls (2010) used an institutional lens to reflect upon the degree of institutionalization in the field within the existing financial world and the challenges faced by impact investing in achieving greater acceptance. One observation was that the market acceptance of impact-investing firms depends upon the performance of its investee social enterprises. Both impact investing and social enterprises require additional and more robust studies that quantify the risks and rewards associated with them (Chhichhia, 2015; P. Troilo, 2013). This will have direct consequences on the institutional acceptance of impact-investing firms.

One of the ways an impact investor can access mainstream capital markets is through trading investments as equities in secondary markets using secondary exchange platforms. To trade securities, one needs to ascertain how securitization of social entrepreneurial activities ( assets and performance) to allow trading in secondary markets can be operationalized (Thorlby, 2011; Mendell & Barbosa, 2013), while creating a social mission. To operationalize trading, one needs to explore and imagine how the market valuation of equities (from investments in social enterprises) will be operationalized.

Institutional environmental factors such as the existing taxation laws, geographical location, market norms, literacy rate, quality of public services, and inflation play important roles in impact investment by influencing the strategy, operations, investment decisions and costs (E. I.-P. Castellás et al., 2018; Glänzel & Scheuerle, 2016; Goldszmidt et al., 2011; Langford, 2011). The differences

observed in the practice of impact investing in Australia, Germany, and India imply that the institutions and locations involved are major factors that moderate impact investing.

Studies show that entrepreneurial ecosystem services within developed economies are better at facilitating entrepreneurial activities and securing investment compared to those found in developing economies. Better entrepreneurial ecosystem results in higher social entrepreneurial initiatives and higher potential for impact investing (Aidis, Estrin & Mickiewicz, 2008; M. Troilo, 2011). However, Höchstädter and Scheck (2014) found that impact investment is far more prevalent in developing economies than in developed ones. Institutional voids in developing economies are significant, which create social entrepreneurial opportunities but also stall the rate of commercial entrepreneurial activities (Mair et al., 2007). Comparing studies on the performance of impact investing in regions with high institutional voids and regions with low institutional voids reveals interesting insights regarding sectors, regions, and performance factors.

**Firm level:** The review identified operational elements, such as field-level knowledge, firm-level innovation, sector-specific knowledge, organizational form (Hebb, 2012; Miller & Wesley, 2010; Wood & Hagerman, 2010), opportunity recognition (Lehner, 2013; Leventhal, 2012), and due diligence (Bakshi, 2012; Reeder, Jones, Loder, & Colantonio, 2014; Serrano-cinca, C. & Gutiérrez-nieto, 2010), as essential actions around which the intent of impact-investing processes are organized. While Hebb (2012), Miller and Wesley (2010), and Wood and Hagerman (2010) discussed sector-level knowledge, organizational forms, and firm-level innovation, they did not explore these topics beyond simply mentioning the terms. These studies did not analyze the social and commercial performances of impact-investing firms for different sectors.

Wood and Hagerman (2016) conceptualized the processes at firm level by highlighting the importance of selection, risk mitigation, and mission drift before and after the investing period, yet

the study did not use the portfolio approach or any other theoretical frame to further develop the concept of risk. Similarly, articles by (Lehner, 2013; Leventhal, 2012) used opportunity recognition within impact investing, yet the concept and its application were not fully explored as they have been in the entrepreneurship literature.

Traditional venture capital firms are driven by profit expectations when selecting their investees (Maxwell et al., 2011b; Nelson & Blaydon, 2004). The success of impact investing is intricately tied to the social and commercial success of the investee social enterprises (Austin, 2000; Huybrechts & Nicholls, 2013). Recent work on the decision methods of impact investors (Serrano-cinca & Gutiérrez-nieto, 2010) has provided some frameworks for the ways in which social and commercial goals impact upon the decision-making processes. Yet our understanding of the decision processes and the prioritization of social and commercial goals at different steps of due diligence is at a nascent stage. The articles used institutional logic and hybrid logic literature (Julie Battilana et al., 2012; Quinn & Munir, 2017) when discussing the process of impact investing, mission drift, and the degree of hybridity. The review did not find any articles that discussed the quantification of the social and commercial risks associated with impact investing. Some articles used the term “investment logic” to define impact investing, however, the term lacked a definitional component that captured the social logic dimension.

**Individual level:** The study by Apostolakis et al. (2016) was the only article that analyzed impact investing at the individual level. Though there are several articles within the crowdfunding and social entrepreneurship literature concerning the individual level that use constructs such as empathy and entrepreneurial intention (Mair & Noboa, 2006a), the impact-investing field still requires more empirical articles employing rigorous research methodologies to explore and test the field of impact investing.

## **Performance**

The extant research on performance has mainly focused upon defining and measuring the “impact” of impact investing (Bugg-Levine & Emerson, 2011a; Nicholls & Pharoah, 2008), the public policy implications and potential (G8, 2014; Nicholls & Tomkinson, 2013), the process of impact investing, and, finally, the measurement and effectiveness of the social outcomes (Social Finance, 2009; Saltuk, Bouri & Leung, 2011 ). The measurement of social impact is very fuzzy and yet to be standardized (Tekula & Shah, 2016). The critical debate within impact-investing research concerns the measurement of outcomes (Weber, 2016), since the performances of impact-investing firms depend upon their social and commercial value creation.

The empirical evidence from venture capital investing suggests that sector-specific funds are more productive and profitable (Duong, 2015). (Rajan et al., 2014) suggested that specific sectors, such as microfinance and BoP business models, attract greater impact capital, unlike other sectors such as food and hunger, and sanitation. This may imply that sector specialization within impact investing could lead to better social and financial outcomes. It may also imply that sector specialization may lead to bias whereby uneconomical sectors do not receive funds. Hence, sector-specific and social problem-specific studies are needed in order to facilitate wise impact-investing decisions.

The articles within this area relied upon portfolio theory (Cooper, Evnine, Finkelman, Huntington, & Lynch, 2016; JP Morgan, 2010) when discussing the risks and rewards of impact investing. Portfolio theory helps in quantifying risks and rewards for given investments (Geobey et al., 2012) and also helps to quantify the performance of an impact-investing fund. However, the lack of longitudinal data and sufficient population make it difficult to explore the performance of impact investing. Using portfolio theory, researchers need to collect data on impact-investing firms—their



investments and performances—and analyse the material in terms of social and financial performances at firm, portfolio, and sector levels.

The Peterborough project is a pilot study of an SIB that is trying to create positive social change while ensuring greater financial prudence within prison premises (Nicholls & Tomkinson, 2013). The outcomes of this study presented a promising initial framework for the SIB which was subsequently studied and developed. Prazak (2012) explored the operationalization of the SIB and the institutional challenges and noted that the SIB lacks studies on the service providers (investees), the institutional frameworks, and the outcomes. The social impact assessment documents widely shared by various impact-investing firms point towards positive performance compared to the status quo (base line), while the magnitude of the impact described in such reports requires further verification.

To conclude, the review of the extant research confirms that impact-investing is still an emerging field within which the publications incline towards definitional and terminological clarifications. Yet, the review has also found that the field is developing as the articles published in the last five years have engaged in greater development of the theoretical, operational, and performance aspects of impact investing.

#### **4. Future Research Agenda**

According to Kuhn (2012), for any nascent research to move from the pre-paradigm phase to that of normal science, the researchers must agree upon fundamental assumptions and broad boundaries. Drawing from the thematic analysis in section 3, future scholarship (*see Table 6*) must focus on the following three blocks: a) the institutional environment and stakeholders, b) the impact investors and investee social enterprises, and c) the outcomes and relationships between these three blocks. The table 6 summarize the future research agenda.

Table 6: Future research agenda.

	Research Question	Research Method	Theory
<b>Institutional Environment and Stakeholders</b>	Government role Stakeholders Developing economies	Comparative case studies, Survey, database development	Institutional theory, stakeholder theory, principle agent theory
<b>Impact Investor</b>	Sector specialization, process, Inter-organizational relationship	Comparative/Single Case Study, Survey, performance measurement, standard measures for survey, (empathy, willingness to pay, intentions), minutes of meeting	Stakeholder theory, Principle-Agent theory. Institutional Logics
<b>Investee Social Enterprise</b>			
<b>Outcomes</b>	SIA, Technologies	Survey, document analysis, confirmatory models between antecedents and outcomes	Portfolio Approach, Institutional logics

## Institutional Environment and Stakeholders

**National economic institutions:** In developing economies, the lack of institutional support for healthcare, insurance, and banking lead to greater social entrepreneurial opportunities than in places where institutional support for basic services is present (Mair, Mart, Iacuta, Ignasi & Ventresca, 2012). Although locations with institutional voids offer more opportunities for social enterprises (Mair et al., 2007), creating social enterprises in such locations is harder because of the lack of support systems and property rights. This is a real issue in impact investing because places which might appear to be promising in terms of investments, in practice, may be very risky. Researchers must study the risk profiles of impact investments as a function of their locations, entrepreneurial ecosystems, and the concentration of social enterprises. Scholars must use pilot projects in different institutional contexts to understand the different models and institutions and how they would influence the performances and organizational forms of SIBs (Demel, 2012).

Institutions, such as government structures, and market dynamics in different countries play essential roles in organizational actions (Claeyé & Jackson, 2012; DiMaggio & Powell, 1983).

Using institutional theory and logic, scholars should study how governments, stakeholders, and institutions are shaping impact-investing policies. Institutions shape organizations; consequently, how developing countries can benefit from impact investing needs to be explored utilizing stakeholder and institutional theories.

**Stakeholders:** Impact-investing firms have many stakeholders such as banks (Burand, 2012; Jackson, 2013c; Scholtens, 2006), high-net-worth-individual investors (Bolton & Savell, 2010; Brett, 2013; Demel, 2012; Tzouvelekas, 2014), institutional investors (Intellect, 2013), beneficiaries (Ashta, 2012; Corrigan, 2011; Dagher Jr., 2013; Lehner & Nicholls, 2014; Oh et al., 2013), and governments (Bonini & Emerson, 2005; Cabinet Office UK, 2013; Cohen, 2011; Thorlby, 2011; Tjornbo & Westley, 2012; Wood, Thornley & Grace, 2013), who engage in the processes and decisions. The cited studies have brought the different stakeholders to the forefront but need to further engage in discussions that highlight 1) the relationships between different stakeholders, 2) different power dynamics, 3) who has the greatest influence over decision making, and 4) who influences performance, especially social performance.

Different stakeholders generate different interest groups, different perspectives and logics, thereby, increasing the complexity within organizations. Future studies should explore processes, regulations, and managerial templates to understand how impact-investing firms should manage different stakeholder power centers and their interests. Researchers should examine how impact investors might manage multiple stakeholders and their interests using institutional and stakeholder theories. In addition, how and under what circumstances stakeholders influence the social and commercial outcomes need to be addressed. Researchers should conduct qualitative studies of the organizations' boardroom meetings (ethnographic or minutes of meeting) to understand the dynamics of multiple-stakeholder engagement. In this regard, SIBs are stakeholder and institutional intensive.

## Actors and Actions

This review identified operational elements, such as field-level knowledge, firm-level innovation, sector-specific knowledge, organizational form (Hebb, 2012; Miller & Wesley, 2010; Wood & Hagerman, 2010), opportunity recognition (Lehner, 2013; Leventhal, 2012), and due diligence (Bakshi, 2012; Reeder et al., 2014; Serrano-cinca, C., & Gutiérrez-nieto, 2010), as important actions around which the core of the impact-investing processes are organized. In this regard, it is important to understand the operational elements in detail. One research method to understand operational elements (specifically) related to balancing of competing logics is by studying the analysing the minutes of meetings written during board meetings. Scholar must explore organisational forms of different impact-investing firm and its moderating effect on social and financial mission.

*Due diligence:* The success of impact investing is intricately tied to the social and commercial success of investee social enterprises (Austin, 2000; Huybrechts & Nicholls, 2013), rendering the due diligence required for impact investing difficult and costly (Chong & Kleemann, 2011). The institutional legitimacy of impact investing is solely tied to the success of its investee social enterprises. How do impact-investing firms select projects and investee firms? Within impact investing, the different types of risks involved need to be understood along with how each risk is valued, hedged, and optimized for a given investment. In particular, the different social and financial risks involved in a given investment at the investee level and the “*portfolio of investments*” level need to be considered. The typical due diligence process fails to detect the human motivations (Smart, 1999), while in investee social enterprises, elements of effectuation and empathy (Mair & Noboa, 2006b) add another level of complexity. The investor must reflect on how the different elements of the entrepreneur’s abilities and entrepreneurial empathy can be measured and screened during due diligence as these qualities may affect the investment at a later period. In particular, unlike the venture capital investing process, the process of impact investing has not been properly

explored and conceptual frameworks such as institutional logic and portfolio theory will aid in understanding the process and performance of impact investing.

*Inter-organizational relationships:* Investments in social enterprises are one instrument through which impact investors generate social and commercial value. However, the current research on impact investing rarely discusses the investee social enterprises and their beneficiaries. To further enhance our understanding of impact-investing outcomes, the research must also focus on the inter-organizational level, specifically the relationship between the investor and the investee social enterprise (Harji & Hebb, 2010; Nicholls & Pharoah, 2008). Researchers should design new case studies involving the minutes of the meetings of impact investors, investor board meetings and investor-investee interactions. Using these data, theoretical concepts and linkages within the relationship between the two should be developed along with how this relationship can increase the social and commercial outcomes for the impact investor.

### **Outcomes and Measurement**

Depending upon the mandate, impact-investing firms are expected to generate outcomes on two fronts, namely, social benefits for society and earned income for self (Jackson, 2013; Margolis & Walsh, 2003). Measurements of financial outcomes are standardized and easily verifiable, but the measurements for social impact and social value creation are not standardized and difficult to authenticate (Ormiston & Seymour, 2011).

Accordingly, first, researchers must study how to quantitatively relate the social outcomes to the initial theory of change. Thereafter, the researcher must study how to measure and validate the outcomes with the authentic measures (Evans, 2013; Jackson, 2013c). Researchers should conduct

studies to compare different impact measures within different contexts and provide recommendations to both practitioners and academics on the best available measures.

The measurement of the social outcomes is resource consuming, particularly in the sectors of rural education and microfinance, because there is a long period between the social intervention and the real social impact created by it (Jackson, 2013; Rangan, Appleby, Moon, & Schervish, 2011; Serrano-Cinca, C., & Gutiérrez-Nieto, 2010). These factors make it difficult and expensive to measure the social impact. For this reason, scholars must explore technologies and methods to measure such scenarios.

The traditional accounting methods and their adoption in the impact-investing space must also be explored. For example, the capital asset pricing model and discounted cash flows in their various forms are still used as a basis for many finance-related instruments and serve as the guiding principle for investment-related decisions. Social return on investment is one such example, whereby, the idea of discounted cash is modified and adapted to measure the social value created per unit of investment. The researcher must further study the scope of SROI applications on impact investing. In particular, the ways in which SROI can be made accessible to measure and validate the claims of investee social enterprises should be examined.

Social impact assessment and reporting is a time-consuming and expensive process. It involves visiting and collecting data from the investees and beneficiaries and analyzing the data with the baseline. To address this issue, Sinzer and Sopact are social enterprises that have developed software applications to dramatically reduce the labor of the data collection, measurement, and the accounting and publishing costs of social impact assessments. For further research, new accounting technologies that are less time consuming, easy to implement, probably automatic, and that require minimum subjective judgment from the information feeder need to be developed. The researchers

should use data from companies such as Sinzer or Sopact (if possible) to analyze the social performance of impact investments. Research on the reliability and replicability of social impact measures and reports will significantly help in legitimizing the outcomes of existing impact-investing firms.

## **5. Conclusion**

This article is an exhaustive review of the emerging academic and practitioner literature on impact investing containing 85 studies from 2005 to 2017 and focusing upon how impact investing has been defined, what has been published, and what future contributions are needed. This study builds on previous literature reviews (Jess Daggers & Nicholls, 2016; Höchstädter & Scheck, 2014) and contributes to the existing literature on impact investment by providing an overall picture of the evolution of the field, promising avenues of research, and possible tools to make the research relevant to both academics and practitioners. Accordingly, the study makes the following major contributions: 1) further clarifies the stage and type of the research by providing a longitudinal perspective upon the state of the research, 2) clarifies terminological and definitional distinctions by focusing on six unique factors, 3) reviews the extent of the research on impact investing by focusing on the research questions explored, the methods used, and the level of analysis undertaken, and, finally, 4) the article concludes with future research avenues by dividing the research into three distinct domains.

Firstly, compared to previous studies, this review of impact investing assumed a longitudinal perspective of the scholarship and analyzed how the field has evolved in the last thirteen years. The findings show that the earlier years of scholarship were mostly driven by phenomena and practice. Kuhn (2012) termed this stage of research the pre-paradigm phase. At the pre-paradigm stage, there are no clear theories, definitions, or terminologies and, thus, one cannot assume the scientific

discussion consists of taken for granted facts. At this stage, researchers must question the context, assumptions, processes, and likely implications of the research. The extant research review revealed that the field is moving from the pre-paradigm phase to that of normal science. The research in the last two years shows a greater use of theoretical and data-based empirical studies. There is more discussion upon distinguishing impact investing from similar sounding terms and definitions.

Second, the term impact investing shares many commonalities with SRI, green finance, microfinance, SIB, and VP, yet it is distinct and unique. The review provided detailed clarification of the terminological ambiguities. The study found that the terms impact investing and social finance are interchangeable. The term impact investing has six unique characteristics, namely; 1) the capital invested, 2) the degree of engagement with the investee, 3) the process of selection, 4) the social and commercial outcomes, 5) the reporting of outcomes, and 6) the government role. Socially responsible investing, microfinance, VP, and SIB each differ from impact investing in two or more of the six characteristics.

Third, the review studied the different research questions, the research methods used, and the themes explored within the literature. It found that the research questions were mainly exploratory with only one confirmatory study. The research methods were predominantly qualitative. The review found only ten case-based methods and only three quantitative studies. The extant study revealed the movement of the field from broad and exploratory to more focused and confirmatory. One significant thematic finding was that current discussions are more focused upon how to commercialize social enterprises. The recently published articles explored strategies for the ways in which impact investing can help in building an ecosystem for commercialization for social entrepreneurs. Commercialization is important for the wider acceptability of impact investing, however, commercialization at the cost of social outcomes may delegitimize the field. Thus, greater



emphasis needs to be placed upon defining the boundaries of the field, while reflecting strong the dangers of delegitimization due to multiple objective functions.

Finally, the longitudinal perspective and extant review of published literature on impact investing provided a holistic view of the current status of impact investing and what should be studied in the future. The paper suggested future avenues of research. The suggestions included that scholars should understand stakeholder management in the context of the institutional environment. At the firm level, strategies of investment and investment management should be studied. Furthermore, at the outcomes level, serious inquiries into SROI measures and social impact assessment methods may bring more legitimacy to the field of inquiry.

This article provides a unique perspective upon the current state of the research on impact investing and the direction in which the field is moving. The field of impact investing is gradually emerging, the literature is growing, and the domain is moving from the pre-paradigm stage to the paradigm stage. Accordingly, scholars and practitioners should use this review article as a reference to understand the current status of the field of impact investing, its definitional development, terminological clarifications, associated risks, potential, and future research avenues.

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**9. Article #2: Impact Investing Strategy: Managing Conflicts between Impact Investor and Investee Social Enterprise**

## **Impact Investing Strategy: Managing Conflicts between Impact Investor and Investee Social Enterprise**

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Publication Year: 2019

Journal of Publication: Sustainability

### **Abstract**

Impact investing pursues the dual goals of creating socio-economic value for the marginalized, and ensuring net positive financial returns. Impact investing firms achieve their goals through their investments in projects and enterprises which create both social and commercial values. The primary aim of this article is to contribute to our understanding of the process of impact investing, particularly with respect to issues related to aligning impact investing and investee social enterprise goals. The research method employs case-based research methodology. The data consist of six cases of impact investing and their investee social enterprises. In addition, the data involve interviews with experts from the field of impact investing. The findings are that: (1) Social mission plays an important moderating role in the inter-organizational relationship between the impact investor and the investee social enterprise, (2) and an emphasis on due diligence, sector specialization, and communication increases the likelihood of investment while (3) social impact measurement and reporting and frequent engagement increase the likelihood of post-investment alignment. The key contribution of this article is that impact investing (unlike venture capital) is influenced by the ability of its investee to create social value, which plays an important role in the inter-organizational relationship between investor and investee. Furthermore, similar to industry specialization in the for-profit investing, social sector specialization is equally relevant for alignment and returns.

**Keywords:** Impact investing; impact investor; social enterprise; social entrepreneurship; Institutional logic; Strategy; Inter-organisational alignment

## 1. Introduction

Impact investing is a relatively recent term, adopted in 2007 [1], that implies the practice of investing in enterprises with the motivation of creating social and environmental value and in which the principal is repaid potentially with a return [2]. Most researchers define impact investing as an investment process for maximizing social and commercial benefits by using venture capitalist methods [3–5]. There has been a tremendous growth of impact investing funds, which are projected to exceed 500 billion USD by 2023 [6]. The effectiveness of an impact investing firm is primarily understood by its ability to generate social and commercial value [7–9]. The effectiveness of impact investing depends upon the social and financial success of its investments, which is tied to its investees [9]. During impact investing, the investee social enterprise is the major instrument through which social and financial returns are generated. The present scholarship on impact investing is nascent, focusing on the concept [10] or typologies [11]. Despite growing investments in impact investing, scholars have not explored the real operational factors and strategies within impact investing that explain the working of impact investing firms.

The relationship between the impact investor and the investee social enterprises forms the major instrument that drives the legitimacy of the impact investing field by creating social and commercial value. Therefore, it is important to understand the inter-organizational relationship between impact investing and investee social enterprise. Such a study would help in understanding the dynamics involved in impact investing at the firm (or practice level); institutional pressures it experiences and help us understand how impact investment is different from traditional commercial investments like venture capital.

Castellas, Ormiston, and Findlay [12] state that impact investing and the social entrepreneurship ecosystem are struggling to become mainstream due to the lack of standardization and replication of social impact measures. Gregory [13] cites multiple risks within the impact investing sector which would potentially reduce the financial returns. For example, a emphasis on social returns increases the risks on expected financial returns. Similarly, impact-investors' greater communication on social returns while in practice emphasizing on financial returns increases the risks on external legitimacy. Roundy et al. [14] cite that social entrepreneurs fear the risk of mission drift when seeking funds from impact investors. Given that the field of impact investing is nascent and lacks a sufficient knowledge base, and given that impact investing draws its legitimacy from its ability to create social and financial value through its investments, it is important to understand the process of impact investing and the dynamics involved between impact investors and investee social enterprises at the inter-organizational level and how they manage their relationship.

This article further explores the factors that enable inter-organizational alignment between impact investors and investee social enterprises. One can ask what outcomes can be observed at the inter-organizational level when these goals are not aligned, in addition to how organizations can achieve long-term inter-organizational alignment. This study employs an institutional logic framework to explore and theorize the inter-organizational relationship between impact investors and investee social enterprises, and explore the strategies which can increase the effectiveness of impact investing.

## **2. Theoretical Framing**

The institutional logics framework has been consistently used by researchers to understand hybrid organizations. To understand the impact investing process, the inter-organizational relationship between impact investors and investee social enterprises, the study employs the institutional logics framework.

### *2.1. Competing Logics as a Theoretical Framework for Impact Investing*

Thornton, Ocasio, and Lounsbury [15] define institutional logic as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules, by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality”. Logics are stratified layers of multiple institutions that nudge the decisions of individuals within organizations and impact long-term organizational strategies and identities. Each logic is associated with a unique mode of rationalization, defining the appropriate relationship between subjects, practices and objects [16]. The concept of institutional logics connects field-level values and beliefs with action at all organizational levels [17]. Studies on institutional logics have discussed the links between logics, organizational forms, organizational products and organizational practices [15].

The scholarship in impact investing demonstrates that social value generation and income generation are competing activities, in which the favoring of earnings over social value leads to mission drift, and could result in a loss of legitimacy [18,19]. The impact investment funds must manage the competing missions of social value generation as well as satisfy their financial goals [19,20]. Within literature concerning social entrepreneurship, institutional logics are an established theoretical frame for studying competing goals found within social enterprises. Many studies have examined the tensions and motivations of social mission drift between social and commercial activities via competing logics [21-23] among social enterprises. The two most prominent competing logics used to analyze hybrid organizations are social logic and commercial logic [21,24–25].

Charitable firms represent one extreme at the end of the investing continuum which represents the social-only motive [26-27]. The motivations of charitable firms are to maximize social value creation through funding [28]. This article defines social logic as the motivation to address the social requirements of a community (or poor, or disenfranchised, or marginalized) and possess a well-articulated social mission. Actors within charities are driven by social logic to maximize social value. Social logic is the underlying institutional structure that affords legitimacy to social enterprises and impacts investment firms (*ibid.*) (See Table 1).

Venture capital represents the other end of the investing continuum, which represents the profit-only motive [26-27]. Venture capitalist firms invest in firms which have a great potential for high financial returns in the form of strong, existing possibilities (via equity sell-off) or provide IPO opportunities [29–31]. The performance of venture capitalist firms and their investees is purely measured based on their potential to create financial returns, and the selection process is purely driven by financial return expectations [32]. Venture capitalist organizations bring operational efficiency and provide capital through a board position, decision making and market development. Pache and Santos [21] conceptualize commercial logic as norms, practices and values with a clear goal of increasing dividends and rewarding efficiency and control (see Table 1). Purely commercial logic drives the investment decisions of venture capitalist investors.

**Table 1.** Institutional logics acting on impact investing and investee social enterprise.

<b>Levels of Differences/Institutional Logics</b>	<b>Commercial Logic</b>	<b>Social Logic</b>
Ownership	Group/Individual owns the enterprise through investment or equity (Pache & Santos, 2011)	Group/Individual protects and spreads the social mission (Pache & Santos, 2011)
Sources of legitimacy	Return on investment, performance, effectiveness, efficiency (Nicholls, 2010)	Hero entrepreneur, beneficiaries, social change, disruptive change (Zahra, Gedajlovic, Neubaum, & Shulman, 2009)
Mission	Efficient allocation of resources; earned income while serving the society (Ruebottom, 2013)	Socially relevant and innovative solutions to serve the society (Neubaum, & Shulman, 2009)
Central values	Self-interest, consumer rather than the beneficiary, earned income, growth (Tracey & Jarvis, 2007)	Social value creation, equality, social justice (Zahra, Gedajlovic, Neubaum, & Shulman, 2009)
Model of governance	Governance towards defined objectives and performance, linear and rational (Ruebottom, 2013)	A democratic form of governance, high importance on the interest of beneficiaries (Ruebottom, 2013; Defourny & Nyssenes, 2012)
Logic behind decision	Profit maximization and fulfilling fiduciary duty (Battilana & Dorado, 2010)	Social value creation, welfare (Battilana & Dorado, 2010)

Organizations with hybrid goals experience tensions when actors make decisions that are motivated by their commitments to specific institutional logics [15]. Such tensions ultimately influence organizational performance [15,33]. Studies on the tensions among the hybrid organisations have primarily investigated them applying the institutional logic framework at the intra-organizational level [22,23]. This study applies the institutional logic framework at the inter-

organisation level exploring the tensions between the impact investor and investee social enterprise and explore the strategies which may sustain their inter-organisational collaboration.

The stabilization of intra-organizational institutional logics among social enterprises is well researched [21–22]. This article applies the competing institutional logics framework to understand how the inter-organizational relationship between impact investing firms and investee social enterprises is sustained in achieving their goals, as both the impact investing firms and investee social enterprises are exposed to strong social and commercial logics [18,21,34].

## *2.2. Inter-Organizational Alignment among Impact Investors*

Inter-organizational alignment between two organizations is a co-operative relationship based upon the mutual interests created from the requirements of resource dependency, managing costs and reducing uncertainty [35,36]. Organizations engage in inter-organizational relationships with the motivation of creating value that far exceeds what organizations can achieve individually [37].

Huybrechts and Nicholls [36] illustrate that actors at dominant positions navigate the conversation among organizations in inter-organizational alignment. They conclude that the legitimacy and resource deficit both dominate the motivations of alignment, and those in the dominant position are more likely to steer the outcome and determine the longevity of the alignment. The literature on venture capital prominently suggests that the dominant players are the venture capitalists, as they provide capital. The impact investors seek legitimacy by creating both social and commercial value by investing in social enterprises concerning venture capitalists. This study explores how dominant characteristics influence the inter-organizational alignment.

The impact investor and its investee social enterprise share the same set of institutional logics, as both share the identical goal of creating social change via the market-inspired solution. The institutional logics influence both the organizations and their partners [38]. The sources of legitimacy for the two (invest and investee) differ; both the investor impact investing firms and investee social



enterprises must pursue their respective social and commercial goals. In doing so, they are exposed to competing institutional logics, which could result in tensions [18,21,34]. Di Domenico et al. [39] suggest that factors such as ownership structure, goals, governance and accountability play important roles in sustaining the inter-organizational alignment. These factors have promise for managing post-alignment collaboration, but lack a deeper understanding of how firms with competing logics could align when any conflicts arise. In this context, this study explores the inter-organizational relationship between impact investors and investee social enterprises, the causes of misalignment and strategies for alignment at the inter-organizational level.

### **3. Research Method**

Impact investing is an emerging research area; therefore, the case study method was favored to explore the research question and to generate theoretical propositions [40]. The article uses a comparative multiple-case-study approach, as this method closely links empirical observations with existing theories. The multiple-case-study approach helps to reveal differences and similarities among the cases, and to bring the findings into the broader picture [41,42]. This approach is useful to reduce researcher biases, and to increase the chances of building empirically valid theories [42].

#### *3.1. Case Selection and Data Collection*

To answer the research questions, this article analyzes six heterogeneous cases of impact investment firms operating within India. The cases were selected based on information-oriented sampling, as diverse cases reveal more information than do similar cases [41]. The cases were selected to increase the diversity of the data studied, while replicating selected elements (related to the social and commercial motivations of impact investors) as closely as possible [41,42].

The selected cases identified themselves as impact investing firms. The websites indicate a clear mission statement identifying as social impact first investment funds. A group of industry experts

was consulted as part of the case selection, and they recognized the selected organizations as important actors in the field of impact investment in India.

All selected organizations are older than five years, and have a dedicated investment team and advisory board members. Following the Eisenhardt approach, the cases were selected based on their social and commercial goals. In addition to the selected impact investment firms, the study contacted also the investee social enterprises mentioned on the website of the impact investor. Table 2 provides the summary of the data sources.

**Table 2.** Summary of the data sources used in the study.

<b>Data/SIVs</b>	<b>LC</b>	<b>AF</b>	<b>USF</b>	<b>USV</b>	<b>VI</b>	<b>CSF</b>
Interviews with Investors of SIF	1	1	0	0	0	0
Interviews with Investees	2	1	2	1	1	1
Interview with Fund Managers	3	4	3	2	1	1
Documents	50 pages	400 pages: news, case study, contracts	60 pages	50 pages	50 pages	10 pages, YouTube, Website
Interview with Experts	Okapi India, Blended Value on India, GIZ India, Ashoka India, Fase-India					
Total Interviews	29 interviews; 20–60 min					

The cases were written using both the primary and secondary data [42]. For the primary data, we conducted interviews. We triangulated and verified primary interviews using the secondary data. For the secondary data, we gathered information from the reports published on the websites of the selected cases and certain think tanks active in impact investing in India (see table 2). The think tanks included organizations such as the German Development Bank office in India, the European Venture Philanthropy Association (EVPA), the Asian Venture Philanthropy Association (AVPA), Okapi Consulting, and the National Association of Social Entrepreneurs in India (NASE). A summary of the sources of the data collected for the construction of cases can be found in Table 2.

In addition to the data gathered from public sources, 29 interviews were conducted with company members and local cooperation partners to substantiate and complete the information regarding the

research questions. The interviewee list included the fund managers who are responsible for making the investment decisions, impact reporters, CEOs of investee organizations, investors of impact investing organizations and experts in the field. The interviews occurred between February 2013 and May 2015. All interviews were conducted in English, and lasted between 20 and 70 min, with an average duration of 45 min. One working day took place prior to the interview; the interview guideline was sent to all interviewees by email. The evidence from the interview data and secondary documents helped in triangulating the data for internal validity. Table 3 represents cases of the impact investors and their investee social enterprises with varying degrees of social and commercial logics.

**Table 3.** Summary of the selected case studies.

<b>Data/SIVs</b>	<b>LC</b>	<b>AF</b>	<b>USF</b>	<b>USV</b>	<b>VI</b>	<b>CSF</b>
Founded	2009	2002	2008	2011	2001	2012
Founder Background	Developmental economist	Masters in management, with a focus on rural development	Love for India and background in financial services	Love for India and background in social services	Background in social services	Background in private equity
Type of Investment	Equity	Equity	Equity	Equity	Incubation and equity	Grant
Stage	Growth	Early stage and growth	Start-up, early stage and growth	Early stage	Incubation to growth	Growth and grant
Financial Funding	\$50,000 to \$2 million	\$200,000 to \$2 million	\$50,000 to \$2 million	\$10,000 to \$50,000	\$10,000 to \$50,000	\$10,000 to \$50,000
Equity	10–40%	10–40%	10–40%	Equity	Incubation and equity	Grant
Impact	Growth and capital-oriented social business	Difficult-to-reach, marginalized sections of India	The scalable base of the pyramid business ventures	Difficult-to-reach, marginalized sections of India. Early-stage investor	Social enterprises using innovation and design to address socio-economic problems	Improving the quality of education in India
Organizations Funded	6	28	10	6	More than 50	8
Area of Operation	Microfinance, healthcare, food, education, technology, employment, agriculture	Microfinance, healthcare, food, education, technology, employment, agriculture	Greater focus on BoP innovation; microfinance, healthcare, food, education, technology, employment, agriculture	WISE, social inclusion, skill development, sustainable production	Technology-intensive social enterprises	Education
Types of Services Provided	Fund investment for impact, management support, market research, and network support	Fund investment for impact, management support, market research, and network support	Fund investment for impact, management support, market research, and network support	Seed fund, business mentoring	Seed fund, incubation, growth capital	Board position and management
Exit Strategy Planned	Yes, and succeeded	Yes, and succeeded	Yes, and succeeded	Yes, and succeeded	No	No
Structure of the Company	For-profit private equity firm and non-profit foundation	Group of companies addressing the market intermediary requirements of social entrepreneurship ecosystem in India	Group of companies, all of which focus on BoP segment in India Non-profit firm based out of the US for fundraising	Non-profit firm based out of the US for fundraising, Non-profit firm based in India for impact investment	Non-profit company based out of educational institute in India	Non-profit company
Type of Team	Founded by entrepreneur with	Large interdisciplinary	Large interdisciplinary	Small team based in Seattle	Large interdisciplinary	Led by private equity

	experience in private equity and run by business graduates	team led by social entrepreneur	team, interdisciplinary advisers	and small operational team led by established social entrepreneur in India	team, incubated in a university office, large operational team led by a group of volunteers with previous entrepreneurial experience	professional with an operational team from non-profit social background sectors
Types of Investors	For-profit investors, HNIs, development financial institutions, foundations	For-profit investors, HNIs, development financial institutions, foundations	HNIs and foundations	Foundations	Foundation, Indian government agencies such as DST and Sidbi	Foundations such as Dell Foundation and Gates-Melinda Foundation
Social Impact Measures	Brief mention of the social impact	Elaborate reporting system, developed in-house impact-reporting measure with GIZ		Development focussed on the increase in earning, quality of life, quality of work condition	Focussed on social entrepreneur, impact created by the social entrepreneur in terms of jobs created, environmental impact, quality of services provided	Advanced measurement and elaborate reporting system
Investees	Innovative rural education	Innovative fair wage dairy	Childcare	Employment exchange for the poor	High-tech service for the poor at reduced rates	Primary education for the working poor

### 3.2. Data Analysis

This article follows the method of Gibbert et al. [41] to establish methodological rigor to ensure validity and reliability. The article employed the competing logics lens to explore the factors of the inter-organizational alignment between the two [43]. To explore the relationships between impact investors and investee social enterprises, the article conducted pattern matching in which the article compares the findings with previous research and engages in cross-case data analysis. Furthermore, to ensure construct validity, the article uses data triangulation [44-46] comparing the claims of the informants with a collection of archival data, publicly available reports, and Twitter data. The article uses six cases, each consisting of an investor and an investee. The external validity was addressed through multiple case selection, investee interviews and expert interviews [42]. Data collection and data analysis were conducted simultaneously. To understand the competing forces at the inter-organizational level, the article studies both successful alignments in the relationship between investor and investee, in addition to examples of tension and failure.

## 4. Cross-Case Analysis

In this section, the article compares the cases with one another to understand the factors which could shift the inter-organizational alignment between impact investors and investees. It explores the strategies for addressing non-alignment issues. The article refers to each case by its acronym, as introduced in Table 3.

#### *4.1. Expectations of Social Impact Investors and Investees*

##### *4.1.1. Investor Expectations*

The investee social enterprise is the only instrument through which impact investors can ensure the generation of social and commercial benefits. The ideal method for obtaining social and commercial benefits is to invest in those social enterprises which have a strong social mission and earned income activities. Impact investors select their investees with the expectation of creating social impact and earning financial benefits. Impact investor AF specifically examined investing in early-stage social ventures, which can scale and create financial value while solving complex social problems.

*‘Redefining the parameters of blockbuster success—a return of 5 to 10 times on invested capital ...’ while ‘Investing in enterprises that gainfully engage rural and economically weaker sections of the populations either as producers, users or owners to deliver commercial returns.’ (CEO AF)*

One of the primary motivations of impact investors is making investments among social enterprises that create ‘measurable, scalable’ social impact. CSF’s social mission focuses on addressing primary education in schools in India. Its investment decisions look for investee social enterprises addressing specifically the primary education sector in addition to the inefficiencies present within local public schools in India. They engage together with their investees to create solutions that can be generalized throughout India.

*‘We’ve done that [seek partners who wants to create systemic (normative) change through innovation, documenting and testing] with the India school leadership institute. We’ve just recently repeated that process with another institution we started called the education alliance. This is an organization that’s focused on public/private partnerships in education.’ (CSF MD)*

#### 4.1.2. Investee Expectations

Social enterprises have greater complexity due to competing goals compared with normal, for-profit models. There are insufficient examples of commercially successful social enterprises for traditional financial institutions (banks, private equity firms) to make investments in them. However, to operate and sustain, social enterprises require capital. Based on the following quotation, it appears that impact investment is potentially a viable capital for social enterprises.

*‘It was just me and a piece of paper, right. There was nothing on the ground’ ...’I needed five million dollars to just get started in the first place’ ...’there were very limited options [of investment], at that time, AF, I just came across them somewhere.’ (Investee AF)*

In addition to capital, investee social enterprises expect their investors to acknowledge and value the social value created by their enterprise. The following quotation illustrates the importance of ‘social value creation’ and valuation during the investment process.

*‘Impact investors should be putting a premium on impact, right? In terms of market valuation?’ (Investee AF)*

The following quotation illustrates the requirements of the investees. Investee social enterprises seek also an investment of time and knowledge from their investors. The social entrepreneurs have a proper understanding of the social sector; however, they often lack the commercial skills needed to run a venture that has an earned income social business model.

“‘We started our collaboration with a commitment that [the investors] are going to help us in providing all these [business skills], technical inputs and expertise.’ (Investee USV)

Table 4 provides a summary of the relative dominance of social and commercial logics among the impact investing firms and investee social enterprises chosen for this study. It also provides their motivations which are driven by the dominant institutional logics.

The competing institutional logic framework assists in making sense of the impact investing strategies pursued by the impact investors, and also assists in making critical inferences.

**Table 4.** Summary of the logics with impact investment firms and investee social enterprises.

<b>Logic/SIVs</b>	<b>LC</b>	<b>AF</b>	<b>USF</b>	<b>USV</b>	<b>VI</b>	<b>CSF</b>
Social Logic	Very low	Average	Average	High	Very high	Very high
Commercial Logic	Very high	Average	Average to high	Average to low	Low	Very low
Investor Motivation	Focus on return on investment, exits	Looks for a moderate return on investment	Looks for a moderate return on investment	Looks for a moderate return on investment	Looks for a low or very low return	No return on investment
<b>Logic/Investee SoCents</b>	<b>Investee LC</b>	<b>Investee AF</b>	<b>Investee USF</b>	<b>Investee USV</b>	<b>Investee VI</b>	<b>Investee CSF</b>
Social Logic	High	Average	High-average	High	High	Very high
Commercial Logic	Average	Average to high	Average to high	Average to high	Average	Low
Investee Motivation	Very high in terms of capital but very low in terms of engagement	Very high in terms of capital but very low in terms of engagement	Very high in terms of capital but very low in terms of engagement	Very high in terms of capital but very low in terms of engagement	Very high in terms of engagement and capital	Very high in terms of engagement and capital

#### 4.2. Outcome of Non-Alignment of Investor—Investee Organizational Goals

The following section discusses the causes and effects of the non-alignment of organizational logics. All of the interviewees indicated that circumstances often exist in which social and commercial expectations between investors and investees are not aligned. It is possible that with extreme disagreements, the relationship could break down. From the data, the legal, contractual agreements used by AF and USF with their investee social enterprises are stringent on corporate governance and environment social norms. The following quotation illustrates the importance given to ESG factors by impact investors.

*‘If any of the Conditions Precedent mentioned in Annexure 7 including the investor code on ESG norms is not fulfilled or satisfied by the Long Stop Date, the Investors shall have the right to terminate this Agreement.’ (AF legal agreement document)*

However, as illustrated in the following quotation, investees feel that the investor’s expectations regarding corporate governance are not practically implementable on the ground.

*‘They said you will never pay a bribe to a government official. I was laughing about it, because you know how the business is done in India.’ (Investee USF)*

The following quotation further illustrates the non-alignment between investors and investees. It reveals that investor expectations were not matched by investee actions. This could potentially result in crises of the legitimacy of impact investors.

*‘[The investees] were not following the minimum wages and they were not taking care of [employment] needs in terms of proper working condition as agreed upon.’ (Manager AF)*

While the severe variation (agreed terms and conditions) could severely damage the legitimacy of the impact investor, making investee liable for variations from the contract could potentially restrict their entrepreneurial bricolage. The following quotation illustrates how investors could nudge the investees towards commercial goals, which could potentially undermine the social value performance of the investees.

*‘In the first meeting, they were asking me how will you give us an exit, I know of impact investors who also put such clauses that, in seven years or five years, you [the social entrepreneur] are forced to back the equity [return the investment] from the impact investor.’ (Investee USF)*

A greater emphasis on commercial goals could potentially increase tensions and misalignment. Investees are forced to dilute their focus on the social mission of their social enterprise at the cost of commercial benefits. The consequences of these differences often result in management restructuring,



and in extreme cases, based on the contractual details, a change in management and of the CEO of the investee social enterprise. Increasing disagreements between investor and investee could result in investor exits or investee management change. Investor exits could lead to organizational demise.

#### *4.3. Pre-Investment Strategies for Effective Alignment*

Investees should pursue some pre-investment actions to increase the likelihood of alignment. In the following section, the article explores the pre-investment strategies to effectively align the impact investor and investee social enterprise motivations and goals.

##### *4.3.1. Due Diligence on Organizational Missions, Goals, and Actions*

Although due diligence among venture capital firms is an established process, the due diligence among impact investors is not the same as that among venture capitalists. Among venture capital firms, the due diligence process is linear, and the primary focus is on profitability, scalability, market acceptance and a profitable exit opportunity.

The following quotation illustrates that during the due diligence process, both the investor and investee reflect on each other's social and commercial missions, goals and actions. Proper articulation of social and commercial goals, and how the investor-investee firms will organize their interaction to achieve their stated goals, is one of the most important elements in the due diligence process.

*‘When an investment manager is doing the due diligence—even before the investment committee approves the investment—we go through a very detailed environment and social due diligence. We [...] look at what the enterprise has done so far when it comes to environment and social impact. Going forward [we look at the] metrics that they would be measuring for us. [Only then do we] decide if we go ahead with the investment.’ (Investor AF)*

Respondents indicated also that to effectively manage the complexities arising after impact investment, due diligence should assess the cultural convergence of the perspective investee

organizations. One of the impact investors interviewed refers to cultural convergence as the shared organizational goals (social and commercial) and characteristics.

*‘There maybe trade-offs at different times, on which markets you go after, I’m sure there will there will be kinds of conflicts. But what’s important is, that you choose entrepreneurs that you believe sort of have this similar DNA to what you have. If you select well there, then you reduce amount of conflicts.’ (Investor USF)*

During the due diligence stage, USF and AF both strive to transparently communicate their expectations on exit opportunities and scalability with the investee social enterprises. Once social, commercial and cultural commonalities between the investor and investee have been established, the probability of post-investment non-alignment significantly decreases between the investor and the investee. Transparency in communication would reduce the risks of inter-organizational breakdown arising due to competing logics.

#### 4.3.2. Specialization and Sector Knowledge

A unique data pattern revealed that impact investors which specialize in one particular field, such as microfinance (LC), fair wages (USF), and primary education (CSF), find it much easier to attain an alignment of organizational goals between themselves and their investee social enterprises.

For example, CSF prides themselves on being the sector expert on primary education with a social mission. Their in-depth knowledge of the sector narrows the investment funnel, focusing only on the education sector, which is fully aligned with CSF’s mission of delivering highly efficient, repeatable and measurable impact. The following quotation illustrates that specialization potentially increases the unique capabilities of the investor, and the probability of influencing policy decisions at the government level. Influencing public sector policy for the betterment of society has a disruptive social impact.

*‘We work in partnership with the municipal government’s schools we take over, and put in our own staff and teachers and run the schools according to our methodology. But the idea*

*is then to transfer these acquired leanings to the rest of the government schools. So we do research and report our hypothesis, and then through policy advocacy to see that the effective practices are being implemented by the government.’ (Investee CSF)*

In addition to specialization, greater sector knowledge potentially increases the financial returns on investment. For example, LC has developed expertise on microfinance in India and has executed two successful exits from its investments in the microfinance sector. The following quotation illustrates the depth of sector knowledge, execution plan, competition and the possible return of investment.

*‘In microfinance actually it’s a very well documented model now, so we really can estimate all of these standard things, what should be the ideal holding period, what should be the stage at which you invest and what are the stages at which it should exit, for mainstream players.’ (Investor LC)*

This deep understanding of the sector level helps LC to manage reasonable financial expectations and risks. Impact investors that cover a broader portfolio of sectors tend to be less knowledgeable about the sector specificities. Based upon the above quotation, one could infer that the probability of successful alignment increases when the interacting organizations are closer to one another’s dominant sector space.

#### 4.3.3. Communication of Scalability and Earned Income Expectations of the Investee

Social impact scalability is a major signal that social enterprises must articulate to attract investors [47,48]. Scalability potential signals a greater social value creation (ibid). However, scaling a social enterprise without revenue sources could exhaust the running capital. The following quote from LC illustrates the importance of scalability and revenues, while making investment decisions along with the social mission of the social enterprise.

*‘Take, for example, RS [investee]. We invested when they had about one center and about 40 odd employees. Today they are among the largest player. So they run about 20 centers, employ 2500 employees in each of these places. On a commercial stand point, it now generates about 8 million dollars in revenues on an annual basis. Moreover, from an investment returns standpoint, I think we are close to getting an exit out of the center. We will basically be selling [to a] commercial player today and we are making a healthy return.’*(Investor LC)

AF, USF, and LC predominantly focus on scalability through revenue generation in addition to the social mission when selecting early-stage investees. Impact investors with dominant financial logic have a higher expectation of scalability as it signals profitable exit.

VI and USV have a dominating social logic. They have a higher expectation from investee social enterprises for scaling the social mission and increasing the reach towards beneficiaries. The following quotation from VI illustrates the dominance of the social mission.

*‘Any beneficiary should serve the low income either rural or urban [to guarantee social impact] community. Apart from these criteria we, when we do the inspection and developments, we look at financial scalability, and business scalability of fund (financial logic).’* (Investor VI)

An increased focus on revenues could compromise the impact delivered to the beneficiaries, while the increased focus on beneficiaries could decrease the running capital with the investees. Therefore, it is important that the investees successfully communicate the social impact expectations, earned income expectation, and the scalability potential of impact and returns. Table 5 summarises the pre-investment alignment strategies.

#### *4.4. Effective Alignment of Competing Goals During Inter-Organizational Collaboration (Remedial strategies)*

The remedial strategies are aimed at avoiding the potential risks of misalignment during inter-organizational collaboration. The remedial measures are strategies that investors and investees should focus on to increase an alignment of goals post investment. The findings reveal several strategies that could significantly reduce the risk of misalignment after the initial investment had been made.

#### 4.4.1. Social Impact Measures and Reporting

One USF investee mentioned ‘our interaction was never about impact, but about financial benefits’. On the other hand, one USV investor mentioned that their interaction focused too much on impact measurement and little on real business.

AF has developed their in-house impact-reporting toolbox and implemented it with their investee organizations. They have expanded into multiple domains, deploying their impact-reporting toolbox. In addition, they have succeeded in several exits. AF has a dedicated impact officer who engages in the implementation, measurement, collection and compilation of impact data. The steps taken by AF in communicating their impact are reflected in how investors and other stakeholders perceive AF.

CSF actively engages with their investees in developing social impact measures. They work together towards methodologically collecting and analyzing the data. The data analysis results are studied against the theory of change, and are documented for further implementation or publication. The social assessment reports (which are accounts of the investees) published by CSF are used by the local government to review the outcomes of local schools and their education budgeting for public primary schools. This approach helps to create trust with investees and further increase the external legitimacy of CSF as a change maker in the sector.

USV makes small investments in their investees and has a sector-specific theory of change which drives their investments. Their investees are required to properly communicate their theory of change and the impact created post investment. Investee impact reports are important factors that develop the external legitimacy of impact investors.

However, one of the LC investee social enterprises cited that the requirements of social impact assessment were only to fulfil the fiduciary duty, and in practice, they never factored into the strategic conversation between the two. LC is limited to the microfinance sector, and its investments outside the microfinance sector are not as popular as those within the microfinance sector.

Based on this analysis, we infer that even though impact measurement and reporting increase an additional bureaucratic drain on the investee, in the long run, the results are reflected in the overall social acceptance of both the impact investor and investee social enterprise.

#### 4.4.2. Engagement and Knowledge Sharing

Active engagement and knowledge sharing are essential activities for managing competing goals. Active engagement involves not only time and control, but also sharing business knowledge and business networks that benefit the long-term strategy of investee social enterprises. Based on the quotations, one can infer that VI not only incubates and funds a social enterprise, but also frequently engages with them and helps in creating efficiency and performance for revenue generation and growth.

*‘As part of the mentoring we have regular board member calls with the enterprise. [...] We find one of the CXOs, CIO, COO and the CEO related to the field. Our board members are really experienced guys in different sectors. Beyond [that], if we feel that an enterprise or an entrepreneur needs support for a specific thing or in a specific sector [and] we think that we cannot provide mentorship, we also connect them to a list of [outside] mentors on our website. They run multiple enterprises in different sectors and are really experienced people.’ (Investment Manager VI)*

VI developed a strong mentorship program that helped their investees to grow. They attracted top CXOs as volunteers to mentor their investee social enterprises. Similarly, CSF closely engaged with their investees. According to the data, VI and CSF spent more time in mentoring their investees

than did the others. The investees consequently viewed them with respect. The investor-investee relationships in these cases were better aligned and respected.

While the investors from USV and LC contributed capital and took board positions, but abstained from regular engagement (compared with VI and CSF), the relative aloofness with the investees increased the risk of tensions between the two.

As with the intra-organizational level, in which actors from different institutional logics disengage, the probability of tension increases [49]. Similarly, at the inter-organizational level, the lack of engagement accentuates the differences and increases tensions.

Frequent engagement between impact investors and investee social enterprises must be aimed at increasing both the social and commercial value creation. The greater interaction results in the alignment of goals and the creation of the sustainable inter-organizational relationship. The study concludes that to manage complexity arising due to competing goals, the firms must focus on constant engagement, sharing best business skills, business networks and firm growth, while addressing the competing goals. Table 5 summarises the post-investment alignment strategies.

**Table 5.** Pre-investment alignment strategies and post-investment alignment strategies.

	LC	AF	USF	USV	VI	CSF
Pre-Investment Alignment Measures	Investee LC	Investee AF	Investee USF	Investee USV	Investee VI	Investee CSF
Due Diligence	Emphasis on earned income and profitability	Financial plan, location of the investee	Financial plan, beneficiaries, and their income	Rural location, financially social sustainable business models	Unique innovation for the social sector, financial plan	Innovation, financial plan, theory of change
Specialization	Expertise in microfinance	Diversified, highly structured, and well-defined management functions	Diversified, well-defined management functions	Poverty elimination through sustainable earned income	High-tech innovation to serve the poor; mentorship-based engagement	Primary education within government-run schools
Communication	Scalability and returns	Exit potential and social mission	Scalability, returns, and social problem (BoP); social innovation (BoP)	Social mission and earned income potential	Social mission and social innovation using technology	Social mission, social reach, and scalability potential
Post-Investment Alignment Measures						
Engagement	Board membership, no-mentor program, little knowledge	Board membership, high knowledge sharing,	Board membership, little knowledge sharing, emphasis on	Board membership, lack of engagement due to a	Very good and high impact mentorship program, good engagement	Very good engagement in which the investor is engaged in each

	sharing, lack of field staff	limited by the lack of field staff	investor-investee contract	shortage of staff	with high knowledge sharing	level of a theory of change
Social Impact Measures and Reporting	Less emphasis on social measures	High emphasis on social measures, dedicated staff for SIA	High emphasis on social measures, dedicated staff for SIA	Very high emphasis on social measures, dedicated staff for SIA	High emphasis on social measures	Standardized metrics to measure the theory of change, co-development of outcome measures
Performance	Profitable exits in the microfinance sector, social returns due to MFI services	Profitable exits in multiple sectors, higher social returns in multiple sectors	High focus on finance and peri-urban BoP social enterprises, moderate returns, moderate social value creation	High social impact, low financial benefits	High social impact, the investee social enterprises create long-lasting social value using innovative business models	High social impact through increased school test scores, emphasis on reporting, focus on policy change based on science

## 5. Discussion and Theory Development

The study explores impact investing from the perspective of the investee-investor relationship, and finds that actions such as due diligence, social impact measures, sector knowledge and engagement are the essential strategies for managing the alignment of two firms at the inter-organizational level. The findings highlight the following theoretical and managerial implications.

### 5.1. Reasons for Alignment

The alignment between investor and investee is motivated by the expected benefits from the inter-organizational collaboration. Benefits such as liquidity for investees [39], social legitimacy for investors [36] and mutually aligned motivations for achieving common goals, are some of the pragmatic interests that outweigh competing logics during the initial stages of inter-organizational alignment, justifying [35]. The analysis of Austin [23] and Yunus, Moingeon, and Lehmann-Ortega [50] finds that inter-organizational collaboration is strengthened when firms jointly engage in value creation activities [38]. However, inter-organizational alignment is a temporal dynamic event in which tensions due to competing logics could subsequently arise [51].

This study (see Table 4; see Figure 1) informs us that unlike for-profit enterprises (where the motive is primarily financial), the reasons for alignment among impact investing firms are driven by the consideration of commercial viability and the social value creation ability of the investees. Similar



to how institutional logics nudge investees in for-profit space [38], the findings suggest that competing logics (social goals versus financial returns) are some of the predominant reasons for the alignment of impact investors and investee social enterprises. These findings extend the application of the institutional logics framework to hypothesize impact investing, in which the theory is used to study the inter-organizational alignment.

Huybrechts and Nicholls [36] conclude that the legitimacy gained and resource deficit dominate the collaboration, and that those in the dominant position are likelier to steer the outcome and determine the longevity of the collaboration. The findings of this study indicate that the effectiveness of impact investment is determined, not only by the dominant position held by the capital provider, but also by the social value created by the capital seeker. The dominant role of the impact investor as a capital provider is balanced by the ability of the investee social enterprise to create moral and social legitimacy, which is shared by all. The literature concerning venture capital predominantly suggests that venture capital has greater dominance in their investments [38]. The legitimacy created by social value creators (investees) and its role in the investor-investee inter-organizational relationship is unique and different from the predominantly held belief found in venture capital literature that the capital provider holds a dominant position in inter-organizational collaboration. Lawrence et al. [52] organizational collaboration results in new institutional fields. We see this subtle difference among interacting organisations (impact investor and investee social enterprise) as an institutional building practice, where a new organizational practice (impact investing) is providing a new perspective over the widely held world view .

**Proposition 1a.** *The alignment of social and financial goals of creating social and commercial value increases the probability of inter-organizational collaboration between impact investors and investee social enterprises.*

**Proposition 1b.** *The non-alignment of social and financial goals between impact investors and investee social enterprises increases the likelihood of investor-investee relationship breakdown, resulting in the lack of social value creation and a likely organizational demise.*

## 5.2. Antecedents to Effective Inter-Organizational Alignment

Most studies on due diligence were conducted by scholars studying for-profit venture capitalist strategies, which suggests that venture capitalists principally focus on maximizing economic and commercial benefits [32]. The review by Maxwell, Jeffrey, and Lévesque [32] identified the characteristics of products and services offered, characteristics and the background of the entrepreneur, team composition, market characteristics and expected return as common due diligence variables which influence the for-profit investor decision. The study by Roundy et al. [14] on the criteria of evaluation for investment used by impact investors reveals evaluation strategies used by both venture capitalists and philanthropists. The social impact is the primary criterion which involves social value creation and the social issues addressed.

Furthermore, team composition and the revenue model are other criteria which influence the decision of impact investors. This study aligns with the findings of Roundy et al. [14] on the criteria of evaluating impact investment. The findings indicate that the due diligence process for impact investors is different from those among venture capitalist firms. The findings suggest that the categorical inclusion of the social mission and valuation of the social mission in the due diligence process help to increase the alignment between impact investors and social enterprise investees. The findings suggest also that if the social mission goals of the impact investor and investee social enterprise align strongly at the due diligence stage, the probability of sustainable alignment post investment remains strong.

**Proposition 2a.** *A greater emphasis on their respective organizational goals during the due diligence phase results in an increased degree of alignment between the investors and the investees.*

The findings of the study by Roundy et al. [14] suggest that impact investors look for specific social issues when evaluating investee social enterprises. This study considers these specific social issues as social sectors. Both private equity literature and venture capital literature attribute the performance of funds to sectors (industries). However, the comparative analysis of the performance

of funds within or across a ‘social sector’ has not been explored. The findings of this article reveal that impact investors which have developed a specialization in a particular social sector demonstrate a greater alignment and success rate.

The findings suggest that impact investors would manage the tensions arising from competing logics better if they specialize in a particular sector and invest in social enterprises solving the social problems of that sector. Our findings suggest that when an impact investor has developed expertise in a particular social sector, its alignment with the investees is improved, and its performance (both social and commercial) is consequently higher. An increased focus on the social mission during the due diligence stage increases the probability of balancing competing logics at the inter-organizational level.

**Proposition 2b.** *Sector specialization of the impact investors increases the likelihood of inter-organizational alignment.*

Effective communication is an important criterion that unites two organizations with shared interests. The dominant literature on competing institution logics states that primary actors should communicate with one another to sustain an organizational process among collaborating firms. The dominant literature on both venture capital scholarship and inter-organizational scholarship suggests that those in weaker positions must demonstrate effective communication to attract resources from dominant players [35,36,38].

In the selected cases, a few impact investors have dominating commercial logic while a few have dominating social logic. The impact investors with dominating commercial logic invest in investees which effectively communicate their commercial goals alongside their social mission with an emphasis on scalability and financial exit. On the other hand, the impact investors with dominating social logic invest in investees which effectively communicate their social goals alongside their earned income abilities with an emphasis on reach and social impact. Investees overcome the dominance of capital provider through effective communication.

**Proposition 2c.** *Investee social enterprises which can clearly articulate earned income expectation, social impact expectation, and scalability potential are likelier to have inter-organizational alignment.*

### *5.3. Effective Long-Term Inter-Organizational Alignment*

The activities of social enterprises result in social value creation, long-term social impact, and potentially public policy impact. To assess the social value created, the social enterprises must appropriately measure the impact of their social activities. Social impact assessment methods are not standardized, most self-reported and expensive to conduct third party social audits.

The financial auditing of firm activities is a standard process in which the metrics are strictly related to financial performance. The major risks associated with impact investing arising out of the lack of replication, established processes and the difficulty in measuring the social value created by impact investors [12, 53–54].

While measuring financial value generated is a standardized coded practice, measuring social value remains under development, and is far from being unambiguously coded [10,54]. The quality of social impact created also helps to create a social reputation for both the impact investor and investee social enterprise. The social legitimacy of both depends on the veracity of the social impact created. The mutual motivation towards a greater good helps to align both the impact investor and their investee social enterprise and assists in creating a sustainable inter-organizational relationship.

**Proposition 3a.** *Regular social impact measurement and reporting on accepted goals increase the likelihood of successful inter-organizational alignment and inter-organizational performance over the investment period.*

One postulation by Fenema and Loebbecke [37] hypothesizes that organizational structures help to manage inter-organizational tensions. The routinization of interaction and engagement by leadership further helps to manage the inter-organizational tensions. The findings of this article empirically verify the postulations theorized by Fenema and Loebbecke [37]. The engagement in the

for-profit investment is linear, and focuses solely upon increasing financial performance and organizational efficiency, while encouraging organizational development. The engagement in the case of impact investing involves, not only the engagement for financial performance and organizational efficiency, but also the alignment of investee activities towards the envisioned social mission and social goals. Impact investors which side-line the social goals of the investees might send a signal that they are engaging only for financial incentives and securing their investments. Such a focus could create tensions between the two, and the larger impact of these tensions would result in a breakdown of relation or loss of social legitimacy of the impact investor. While engaging, the investor should reflect on their investment mandate, their social goals, and the goals of the investee social enterprise.

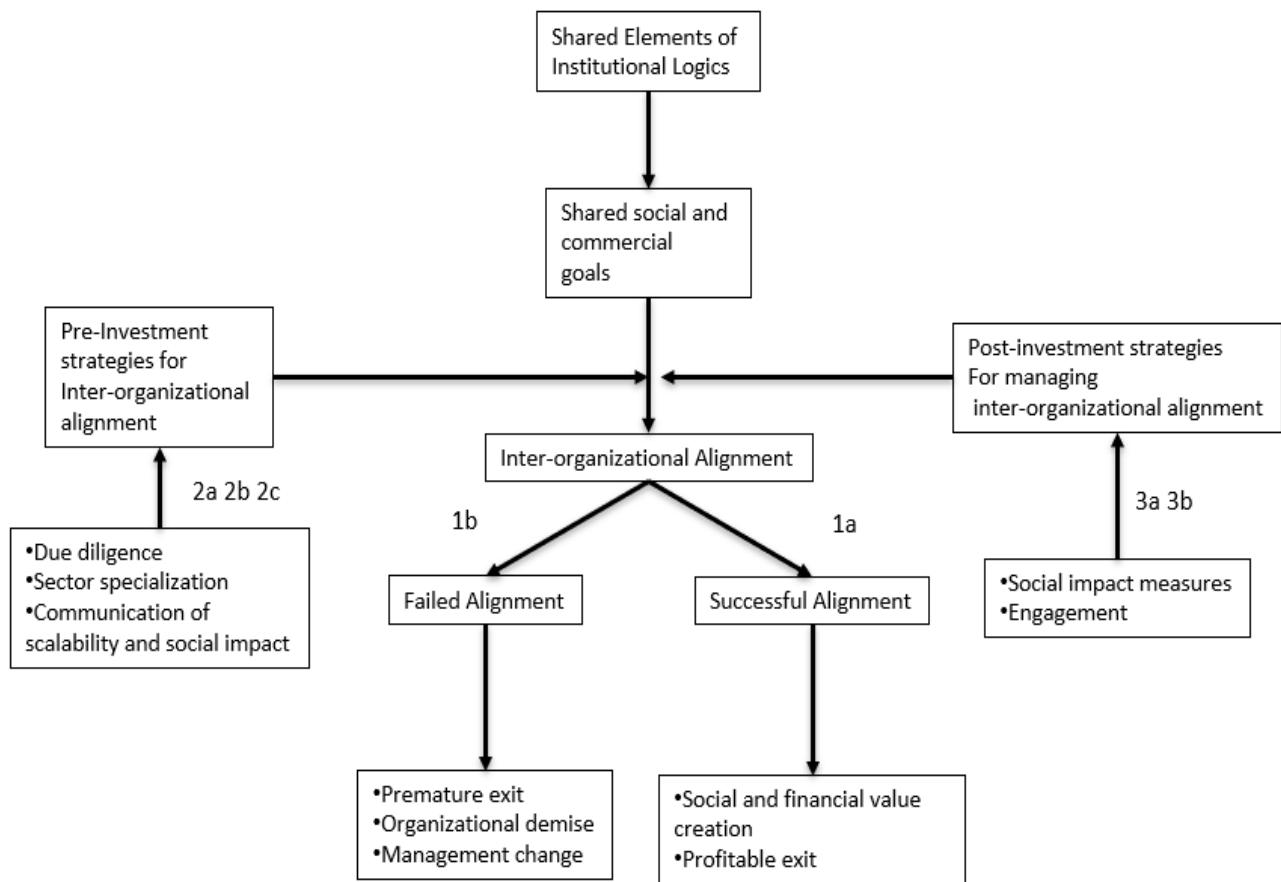
**Proposition 3b.** *Frequent engagement between the impact investor and investee social enterprise results in the effective alignment of organizational goals.*

#### *5.4. Inter-Organizational Alignment: An Investing Model*

The model (see Figure 1) joins different scenarios at the inter-organizational level among organizations aimed at creating social and commercial value and the motivations of aligning two organizations under competing goals. The numbers in the figure illustrate the propositions developed earlier. The figure illustrates the consequences of non-alignment. Afterwards, it presents actions and strategies that organizations could consider prior to investment in addition to remedial actions and finally, post-investment strategies which broaden the present understanding of the dynamics of competing logics at the inter-organizational level.

This study provides insights into how impact investors are influenced by social and commercial institutional logics, and how these logics (associated values, beliefs and guiding principles) could affect the inter-organizational relationship and alignment post investment. Using the cases, the study also shows that dominance of one logic over other may lead to the breakdown of inter-organizational relationship between the investor and investee. The alignment of social and commercial goals (which

arise from social and commercial institutional logics) is essential but not the only criterion for long term inter-organizational alignment.



**Figure 1.** Model of inter-organizational alignment of impact investor-investee social enterprise.

## 6. Conclusions

Given the nascent stage of scholarship in impact investing, the growing interest of practitioners within the field, and the importance of the investee as an instrument of legitimacy for impact investing, this article explores the inter-organizational relationship between impact investors and investee social enterprises. The article explores the causes of misalignment and strategies for alignment at the inter-organizational level, and has a number of theoretical and managerial implications.

### 6.1. Theoretical Implications

The scholars of social entrepreneurship have predominantly used institutional logics to theorize the social entrepreneurship field and to differentiate it from commercial entrepreneurship. Until 2018,

only two studies [12,53] have used institutional logics to analyze and theorize impact investing. Given that the field lacks a theoretical lens, this study contributes to both impact investing and the institutional logics literature by extending the use of institutional logics as a theoretical lens to reflect on the inter-organizational relationship between the impact investing and the investee social enterprises.

Nicholls [55] argues that the field of Impact investing lacks institutional status, because it is not fully recognized by traditional financial institutions as a reliable financial asset class, it lacks history and processes, and its performance is not fully replicable. Lawrence et al. [52] suggested the effective inter-organizational collaboration results in far-reaching effects. Among the emerging field, an effective inter-organizational collaboration involving multiple actors results in institutional creation. This study provides strategies which impact investing scholars, and which practitioners should use to reflect on and practice impact investing. The successful inter-organizational collaboration between impact investing firms and investee social enterprises would make a strong business case for impact investing, thereby strengthening the institutionalization of the field.

The findings contribute to the institutional logics literature on competing logics, particularly questions regarding how to balance competing logics at the inter-organizational level. The primary studies on competing logics have explored the intra-organizational level [15,16,19]. The firm level studies competing logics have predominantly explored the role of the founder and internal governance mechanisms in navigating the institutional complexity and managing tensions due to competing logics. Pache and Santos [19,25] discuss how social enterprises can choose their social and commercial signals to attract resources and legitimacy from multiple sources. Battilana and Dorado [22] emphasis the social motivations of the founder and human resources working within social enterprise which help in managing negative impact of competing logics.

This study suggests that the social and commercial performance of inter-organisational collaboration among impact investing organisation can be increased and risk of tensions reduced

through pre-investment and post-investment strategies. The pre-investment strategies must include due-diligence, sector specialization, and communication of scalability of reach and social impact. The due-diligence would ensure the social and commercial logics of both investors and investees are aligned, while decreasing the uncertainties. The sector specialization by impact investors would help impact investors understand the risks, opportunities and social disequilibria in a specific social sector like health, education, domestic violence, gender discrimination. Therefore, the social logic of the impact investor would be dominant for a particular sector, while the commercial logic would be in a stronger position to access the risks and returns. Finally, the investees must clearly demonstrate their future goals related to scalability of the reach and social impact. Such a communication would signal usage of the investment and exist probabilities.

During the post investment period, the interacting firms must constantly engage with each other. The engagement would reduce the probability of tensions among competing logics and drift. Since, the impact investor draws its legitimacy from both social and commercial value creation, the reporting and communication of social and commercial by the investees would elongate the period of engagement. According to Tracey and Jarvis [56] the agency cost of understanding the social impact potential of social enterprises is very high, it is therefore essential that social impact created is measured and communicated frequently to ensure that the social goals are clearly articulated and the social logic maintains its legitimacy. The study suggests that the internalisation of these strategies would aid in alignment of competing logics and long-term inter-organizational collaboration.

Tilcsik [51] pointed out that organizational responses to institutional logics may change over time. The findings of this study suggest that the immediate motivations of inter-organizational alignment and those which keep the alignment secured for the long-term are slightly different. The role of founder is essential in defining the characteristics of the hybrid organization and external governance mechanism. The creation of governance principles to manage the inter-organizational



relationship for better performance during the pre-investment and post-investment phase will aid in better managing the relationship.

### *6.2. Managerial Implications*

This article studies the inter-organizational relationship between six impact investors and their investee social enterprises via the competing logics framework. The study finds that to manage effectively the non-alignment of goals at the inter-organizational level, impact investors use one of three approaches: Due diligence, specialization and engagement. Similarly, to effectively manage the non-alignment of goals at the inter-organizational level, investee social enterprises were found to engage in social impact reporting and communication of their earned income strategies. The results of this study can be generalized in other fields, such as sustainable entrepreneurship, public private partnerships, corporate social enterprises, cross-sector partnerships involving NGOs, private enterprises, government and civil society.

### *6.3. Limitations and Future Research Agenda*

The data collected for this study was cross-sectional. A longitudinal study would reveal greater insights into decision-making complexities, and would reveal greater details on how institutional logics affect decision making. The propositions and the model developed (Figure 1) should be tested using a survey method. Future studies should be able to analyze critically the impact investing decisions and the inter-organizational relationship between impact investors and social enterprises via the institutional logics framework. The data is from India, but we present the idea that our analysis and findings are generalizable. Researchers could also use data from other countries and run cross-case analysis or test the propositions to explore inter-organizational relationship these organizations.

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## **10. Article #3: Impact Investing Categories, Strategies and hybridization**

# **Multiple case based Exploratory Study of Impact Investing Strategies: Theoretical and Managerial implications**

## **Abstract:**

Impact investing is one of the fastest growing asset class with projected investments between USD 400 billion to USD one trillion by 2022. Despite growing assets, the knowledge base of the field remains weak. The methodology adopted involves within-case analysis and cross-case analysis to derive insights into impact investing categories and strategies. The study finds also that in each step, the social values and social mission become the defining characteristics of the selection process. The findings suggest the “categories” of impact investors as a function of their context, for which the study suggests three categories: Influencers, Pursuers, and Empathizers, each with different antecedents and different social and commercial goals. The study finds three impact investment strategies, namely impact creation strategy, impact capture strategy, and impact distribution strategy, each with a different social and financial goal. In addition, there are three major contributions. First, the study presents three unique typologies of impact investing as a function of their antecedents. These categories are internal to an organization. The findings make it clear that impact investing is highly contextual. Second, the findings discuss impact investing strategies. These strategies provide us a knowledge base to strategize field-level investments. They are external to an organization. Third, the findings suggests hybridization of social and financial goals as practiced by impact investors depends on both categories and impact investing strategies. Hybridization is a function of both internal structures and external goals.

**Keywords:** Impact Investing, Venture Capital, Social Entrepreneurship, Hybridization issue, Competing goals, Antecedents

## 1. Introduction

Impact investing is investing in social enterprises, funds, firms, organizations and projects with a clear mission to generate substantial social or environmental impact in addition to financial returns (Agrawal & Hockerts, 2019; Brandstetter & Lehner, 2015). Impact investing has been known for quite some time (Hummels & Leede, 2014), but the term “impact investing” was first coined at the Rockefeller Foundation fundraising event in Italy in 2007 (Höchstädter & Scheck, 2014; JP Morgan & Rockefeller Foundation, 2010). The interest in impact investing among practitioners, bankers, HNIs, social enterprises, NGOs (Slyke & Newman, 2006), government (UK Cabinet Office, 2013; Worthstone, 2013) and academicians (Daggers & Nicholls, 2016; Michelucci, 2016) is growing because of its promise. The recent spurt in international “*challenge funds*” is an example in which public and international institutions use “*impact investing*” strategies to invest in socially relevant enterprises and projects. Scholars position impact investing in the continuum between profits and charities (Emerson, 2003) and markets or between state and market forms (Mullins et al., 2012) purely based on social and commercial goals. There is a ‘undefined space’ between completely commercial and completely social goals within which the boundaries of impact investing are confined. There are large variances impact investing process, type and strategies. After many successful examples and the rapid proliferation of impact investing across various regions, empirical and theoretical knowledge about their processes is still evolving. The success of impact investing is uniquely tied to its ability to find the proper investee; insights from existing impact investing literature only partially assist us in understanding the investee selection process among impact investing firms. This research project has attempted to clarify the impact investing investment strategies by answering the following research questions: are all impact investors same

and what drives those differences and how those differences affect the impact investing strategies? Social entrepreneurship literature has published significant theoretical works around legitimacy, balancing of social and financial goals, and institutional logics. In this article, we draw much of the theoretical framework from both institutional logics and social entrepreneurship literature.

The boundary of impact investing is not clearly defined. Therefore, it is significant to understand what kind of impact investor and degree of social and financial inclination would be appropriate for a given institutional and investment context. Furthermore, the field lacks understanding of the risks and returns on social value creation and commercial returns (Evans, 2013). A greater reflection on impact investment strategies will help in finding the appropriate answer to this dilemma. Each country has a different institutional framework and voids that can potentially influence impact investing logics. Moreover, there is a lack of regulation and knowledge base surrounding the fiduciary and compliance practices of the impact-fund manager (Mahn, 2016; Richardson, 2011). These issues influence the investment logics of impact investing firms and therefore, the assumption that all impact investing firms are the same may not be true. Therefore, to clearly understand the nuances among impact investing firms, this article explores the differences among different impact investing firms.

Impact investors invest in social enterprises, which work for their beneficiaries using innovative and cost-efficient solutions to address their social and economic issues. The *raison d'être* of impact investing is strongly linked with its ability to create social impact through investments (Tekula & Shah, 2016; Weber, 2016); however, there exist ambiguity and a lack of understanding concerning the impact investing investment strategies. The practitioner report by Brown and Swersky (2012) identifies that the growing impact-investment sector is not clearly understood with respect to its



investing mandate or theory of investment. There are over 300 impact investing firms around the world operating in different sectors, institutional context and many times they lack shared values and goals. Gregory (2016) lists unproven business models, unstable markets, risky investee social enterprises, unproven social entrepreneurs, unproven fund managers, and institutional voids as significant risks associated with impact investing. There is a risk of lack of alignment and lack of shared goals between social enterprises and impact investors, which may increase the risk of investment failure or increase the risk of moral hazard among investees (Arena et al. (2016) ). Such a scenario has a potential to influence impact-investment strategies. Daggers and Nicholls (2016, pp: 77), in their review identify that field impact investing firms are not all same. Taking an intuitionist approach, this article consequently explores the investment strategies of impact investing firms and make sense of how issues related social performance and financial performance taken into account. The article examines the similarities and differences among impact investors in addition to whether these differences have an impact on investment strategies and issues of hybridization.

The article begins by describing the context and background and the importance of the research questions. Afterward, it introduces the qualitative research method, data collection strategy, and data sources. Then, the article engages in within-case analysis and cross-case analysis to explore the research questions. Finally, the article concludes with a discussion on the findings, acknowledging the limitations of the results and outlining an agenda for future research.

## **2. Analytical Frame**

Organizational theorists find the study of hybrid organisations ( like social enterprises) intriguing because they represent a unique organizational form which “manages” to combine social and

financial goals into its organizational DNA (Julie Battilana & Dorado, 2010; Pache & Santos, 2012, 2010; Smith et al., 2013). Many similarities and interdependencies exist between social enterprises and impact investing firms. Primarily, the mission of both is the creation of social value using economically viable means (Agrawal & Hockerts, 2019a,b). Therefore, institutional complexity related to institutional logics found among social enterprises is also seen among impact investors. Studies on social enterprises reveal that an increased focus on one goal (social or commercial) might lead to adverse consequences on organizational legitimacy or financial sustainability (Castellas, Ormiston, & Findlay, 2018). Impact investing has dual goals and experience similar tensions; therefore, social entrepreneurial scholarship is an important stream of literature to conceptualize impact investing.

Daggers and Nicholls (2016) identify impact investing as “*investments in organizations that deliberately aim to create social or environmental value (and measure it), where the principal is repaid, possibly with a return.*” As with social entrepreneurship, impact investing also engages in acts of creating social and financial value for society (Agrawal & Hockerts, 2019; Rizzello et al., 2016; Tekula & Shah, 2016). Weber (2016, fig 6.2) presents a model of the *theory of change* in the impact investing process and discusses how investee social enterprises lead to impact creation. The social element is the dominant differentiating factor in impact investing, in addition, another equally important feature of among investing firms is the investee organizations. These investees are primarily responsible for serving the marginalised, creating a social impact and generating financial returns. Each investee has a unique social and financial goal, therefore, it is necessary that impact investor select the right investees. Institutional logic framework is used to study social enterprises because they help to understand organizations with dual goals (Frumkin & Keating, 2011; A. Robinson & Klein, 2002; Cobb, J. A., Wry, T., & Zhao, E. Y., 2016). In this study, we draw much of the theoretical framework from both institutional logics and social entrepreneurship literature.

## 2.1 Institutional logics

Institutional logics has been used by many scholars to study hybrid organizations. Battilana & Dorado, (2010) employs institutional logics to study hybridity among impact investing banks in Latin America and how conflicts arise among microfinance organizations and organisational responses that address those issues. Xing et al. (2018) use institutional logics to understand the entry strategies of foreign hospitals ( conceptualized as social enterprises in the article) in China and how institutional logics in China influence foreign hospitals' performance. Cherrier et al. (2018) have used institutional logics in their case study to reflect on the institutional complexities among Indian social enterprises and institutional logics function both as constraints but also as enablers. I use the framework of Institutional logics to study impact investing categories and their investment strategies.

Institutional logics are one of the theoretical frames to study and reflect organizational reality, context, and to argue about the moral, ethical, legal, financial behavior of firms in a sociological setting (Friedland and Alford, 1991; Thronton, Ocasio, & Lounsbury, 2012). Organisations experience institutional pressure due to conflicting demands from cultural, institutional, family, educational, personal, work institutions (Greenwood et al., 2011; Thronton, Ocasio, & Lounsbury, 2012). Further, organisations experience these pressures differently and organisational actors respond variedly and organisational design and practices (Besharov and Smith, 2014; Pache and Santos, 2010). An institutional logic approach recognizes organizations as contexts where organisational actors interpret and combine logics for change (Dacin et al., 2002, Battilana and Dorado, 2010, Agrawal and Hockerts, 2013, 2019). Hybrid organisational forms emerge when an institutional entrepreneur combines elements from established institutional logics (Battilana and Dorado, 2010; Tracey et al., 2011) and addresses complex unknown problems. Impact investing is an example of a hybrid organization that combines multiple (social and commercial ) logics. Its

goal is to achieve a social mission by employing market-driven venture capitalist strategies and addressing the need for capital.

Impact investing has a broad range of operations. Social and financial goals are central to understanding impact investing. Tekula and Shah (2016) model of impact-investing ecosystem focuses on four major elements: intermediaries (and antecedents), impact investors and their actions, social and commercial outcomes. For analyzing the data on impact investors and impact investing, this study consequently relies on the following four constructs: 1) context, 2) social goals, 3) financial goals, and 4) hybridisation and investment strategy. This study aims to understand these constructs and how they influence impact investing categories and their investment strategies.

## **2.2 Institutional Context**

The context includes socioeconomic conditions in which the impact investor is investing, stakeholders who are primary investors to the impact investing firms, and the firm's founding principles. The institutional theory framework (DiMaggio & Powell, 1983; Lawrence et al., 2011; Thornton et al., 2012), stakeholder theory (Freeman, 1984; Mason et al., 2007) and hybrid organization framework (Pache & Santosa, 2010; Thornton et al., 2012) suggest that the antecedents influence the organizational process of any investment process. The article examines the contextual factors like the country, investing mission, and type of investors affect the investment strategy of an impact investor. This study explores the characteristics of the context in the impact investing space.

## **2.3 Social Mission**

Analysis of the investees of Aavishkaar fund by Brett (2013) found that the investee's social impact ability is a critical decision variable during the evaluation phase of the investment decision. The legitimacy of impact investors is tied to the social impact that their investee creates through

social entrepreneurial actions (Agrawal & Hockerts, 2019; Arena et al., 2016; Roundy et al., 2017). A study by Michelucci (2016) reflects on how, in the Italian context, the private sector can attract funds from the government by signalling social investment, indicating the importance of legitimacy gained through a social mission. Serrano-cinca and Gutiérrez-nieto (2010) emphasize that the roles of social mission and entrepreneurial vision are critical for an investment decision. The cluster analysis of more than 150 impact funds by Chiappini (2017) shows that unsatisfactory presentation social impact assessment has a negative impact on their ability to raise capital. The risks in impact investing are higher when it invests in a non-profit social enterprise (Geobey et al., 2012). An impact investor's social goals are an important dimension to study and reflect how it affects the impact investing typologies and strategies.

## **2.4 Financial goals**

The scaling of a social venture requires intensive capital, which is difficult for social entrepreneurs to raise, as the traditional funding agencies evaluate only financial metrics (Desa & Koch, 2014). Each social venture and the sector in which it is operational has different social and financial requirements. A singular view of impact investing would not serve the needs of each investee, region, or sector. While investing in microfinance institutions, and impact investor's investment criteria are based on multiple variables such as borrower's need, market dynamics, a gross loan portfolio, the strength of employees, and financial revenues (Rajan et al., 2014). These variables are similar to variables studied by traditional financial investors while serving the underprivileged. There are many impact-investors which only look at social mission. Impact-investing firms lie in large undefined, unbounded space between a purely commercial mission to purely social mission. Financial goals are an essential component of impact investing firms (Bonini & Emerson, 2005; Weber, 2016).

Some of the most critical variables that influence the *for-profit investor's* decision are the product/service, degree of innovation, market and industry potential and growth, entrepreneurial background and team, and projected growth of the business plan (Maxwell, Jeffrey, & Lévesque, 2011; Nelson & Blaydon, 2004; Paul, Whittam, & Wyper, 2007). Venture capital scholars on investee selection inform us that variables such as return on investment, product-to-market potential, expected market potential, and market demand (Parhankangas & Ehrlich, 2014) are vital factors influence an investment decision. The selection processes among for-profit investors are predominantly motivated by the expectation of return on investment. Using the venture capital selection process as an analytical lens, this article analyzes the qualitative data and explores how different impact investors value financial viability.

## **2.5 Issues Related to Hybridization and Investment Strategies**

Battilana and Lee (2014) define hybridity in an organization as to “*combine multiple identities where each identity is defined as the central, distinctive and enduring feature of an organization.*” Doherty, Haugh, and Lyon (2014) define hybrid organizational forms as “*structures and practices that allow the coexistence of values and artifacts from two or more categories.*” Scholars position impact investing in the continuum between profits and charities (Emerson, 2003) or between state and market forms (Mullins et al., 2012). This positioning makes impact-investing organisations as a hybrid organisation, albeit without any categorical boundaries. The combination of social and financial goals imparts a unique hybrid identity to impact investing organisation. Being hybrid, impact investing firms have the advantage of drawing resources from multiple sources and the disadvantages of not receiving full recognition from traditional sources.

Hybrid organisations have their challenges when compared to organisations with only one identifiable identity. By combining competing institutional logics, impact investing organizations, by definition, embrace the higher risks of contradiction, contestation, and conflict. The primary issue with hybrid organisations is the balancing of competing logics. Organizations that are unable to manage hybridity may suffer from a higher risk of loss of legitimacy, which may increase the risk of losing sources of revenue (Doherty, B., Haugh, H., & Lyon, F., 2014 pp 425). The legitimacy of impact investing lies in investing in social enterprises that create social and financial implications; consequently, there is an increased risk of investment failure when either goal is not achieved. This study examines the management of issues related to hybridization among impact investors and offers suggestions on how to study the field.

The investing processes among the for-profit investors are predominantly motivated by the expectation of return on investment. Some of the most critical variables that influence a for-profit investor's decision are the product/service, degree of innovation, market and industry potential and growth, entrepreneurial background and team, and projected growth of the business plan (Maxwell, Jeffrey, & Lévesque, 2011; Nelson & Blaydon, 2004; Paul, Whittam, & Wyper, 2007). Venture capital scholars on investee selection inform us that variables such as the return on investment, product-to-market potential, expected market potential, and market demand (Parhankangas & Ehrlich, 2014) are vital factors that influence an investment decision.

Social and financial goals are essential components of impact investing, in which the degree of proclivity is toward financial returns on investment categories of impact investing (Bonini & Emerson, 2005; Weber, 2016). Scaling a social venture requires intensive capital, which is difficult for social entrepreneurs to raise, as the traditional funding agencies consider mostly financial metrics (G Desa & Koch, 2014). Raising capital from for-profit investors might change the social mission objectives (ibid.). This article analyzes the qualitative data and explores how impact investors' investment strategies.

Despite many successful examples and the rapid proliferation of impact investing across various regions, empirical and theoretical knowledge regarding their distinct evaluation and investing process is scant. Do all impact investors have the same investing process? During the investing process, how do the social and commercial goals influence each investors' investing decision? There are few studies impact-investing strategies and fewer studies on theorization on impact investing selection process, taking into account various factors, such as antecedents and social and commercial return expectations. This study examines the management of issues related to hybridization among impact investors and offers suggestions on how to study the field.

### **3. Research Methodology**

To explore the research question (s) previously raised, this study uses the comparative case study approach, which is often recommended for investigating emerging research avenues and gaining a fresh perspective. According to Stern (1980), the case study entails “*Like most research methods, it is a combination of inductive and deductive approaches, and like all methods, the investigator focuses the research according to a conscious selective process*”. A growing number of studies use case studies to make-sense of new emerging field and their organizational processes, specially related to organizations with hybrid goals (Hockerts, 2010; Sahasranamam & Agrawal, 2016) .

I follow a multiple case study design to address the research questions. According to Yin (2009) and Eisenhardt (1989), a case study approach is useful when the research aims to answer a “why” question; seeks to answer a “how” question, is bound to a context and when there is not much difference between the context and the phenomenon being studied. Multiple case studies are useful



when the researcher wishes to replicate findings across cases and understand points of similarities and differences across cases (Yin, 2009).

### ***3.1 Sample***

Our central research question is what are the differences among different impact investing firms, how those difference are operationalized in their investment strategies? In exploring these questions, I also try to explore categories of impact investing firms and their investment strategies. To answer this question, it important to interview multiple different types of impact investing firms located in different geographies with different social and profit motives.

This study employs a theoretical sampling approach. It is an iterative method, in which the data collection and analysis occur simultaneously. Researchers purposefully seek indicators of these concepts so that one can study the data and understand how concepts change under different conditions: *“The concepts generate questions; more questions lead to data collection so that the researcher may learn more about the concepts and their context. The research begins the study with a general target population and continues to sample the study.”* (Corbin & Strauss, 2008, pp. 150-154). In this study, the research took data from multiple Impact-investing firms positioned in different institutional contexts.

The study selected firms that comply with the predefined, strict definition of impact investing and have invested in a minimum of five social enterprises. The study used the publicly available database found in the reports published by the Sankalp Forum, EVPA, AVPA, and Impact Assets. Multiple partners from various impact investing firms of different geographies were selected to identify similarities and differences within and across a variety of cases. The study developed a database of 117 impact investing firms spread across different geographies. For data collection, an

email was sent to an investor associated with each of the impact investing firms found in the database. Based on the replies, the research then conducted interviews. The informants were selected based on their involvement with the investment-decision process. In total, 22 impact investing firms responded. The study conducted 22 interviews over a one-year period from 2014 to 2015. I re-interviewed some of them in 2017-2018 to better understand their evolving strategy. To maintain confidentiality, the names of the impact investing firms interviewed for this study have been anonymized. To address the validity issues with qualitative research, the publicly available documents were studied for triangulation. The number of cases selected reflected the diversity in the location and mission of this emerging phenomenon, further helping to address the validity concerns.

### ***3.2 Data Collection***

Primary and secondary data were collected. The primary data was gathered through semi-structured interviews. The interviews were 30–50 minutes in duration and captured data from key organizational informants, as they possessed the most comprehensive knowledge of the organizations' characteristics, strategies, and performance. The questions were open ended, with prompts used to expand the discussion and further elicit the views and opinions of the participants. The secondary data was collected from company websites in addition to third-party reports such as Intelicap, GIIN, EVPA, and AVPA, which helped in the triangulation. Table 1 Description of data, the source of interviews, secondary sources.

To develop questions, I relied both on engaged scholarship and theoretical lens. I attended multiple conferences to understand the conversation that there is a clear division between impact investing and venture capital discourses. I used institutional logics, competing logics, competing goals as the fundamental theoretical frame to develop the research design and questionnaire. In

addition, I also employed the traditional venture capital investment model to further develop questionnaire. Since Venture capital is a relatively well research field and contrasting with VC, I was able to reflect on certain questions that could be interesting to understand impact investing from the venture capital perspective, such as, “what is your exit strategy” “how do you take into account the effect on social mission because of your exit strategy?”

**Table 7 Description of data, the source of interviews, secondary sources**

Company	Location	Investment Beneficiaries	Sectors	Investment Range Million USD	Type of Investment	Stage of Investment	People Interviewed	Secondary Data Sources
SI 1	France	Africa and Asia	Agriculture and Energy	.1 to 1	Equity	Early to Growth	Investment Manager	Online reports, tweeter handle, news and updates of the founder
SI 2	Canada	Canada	Organic Farming, Energy Technology	.5 to 5	Equity	Growth Stage	Investment Manager	Online Reports, Tweets, Facebook Posts, News shared on webpage
SI 3	Denmark	Denmark	WISE	.2 to 1	Debt and Equity	Early Stage	Investment Manager	News, Online report, CEO speech, and SROI report
SI4	Denmark	Developing World	BOP, Innovation, Energy, Agriculture, healthcare and Microfinance	1 to 50	Equity, Loan, Grant, and development finance	Growth and Mature Stage	Investor	Danish News Citing, Online Reports
SI 5	Germany	Developing World	BOP, Innovation, Energy, Agriculture, healthcare and Microfinance	1 to 50	Equity, Loan, Grant, and development finance	Growth and Mature Stage	Investor Manager, South Asia	Online reports, news citations

SI 6	India	Developing world	Base of the Pyramid, Microfinance, Energy, Healthcare, Education and Agriculture	.5 to 5	Equity	Growth Stage	CEO, Investment Manager, Social Impact Assessor	Online Reports, Investment Document, Tweets
SI 7	Norway	Developing World	Energy and Agriculture	.25 to 10	Equity	Early to Growth Stage	Investment Manager	Online reports
SI 8	Singapore	Developing World	Financial Inclusion	1 to 10	Equity	Growth Stage	Investment Manager	Online reports, tweeter handle of founder and LFV, News updates
SI 9	Switzerland	Developing World	Microfinance, SME, Energy, and healthcare	1 to 10	Debt	Growth Stage	Research Head	Online reports, twitter handle, and news citing
SI 10	Germany	Germany	German Social Enterprises: WISE, ChildCare, Refugee Crises, Re-skilling, Abuse	.1 to 1	Grant, Co-Working Space, networks	Social Enterprise Incubator	Lab Manager	Website data
SI 11	Global	Global	Base of the Pyramid, Microfinance, Energy, Healthcare, Education and Agriculture, Culture, Human Rights	.1 to 1	Scholarship, Grant	Early to Growth Stage	India head	Online reports, tweeter handles of founders and firm
SI 12	Global	Global	Base of the Pyramid, Microfinance, Energy, Healthcare, Education and Agriculture, Culture, Human Rights	.1 to 1	Scholarship, Grant	Early to Growth Stage	Sweden Manager	Online reports
SI 13	Hong Kong	HongKong and East Asia	Innovation Centric of Social Enterprises	.1 to 1	Events and Grants	Early to Growth Stage	Co-Founder	None
SI 14	India	India	Agriculture, Education, Healthcare, and Microfinance	1 to 3	Equity	Early to Growth Stage	CEO, Investor, and Investee	Online reports, tweeter handles of founders and firm
SI 15	India	India	Innovation related to wages and poverty alleviation	.1 to 1	Equity	Early to Growth Stage	CEO, Investor, India's head	Online reports, tweeter handles of founders and firm
SI 16	India	India	Elementary Education, Public education	.1 to 1	Grants		Co-founder, Manager	Twitter reports
SI 17	India	India	Innovation Centric of Social Enterprises	.1 to 1	Equity, Grant, and Scholarship	Incubation to Early stage	Investor	Online Reports, News shared on webpage, Facebook Shares, tweets from investors
SI 18	India	India	BOP, Innovation, Energy, Agriculture, healthcare and Microfinance		Equity	Early Stage to Growth Stage	Investment Manager	Online Reports, News shared on webpage
SI 19	Latin America	Latin America	Socio-economic development by investing in social enterprises	.1 to 1	Equity Investing, grant, capability building	Early to Growth Stage	Investor Manager	Online Reports
SI 20	Nepal	Nepal	BOP and Socially scalable ventures	.1 to 1	NA	NA	Investee Founder	Website data
SI 21	Nigeria	Nigeria	Agriculture Productivity and Farm Insurance	.0025 to .05	Debt	Early to Growth Stage	CEO	Website information, HBS alumni report

SI 22	UK	UK	Real Estate, Child Care, Education	1 to 10	Equity	Early to Growth Stage	Investment Manager	Online Reports, Tweets, Facebook Posts, News shared on webpage
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Prior to each interview, a short, three-page case summary of each impact investment firm was written and coded. The case developed assisted with the interview process and helped to validate the data available in the public domain. The interviews were recorded and transcribed verbatim and were subjected to coding and thematic analyses. The topics covered during the interview included self-introduction, the definition of successful investment, the process of selecting a social enterprise, managing an exit from an impact investment, and the valuation of social enterprise. The topics were guided by the definition of impact investing and investing process used by traditional venture capitalists. The questions were used to ascertain the beliefs, values, and ideas related to the practice of selecting a social enterprise. These secondary data sources were essential sources of information for comprehending the context and constructing preliminary case histories of each impact investor, and they also served as triangulation sources to validate emerging insights from the interviews.

### ***3.3 Data Analysis***

According to Suddaby (2006), a-priori theoretical frames helps in data analysis and gives research a certain direction. The data analysis was guided by two a-priori knowledge streams. First, our understanding of for-profit venture capitalist helped in positioning impact investing. Second, the definition of impact investing clearly mentions two competing goals, social value creation for the society and financial returns on the investment. These two knowledge streams along with institutional logics help in guiding the data coding and analysis.



Figure 2 Data analysis and thematic development process

The transcripts and documentary and observational evidence from each organization were then organized into groups; each group of data was labeled using a term, often based on the natural language of the interviewee or the document. The analysis began with the construction of detailed accounts of the selection processes of the impact investors interviewed. Groups of data were selected and fed into an MS Excel worksheet that was later converted into a reference table. The first round of analysis resulted in many concepts. These concepts represented the basic idea of what the interviewee was attempting to convey. Finally, returning to the literature, the emergent themes and propositions were compared, with the literature seeking both differing and similar views. The new concepts that emerged from this process were then discussed and interpreted with implications derived for theory and practice.

## 4. Findings (Within Case Study)

### 4.1 Categories

The impact investing continuum (Harold et al., 2007; Weber, 2016) identifies impact investing firms as those that lie between the traditional for-profit investors and charities. The continuum is useful for understanding impact investing firms' social and financial motivations; however, the continuum lacks further information on impact investors' "investing" abilities or motivations or

further qualitative information. Agrawal and Hockerts (2019) clarify terminological ambiguities among impact investing firms, differentiating them from for-profit venture capital firms, philanthropies, microfinance funds, and responsible investing. The terminological classification helps to distinguish impact investors from other for social forms of investing but does not inform us about the nuances within impact investing. **The summary of the first round of data analysis is illustrated in Table 2**, which offers a qualitative aspect regarding how different cases can be further classified depending on their antecedents. For example, the analysis of **Table 1** and **Table 2** presented here reveals some trends in how the specific characteristics show the nuanced differences among impact investing firms and how understanding these differences assists in further understanding the impact investing practice. As seen in Tables 1 and 2, this article presents three types of impact investing firms: **Influencers, Pursuers, and Empathizers**.

**Table 8: Within Case Analysis of Data; Categorization of Impact investing into Influencers, Pursuers, and Empathizers**

Company	Investment Beneficiaries	Country Social, Economic and Environmental Conditions	Financial Stakeholders	Founding Mission and Vision, Mandate for the investment; Impact investor motivations	Categories
SI 4	Developing World	Country-specific, support the development policies of Danish government in developing countries, Worldwide, focus on structural solutions that are sustainable, socially relevant and develop free markets in the long run	Primarily Danish Government	Fund enterprises that lead to alleviate climate change, employment, competitiveness, private sector investment, and income generation	Influencer
SI 5	Developing World	Worldwide, focus on structural solutions that are sustainable, socially relevant and develop free markets in the long run	German government	Fund enterprises that lead to alleviate climate change, employment, competitiveness, private sector investment, and income generation	Influencer

SI 7	Developing World	Developmental fund for the Norwegian Government invests globally with an aim to bring about structural social changes	Norwegian Government	Developmental fund supporting scalable socially relevant businesses	Influencer
SI 8	Developing World	HQ in Singapore; invests globally in financial sectors supporting poor through insurance, MFI and pharma loans/funding	HNIs, foundations, ESG funds	Scalable for-profit socially relevant enterprises, SMEs sector in poor countries, majorly MFIs	Influencer
SI 11	Global	it is a global network, but its Indian office is fundings Indian and South Asian entrepreneurs	HNI, foundations, Banks, ESG funds	It is a global network of social entrepreneurs, supporting social entrepreneurs struggling to solve difficult social problems;	Influencer
SI 12	Global	Based in Sweden and only investing in Swedish entrepreneurs	HNI, foundations, Banks, ESG funds	It is a global network of social entrepreneurs, supporting social entrepreneurs struggling to solve difficult social problems;	Influencer
SI 22	UK	Focus on the UK market and addresses UK specific social problems	Foundations, UK Government, Private investors	Investment in order to create social value within distressed communities in the UK	Pursuer
SI 6	Developing world	Lower income economies; low institutional voids; moving towards a market economy;	Different funds each with a specific mandate ( climate fund, finance fund, energy fund)	Focus on socially discriminated regions and create a profitable business that changes the socio-economic fundamentals of the beneficiaries	Pursuer
SI 9	Developing World	Global investor for MFIs, Renewable energy	HNI, foundations, Banks, ESG funds	Scalable for-profit socially relevant enterprises	Pursuer
SI 1	Africa and Asia	Lower income economies; low institutional voids; moving towards a market economy	Luxemburg based fund management, private bank as a major financier	Use Grameen venture models and expand it to other struggling economies	Pursuer
SI 14	India	Market seeker, focusing on BOP business models and social sector, combining social value creation with return on investment	HNI, Private foundations, CSR funds	Scalable for-profit socially relevant enterprises	Pursuer
SI 18	India	Focused on India, specifically in finance and healthcare	HNI, foundations, Development Banks, ESG funds	Scalable for-profit socially relevant enterprises and MFIs	Pursuer
SI 21	Nigeria	Focus on Nigeria agro-economy	HNI, Private foundations, CSR funds; Harvard business school Alumni network	Scale agriculture productivity and farming income for the poor	Pursuer



SI 2	Canada	Focus on Canada, Its ecology and consumer preferences	HNIs, foundations, ESG funds	Scalable for-profit socially relevant enterprises specific to Denmark	Pursuer
SI 13	HongKong and East Asia	Regional focus	Philanthropies, CVC capital partners, corporate foundations,	viable social impact and business, issues of sustainability, aging, mobility, food wastage	Pursuer
SI 3	Denmark	Danish social problems related to unemployment	Government and Danish corporations	Scalable for-profit socially relevant enterprises specific to Denmark	Empathizer
SI 10	Germany	Helps in incubating, networking and accelerating social enterprises	Funded by German foundations and supported by the German government	Scalable socially relevant enterprises (Profit/Non-Profit)	Empathizer
SI 15	India	Incubated and funded in the USA, the local team is based in India and focusses on Indian investors	HNI, foundations, Banks, ESG funds, US Aid	Scalable for-profit socially relevant enterprises that increase employment and income of the low-income families	Empathizer
SI 16	India	Focus on structural issues in the primary education sector	HNI, Private foundations, CSR funds	Primary education in India	Empathizer
SI 17	India	India specific, Non-profit social enterprise;	HNIs, foundations, indian government	Scalable socially relevant enterprises (Profit/Non-Profit)	Empathizer
SI 19	Latin America, Brazil	Focused on Brazil, addressing regional social requirements through impact investing, focus both of returns and social value creation	HNI, foundations, Development Banks, ESG funds	Scalable for-profit socially relevant enterprises, incubation	Empathizer
SI 20	Nepal	Addressing social, economic needs of Nepal	Impact investors, consultancy, self-funded	Scalable for-profit socially relevant enterprises	Empathizer

## 4.2 Influencer

The analysis of the data presented in Table 1 and Table 2 suggests that a distinction exists between developed countries (global North) and developing countries (global South) which influences the behavior of impact investing firms located in global north and investing in global south. The federal support in the North is higher, and the number of options to raise capital for MSMEs or social enterprises is higher compared with countries in the South. The findings of the analysis reveal trends that actions of impact investors from global North countries are different from those in the

global South. This difference is primarily due to economic factors such as bank rates, tax incentives, public services, the ease of raising capital, and foreign policy objectives. The analysis further found that the global North impact investor invests with the motivation of solving a major socioeconomic problem with the mission to replicate it in either the region or globally. We term impact investors that are primarily founded in the global North and investing in the global South as **Influencers**. Table 3 gives a summary of the relative balance of social and financial goals through the quotes that characterize Influencers.

**Table 9 Influencers: Social Goals, Financial Goals, and Hybridization Issues**

<b>Social Goals of Investing</b>	"We invested and grew the insurance firm in Sub-Saharan Africa, where the market for insurance did not exist. Once it reached a certain stage, we sold the business to insurance sector specialist at a profit. We created both the market for affordable insurance and ensured profitable exit" (SI8)
	"Invest in private sector business models, help them towards a certain level of success ...get replicated and therefore reached many people, which are otherwise actually not reached by the public sector endeavors" (SI5)
	"The candidate's new idea has the potential to change the field significantly and will trigger nationwide impact. The idea itself needs to be sufficiently new, practical, and useful for people working in the field to adopt it and turn it into the new norm sector-wide" (SI12)
	"Invest in growth-oriented firms in marginal sectors and geographies in partnership with experienced international companies, ensuring the development of the private sector in energy, banking, and agriculture" (SI7)
<b>Financial Goals of Investing</b>	"Invest (equity capital, managerial systems, marketing, and networking) in established companies in difficult regions of the world, with good local knowledge and supply chains focused on financial inclusion, healthcare inclusion" (SI8)
	"Co-Invest with Danish companies (who are convinced) in difficult regions of the world in innovative sectors, and exit when the firm become self-sufficient or private firms are willing to buy the shares" (SI4)
<b>Hybridization of investment goals</b>	"we look into our network, source information, verify with our network and then we call them for meeting" and further "we recheck for their social motivation from our vast network and analyze the personal motivations of the social entrepreneur," (SI11)
	"Strong ESG criteria need to be fulfilled continuously to ensure the continuance of relationship" (SI5)
	"ESG policies and active ownership of the project to ensure both financial and social performance" (SI4)
	"Having government involvement helps us control [the investment missing drift], limits effects of institutional voids in complex [high risk] countries." (SI4)
	"We are a government-run fund, and we are being set up as a developmental finance company with a mandate to directly collaborate with private players and bring development to different regions of the world" (SI7)

**Social goals:** The influencers' investment criteria focused on the investees' ability to create large-scale socio-economic impact. The dominant investment model employed by the **Influencers** is represented by the following quote: *"Invest in growth-oriented firms in risky sectors and geographies in partnership with experienced international companies, ensuring the development of the private sector in energy, banking, and agriculture"* (SI7). Most Influencers invest comparatively more capital in geographies with high institutional voids, where the typical private sector might not efficiently engage in business and capital creation activities.

Among the interviews, 62% mentioned that investing along with private player (who is also a sector expert) in difficult regions is one of the dominant investment strategies for social impact creation. Following quote illustrates how social impact is created by influencers *"Invest in private sector business models, help them towards a certain level of success ...get replicated and therefore reached many people, which are otherwise actually not reached by the public sector endeavors"* (SI5). It also indicates that Influencers collaborate with private players when they see greater potential of scaling the impact. Most Influencers co-invest in intermediaries (impact investors located in global south) to achieve their social mandate.

Some Influencers support social entrepreneurs through grant funding. These impact investors are globally known for their social investments. They uniquely invest in the social entrepreneur and provide the platform and legitimacy to scale their social innovation further. They have a high reputation and therefore, grantee social entrepreneurs get access to reputational benefits in addition to grants. The respondents from SI11 and SI12 mentioned, *"the candidate's new idea has the potential to change the field significantly and will trigger nationwide impact,"* indicating the

importance of the entrepreneur's ability to create important social impact (through the replication of social innovation or structural reform).

**Financial value creation:** Influencers who draw resources and support from the public sector tend to have a higher probability of investing among investees inclined to create disruptive social impact. Among the Influencers, most agree with the following quote from SI4: *“Co-Invest with companies (who are convinced) in difficult regions of the world in innovative sectors and exit when the firm become self-sufficient or private firms are willing to buy the shares.”* As with venture capitalists, certain influencers with strong private sector involvement tend to rely on profitability. They engage with their investee social enterprises until they grow to a certain scale and attain a certain market size and revenue model, and they exit by selling their stake to a dominant commercial player in the region. The following quote from the investor at SI8 illustrates that exit opportunities present a greater window of opportunity beyond what is apparent: *“We invested and grew the insurance firm in Sub-Saharan Africa, where the market for insurance did not exist. Once it reached a certain stage, we sold the business to insurance sector specialist at a profit. We created both the market for affordable insurance and ensured a profitable exit.”* The return on investment is “usually” higher for investments executed in high growth sectors existing in risky regions where incumbent market players are non-existent. Since the financial risk is partly covered, influencers engage actively in the riskier regions among promising MSMEs, creating both growth and jobs.

**Hybridization of goals:** DFIs based impact investing firms, the involvement of public oversight and public sector style financial and impact reporting controls for mission drift and ensures the hybridization of goals. SI15 and SI4 invest in challenging regions and difficult sectors full of institutional voids. They both stress the adherence of ESG norms and policies of investing

(compensating for the institutional voids) and attempt to manage issues related to the hybridization of competing goals. SI11 and SI12 focus on the entrepreneur and do intensive due diligence on the social entrepreneur prior to committing an investment, as illustrated in the following quote: “*we look into our network, source information, verify with our network and then we call them for meeting,*” and further, “*we recheck for their social motivation from our vast network and analyze the personal motivations of the social entrepreneur*” (SI11). Following the investment, interaction with the entrepreneur is high and may include a board position. This investment strategy helps to control for mission drift and ensures the hybridization of investing goals.

### 4.3 Pursuers

Most of the **Pursuers** were founded in the global South and were investing in the global South, and most focused on solving socio-economic problems. A dichotomy exists in how these impact investors invest in solving socio-economic problems. One cluster makes hybrid investments to address socio-economic issues; they invest with the motivation to ensure financial returns while investing with a mission to assist the beneficiaries. The article calls these impact investors **Pursuers**. These impact investors invest in the market opportunities that have a strong social component. They are primarily founded and located in their country of operation. They invest in social enterprises with a distinct social mission and robust business model. They differ from influencers because they are private sector players and are sensitive to markets. Table 4 summarizes the relative balance of social and financial goals through the quotes that characterize **Pursuers**.

**Table 10 Pursuers: Social Goals, Financial Goals and Hybridization Issues**

<b>Social Goals of Investing</b>	"we want it to live and deliver values, and then for each business, we define the five-year goal of the target impact and the annual milestones the investee is going to reach." (SI14)
	"In Nigeria, half the population is under the age of 19 and we about 80 million new entries in the workforce in 20 years; We looked at solving the job crises via agriculture and invest in farms to increase their productivity" (SI21)

	<p>"We are looking for the sort of authentic mission-driven, value-driven brand, that has built their business to sort of change the world. Moreover, so, when we look at an investment, unlike many funds, we look at the social mission and the values first" (SI2)</p> <p>"Invest in social ventures that would give 5% return instead of a 10 to 15 % return, for a similar market and risk profile; but these investees must show a strong indication of social impact" (SI22)</p>
<b>Financial Goals of Investing</b>	<p>"One of the problems in India is there are limits on how you can structure foreign investment in Indian companies. So, you are required to focus on more equity, which is more venture investing" (SI14)</p> <p>"in the long run it (investee social enterprise) should always be relevant to a mainstream commercial player, that is really the ideal world, but what also happens, in reality, is that I think our view is a limited life span" (SI18)</p> <p>"The main objective is to generate measurable social performance in the field of poverty alleviation while demonstrating financial sustainability" (SI1)</p> <p>"We invest in Early-stage companies; we do not invest in pre-revenue or seed stage companies. So the companies have to have at least one million CAD of revenue in 12 months." (SI2)</p> <p>"It is impossible for social enterprises to compete only on social service as government funding in public services is very robust. However we encourage them to focus on sophisticated innovations using grants and technology" (SI13)</p> <p>" we believe that if they have, you know really good products, that meets market demands... did a very significant social impact by doing that, so that the faster they grow or, the more customers they serve and the larger impact they can have, so, yeah so we defiantly expect the things to perform just like any other regular business" (SI13)</p>
<b>Hybridization of Investment Goals</b>	<p>"When we are making investment decisions, we use our investment policy to guide all of the decisions through a particular fund, but we use a consistent impact methodology across all of them" (SI22)</p> <p>"We aim to open the gates of the capital markets for high growth businesses to drive impact" (SI18)</p> <p>"We go through a very detailed, umm, environment and social due diligence, look at what the enterprise has done so far when it comes to environment and social impact, going forward, what are the metrics that they would measure for us, uhh, if we go ahead with the investment" (SI6)</p> <p>"Invest high growth and sustainable businesses that provide access to the critical inputs needed to unlock the productivity potential of the African farmer" (SI21)</p>

**Social goals:** Pursuers invest in social enterprises with a strong social mission and also ensure financial returns. Social mission is the first screen of the investment due diligence process. It is illustrated by the following quote from SI2: *"We are looking for the sort of authentic mission-driven, value-driven brand, that has built their business to sort of change the world... we look at mission first,"* indicating that mission is the first criterion for the investing decision. As with Influencers, Pursuers' investments are focused on emerging sectors or regions that are difficult to service but the segment serviced must have a certain paying capacity. They invest in highly

innovative social enterprises with innovative business models that have cost-optimized operations servicing the requirements of base of the pyramid segment of the socio-economic pyramid.

It is relatively more difficult to find investees that are sufficiently innovative to create social value and ensure market returns. Pursuers engage in more competitive deal sourcing compared with Influencers and Empathizers. This is illustrated by the following quote: *“we go everywhere, explore our networks, talking to people like you in events, spread the word about who we are, what are our goals and hope to collaborate”* (SI14). As capital markets seek greater opportunity in the impact investing sector, there is higher capital availability for profitable social enterprises, but sourcing potential investee profitable social enterprises might be difficult.

**Financial goals:** The first screening criterion for Pursuers is social mission and social innovation; afterward, the financial goals dominate the decision making, as illustrated in the following quote: *“we believe that if they have, you know really good products, that meets market demands... did a very significant social impact by doing that, so that the faster they grow or, the more customers they serve and the larger impact they can have, so, yeah so we defiantly expect the things to perform just like any other regular business”* (SI13). The interviews with for-profit impact investors from SI2, SI18, and SI21 suggest that a profitable revenue model is critical to an investment decision. As illustrated by the following quote, *“In Nigeria, half the population is under the age of 19 and we about 80 million new entries in the workforce in 20 years; We looked at solving the job crises via agriculture and invest in farms to increase their productivity”* (SI21), investees of Pursuers must correlate with market potential.

SI2 invests in growth-stage social enterprises with business models that focus on education, organic and sustainable farming, and childcare, with guaranteed revenue, and one million CAD of revenue is the minimum criterion for further due diligence. In regions where the social enterprises operate in

the same space as the public services, certain impact investors might not fund those social enterprises, as in the long run, the competition with the public sector might not be financially sustainable. As an illustration, one interviewee states the following: *"It is impossible for social enterprises to compete only on social service as government funding in public services is very robust. However, we encourage them to focus on sophisticated innovations using grants. Technology"* (SI13). This contrasts with the influencers, who are open to working with public authorities and co-investing with them.

Similar to for-profit venture capital due diligence, impact investors select entrepreneurial teams based on their past performance, composition, and entrepreneurial background. For SI18, the returns on investment are directly tied to the scalability and growth of the investee social enterprise and its relevance to markets. The following quote from SI18 illustrates this: *"in the long run it (investee social enterprise) should always be relevant to a mainstream commercial player, that is really the ideal world, but what also happens, in reality, is that I think our view is a limited life span."*

**Hybridization of investing goals:** Among Pursuers, the financials dominate after the initial pre-qualification round. Pursuers often invest in business models in which the social mission is intertwined with the earned income, resulting in the hybridization of goals. A quote from SI18, *"We look for business models where the social mission is intertwined with the business model,"* illustrates that social impact and market operations are intertwined. Many investee social enterprises, such as LifeSpring Hospitals and Address Health have their social mission intertwined with sales and revenues. In all these ventures, the social impact is directly proportional to the number of customers (beneficiaries) serviced, and as the social impact increases, the revenues of the social enterprises increase as well.



The investment tranches are anchored to the mutually agreed upon the progress of the social and commercial goals. The legal contracts attempt to balance the competition between the market-oriented interests such as the emphasis on an exit strategy, focus on profit, and cost optimization, and mission-related outcomes such as mission drift and social value creation. The impact investors must agree on the equity-sharing structure, board position, role, and influence of their board members over their prospective investee social enterprise during the contract phase. These measures help mitigate the risks of mission drifts and help maintain the hybrid form of the organization.

#### 4.4 Empathizers

**Empathizers** make mission-oriented investments to solve major socioeconomic problems at a local level, which can create high socioeconomic value at a larger scale. Their focus is to alleviate the poverty within a family or small community through small investments in highly innovative social enterprises or among extremely motivated social entrepreneurs. Their investment emphasis is on solving severe socioeconomic problems by investing in innovative social enterprises or entrepreneurs. Table 5 summarizes the relative balance of social and financial goals through the quotes that characterize **Empathizers**.

**Table 11 Empathizers: Social Goals, Financial Goals and Hybridization Issues**

<b>Social Goals of Investing</b>	<p>“Our mission is to ensure quality school education for all the children in India” (SI16)</p> <p>“We remind ourselves and others to keep the child at the centre of everything we do” (SI 16)</p>
	<p>“Good or Great projects with a strong focus on social impact,” (SI19)</p>
	<p>"we are limited to four sectors primarily agriculture, education, healthcare, and energy, if you have an innovative product, to all the process innovation, and you are making an impact at the same time. Criteria apart from the sectors of course that the primary impact should be for low income if you are any beneficiary should be low income either rural or urban" (SI17)</p> <p>“Strife for an equitable world where the poor and marginalized can lead lives that are empowered and just and believe that this scale of change can be achieved through social enterprises, that is, businesses that place impact at the center of their mission” (S17)</p>

	<p>“Bootstrapped in Nepal with no [external] funding, focused on social and private sector development with a mission to make Nepal more sustainable, innovative but currently attracts grants from major international donor agencies, drives our investment decisions” (SI20)</p> <p>Provides business incubation services, business consulting services, funding services and mentoring services to small startups, social enterprises to help them scale at zero cost ( largely funded by third party grants) (SI20)</p>
<b>Financial Goals of Investing</b>	<p>“we look at the growth potential, demonstrate that you can grow a social enterprise, that in five years you have quite a substantial growth of the company growth revenue, but more important employees, hopefully more than 40% of that revenue comes from the private market.” (SI3)</p>
	<p>“Living on social welfare, that person cost the Danish society approximately 300000 DKK per year. If you can move that person into employment and away from social welfare you get on an annual basis a minimum social return on investment of 300000 DKK” (SI3)</p>
	<p>Partnering with Google and Youtube, exploring other funding opportunities to ensure greater support to social enterprises disrupting the education sector and creating large scale social impact ( SI6)</p>
	<p>"we look at financial scalability and business scalability of the investee social enterprise" (SI17)</p>
<b>Hybridization of investment goals</b>	<p>“We go everywhere, explore our networks, talking to people in events, spread the word about who we are, what are our goals and hope to collaborate like-minded social enterprises” (SI15)</p>
	<p>“We try to understand the entrepreneur, his motivations. We try to look into his heart and see if he is really whom he claims to be. Does she have empathy?” (SI10)</p>
	<p>“The government schools where most poor families send their kids are of poor quality, while, the private schools are extremely expensive. We ask ourselves the question; can we fill this gap by providing quality education that gives a competitive career at a competitive price?” (SI16)</p>
	<p>“We seek what is best to our mission and the organization, rather than what is best for ourselves.” (SI16)</p>
	<p>"we look at entrepreneurs who believe that impact is primary and financial and...financial and business viability happens as part of, as part of their efficient operations and not the other way round." (SI17)</p>
	<p>"we do like any other private equity company, is that we take a board seat, we have board meetings every six weeks. Moreover, then we develop together with the company a very comprehensive business plan and set up objectives. Moreover, we do that every year in correlation with the goals and budget “ (SI3)</p>
	<p>“investors will have their investment paid back with a financial return, if the supplier has been able to achieve the agreed impact: for example, the rate of permanent attachment to the labour market increases by 50% for the specific target group.” (SI3)</p>
	<p>"Anders Gründer project accompanies startups in the founding of their social enterprise through coaching, qualification, co-working, and access to relevant networks and it is funded by public sector development banks” (SI10)</p>
	<p>“responsible for the development of Social Impact Bonds (SIBs) in Brazil and for the management of the Philanthropic Funds (FF) and the Social and Environmental Revolving Funds (FSR), from which donations, loans and impact investments are made to organizations and businesses that are committed to impact, independent if they are nonprofit or for -profit organizations. These operations were made exclusively with our capital division, and recently we added collective formats, anchored by new entity (crowdlending, crowdequity)”</p>

**Social goals:** : Empathizers invest in ideas and innovations that provide solutions to acute social problems. They continually source investee social enterprises with unique projects that can solve the social problem in a financially sustainable manner. The following quote from the investor of

SI16: *"Take the example of the education sector in India. The government schools where poorest families send their kids are of poor quality; private schools are extremely expensive. We ask ourselves the question, can we fill this gap by providing quality education that gives a competitive career at a competitive price?"* illustrates the intensity towards a social cause. Thus, they emphasize that the project must have the potential to address a complex social problem to attract investment or a grant.

All the impact investors in the study agreed that entrepreneurial experience and team composition were essential selection factors. However, empathizers highly valued empathy among investee social entrepreneurs. *Empathy is the ability of an individual to understand another individual from their frame of reference* (Mair & Noboa, 2006). In the cases interviewed, the investee social entrepreneurial teams are composed of individuals from diverse segments. Those who have encountered the social problems themselves or possess significant experience working in scenarios involving complex socioeconomic issues tend to have a higher degree of empathy. To quoting one interviewee, who emphasized that they seek empathy among the social entrepreneurs, *"We try to understand the entrepreneur, his motivations. We try to look into his heart and see if he is really whom he claims to be. Does she have empathy?"* (SI10). Though investors do not rely on any specific tool to measure empathy, they strongly seek characteristics that weigh social entrepreneurs' closeness with the beneficiaries. The composition and experience of the investee team are essential criteria for the impact investing process. The presence of empathy among the entrepreneurial team forms an essential condition in the process, which makes Empathizers unique compared with Influencers or Pursuers.

**Financial goals:** Unlike Influencers and Pursuers, Empathizers make relatively small investments. These investments are aimed at solving a complex social problem or serve as a proof of concept, prior to the investee raising further social investment. Therefore, Empathizers have relatively less focus on financial analysis. The interviews reveal that non-profit impact investors and publicly funded impact investors focus on operational efficiency and greatly focus on social return on investment during their financial analysis, while profitability on investment is not emphasized to that extent. One quote from SI3 illustrates that investing in social enterprises that reduce liability on public funding is one such financial measure that aids in decision making: *“Living on social welfare, that person cost the Danish society approximately 300000 DKK per year. If you can move that person into employment and away from social welfare you get on an annual basis a minimum social return on investment of 300000 DKK.”*

**Hybridization of investing goals:** Empathizers place a greater emphasis on social mission and social innovation than on financial returns. Empathizers manage hybridity by emphasizing social value creation over financial sustainability at each step of the investing process. The following quote illustrates, *“we look at entrepreneurs who believe that impact is primary and financial and...financial and business viability happens as part of”* (SI17) the importance of impact over finance. Empathizers work with their investees more closely than do Pursuers, as described in the following: *“Anders Gründer project accompanies startups in the founding of their social enterprise through coaching, qualification, co-working and access to relevant networks and it is funded by the public sector developmental bank”* (SI10). This close collaboration reduces the risk of mission drift and maintains hybrid forms among investees.

**Table 12: Summary of Differences among Impact Investing Categories**

	Influencers	Pursuers	Empathizers

<b>Social Goals</b>	<ul style="list-style-type: none"> <li>&gt;Market creators for Complex socio-economic problems</li> <li>&gt;Typically located in Global North and provide large scale capital to solve complex problems</li> <li>&gt;New solutions</li> <li>&gt; Institution driven</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Focus on social mission</li> <li>&gt;Focus on BoP business models</li> <li>&gt;Proven solutions and strategies to address socio-economic problems</li> <li>&gt;Entrepreneur drive who sees a strong market opportunity</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Focus on complex socio-economic problems at low cost</li> <li>&gt;Entrepreneur driven who sees a social opportunity</li> </ul>
<b>Financial Goals</b>	<ul style="list-style-type: none"> <li>&gt;Large scale capital for scaling and replication</li> <li>&gt;Funded from Global North</li> <li>&gt;High capital injection</li> <li>&gt;Value creation, Market creation</li> <li>&gt;Focus on public funds, HNIs</li> </ul>	<ul style="list-style-type: none"> <li>&gt;focus on return on investment</li> <li>&gt; focus on a particular segment or location who can pay</li> <li>&gt;a greater focus on reach ( lower price compared to normal market prices)</li> <li>&gt;Focus on market capital ( in addition to other sources) to fund</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Lacks funding to scale the impact</li> <li>&gt;Focus on Grants, public funds to fund</li> </ul>
<b>Balancing of Logics</b>	<ul style="list-style-type: none"> <li>&gt;High reporting standards</li> <li>&gt;High ethical standards</li> <li>&gt;High reputation management Board position</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Return on investment is directly linked to the number of beneficiaries serviced (no. of students, no. of loan seekers, no of users of a particular service);</li> <li>&gt;greater emphasis on impact communication</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Focus on social mission and reach over profitability</li> <li>&gt;There is a low expectation of financial return</li> <li>&gt;Higher focus on SROI</li> </ul>

Influencers, Pursuers and Empathizers are categories which reflect differences in impact investing.

These categories reflect internal structuring within an impact investing firm. These internal re-structuring is a response to social and financial goals, context, location, type of financiers and mandate. The impact investing strategies are responses to these internal structuring.

## 5. Cross-Case Analysis

The following section pursues cross-case analysis to develop insights into investment strategies practiced by impact investors. **Table 7** presents a summary of the cross-case analysis of the data. The cross-case analysis reveals three dominant impact investing strategies: the 1) value creation investment strategy, 2) value distribution investment strategy, and 3) value capture investment strategy. These investment strategies are responses to internal structures.

**Table 7: Cross-Case Analysis: Impact Investing Strategies**

	<b>Influencers</b>	<b>Pursuers</b>	<b>Empathizers</b>
<b>Value Creation Investment Strategy</b>	<ul style="list-style-type: none"> <li>&gt;Occurs either at the nascent stage or scaling stage or under-develop social sector</li> <li>&gt;Encouraging entrepreneurs towards solving a complex socio-economic problem, provide large grants</li> <li>&gt;Investment for new business models, solving complex socio-economic problem</li> <li>&gt;Market creation for social impact</li> <li>&gt;Grants, Equity, Loans</li> <li>&gt;focus on problem</li> </ul>		<ul style="list-style-type: none"> <li>&gt;occurs at the nascent stage</li> <li>&gt;Supporting entrepreneurs towards solving a unique social problem, creating value in society, community, addressing complex institutional voids</li> <li>&gt;well-defined theory of change</li> <li>&gt;Grants</li> <li>&gt;Focus on social entrepreneur and social problem</li> <li>&gt; Focus on social mission and reach over profitability</li> </ul>
<b>Value Distribution Investment Strategy</b>	<ul style="list-style-type: none"> <li>&gt;Scaling and replicating unique social entrepreneurial innovation and business models (ex. Microfinance models), Nationwide and sector-wide impact, market creation</li> <li>&gt;Less focus on profit, more on scalability and scalable impact, large investment size</li> <li>&gt;high expectation on return on investment</li> <li>&gt;high capital investment to create large scale socio-economic change</li> </ul>	<ul style="list-style-type: none"> <li>&gt;occurs at growth stage</li> <li>&gt;Scaling and replicating unique social entrepreneurial innovation and business models, increasing the reach to beneficiaries</li> <li>&gt;Profitability and returns on investment</li> <li>&gt; Focus on the high potential sector, region and market and consequently higher financial returns compared to (influencers and empathizers)</li> <li>&gt;focus on reach and market potential, replication the solution</li> <li>&gt;Lower Focus on SROI impact measurement and communication, a greater focus on reach ( lower price compared to normal market prices)</li> <li>&gt;driven by bankability</li> </ul>	<ul style="list-style-type: none"> <li>&gt;funding on solving major socio-economic crises</li> <li>focus on unique database solutions which can lead to legislation</li> <li>&gt;Test difficult social business models and scale them</li> <li>&gt;Work with the public sector and influencers to scale, replicate</li> <li>&gt;Focus on research, empirical studies to create systematic change</li> </ul>

<b>Value Capture Investment Strategy</b>		>Focus on creating socially innovative business models which address social needs in addition to ensuring a stronger return on investment > <b>Focus on reach to capture value and increase revenues</b> >Social problem is an entrepreneurial opportunity >Higher focus on return on investment, >Venture analysis involves commercial due diligence process >Return on investment is directly linked to the number of beneficiaries serviced >greater emphasis on impact communication (higher reputational risk)	
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## 5.1 Value Creation Investment Strategy

Within the social entrepreneurial space, Santos (2012) describes value creation as follows: “*Value creation from an activity happens when the aggregate utility of society’s members increases after accounting for the opportunity cost of all the resources used in that activity,*” in which the value creation leads to an increase in the public goods. Traditional value creation investment strategies rely on open innovation, new market creation, new customers, and new revenue streams that rely on openness and collaboration and lead to value creation within a corporation (D. Sandulli & Chesbrough, 2009; Teece, 2010). **The study terms value creation investment strategies as those which are aimed at investing in social enterprises of that are focused in solving 1) complex socio-economic problems, 2) employ high degree of innovation, 3) has the potential to create large-scale social value for the society and 4) has the potential to create a revenue generating business model.**

All impact investors follow some degree of value creation impact investing strategy; however, Empathizers and Influencers reveal a greater inclination to use the value creation investment

strategy than do the Pursuers. Empathizers utilize value creation investment strategies to invest in unique social enterprises which have highly motivated social entrepreneurs who persistently address a complex social-economic problem with low capital. Influencers support such entrepreneurial acts with grants and scholarships. From the cases, SI15 and SI16 focused on investing in unique solutions that measurably impact the lives of people or communities. SI16 invests in poorly managed public schools to increase the grades of the students studying in these schools. Their solutions have been documented and disseminated by public bodies. The value creation investment strategies lead to the overall social fulfillment of society. The focus on social goals is higher than on financial goals. The issues of hybridization are not so dominant because mostly grants guarantee the commercial bottom line.

## **5.2 Value Distribution Investment strategy**

**Impact investing strategies that invest in the replication, scaling, and distribution of social value among larger communities, societies, and countries through a cost-effective, innovative business model as value distribution investment strategy (see Table 7).** Value distribution investment strategy typically happens during the growth or scaling phase. Social entrepreneurial scaling take place through franchising (Tracey & Jarvis, 2007), maximizing the number of communities they serve (Lyon & Fernandez, 2012), normalizing standards (Lyon & Fernandez, 2012), capital investment (Bloom & Chatterji, 2009), replication (Hockerts, 2010), and low-cost product or service and sales (Venn & Berg, 2013). These impact investing strategies help to create, capture, and distribute social value among a larger group of beneficiaries by funding them to scale and grow. Both pursuers and influencers invest in replicating and scaling a new social business in newer communities and geography using capital, though Pursuers focus more on returns. For Empathizers, value distribution investment strategy concerns the institutionalization (legislation,



normalization, or imitation) of social innovation across communities and geographies. S17 began investing in unique social enterprises that focused on decreasing the “*cost of sales*.” Over a period, their unique model of investing was replicated by both Pursuers and Influencers.

### 5.3 Value Capture Investment Strategy

Santos (2012) describes value capture as “*an activity happens when the focal actor is able to appropriate a portion of the value created by the activity after accounting for the cost of resources that he/she mobilized.*” **Value capital investing strategy involves investment in social enterprises that provide socio-economic value to a specific segment of the socio-economic pyramid and those social enterprises which have a well-defined revenue model.** Impact investing firms pursuing value capture strategies employ venture capital strategies such as financial market analysis and exist while making impact investing decisions and profitability indices and revealing market-seeking behavior. Among impact investors, Pursuers most closely practice value capture investment strategies. They invest in products and services capturing the market that are too expensive for major corporations. They primarily invest in highly innovative business, integrating social value in the business value proposition at a highly competitive price (Kapoor & Goyal, 2013). Impact investing in BoPs, Frugal Innovation, Cleantechs, MFIs, and health-tech social enterprises providing products and services to the poor at a positive EBIDTA serves as an example of *value capture investment strategy*. The products and services offered under this strategy are innovative and serves the needs to the poor but may not positively influence their socio-economic status. Organizations pursuing value capture strategy require stronger organizational structures to balance competing goals and control the mission drift because the inclination towards earning rents from the markets may implicitly lead to compromises and mission drift.

## 6. Discussion

## 6.1 Findings and Contribution

### *Findings 1: Impact Investing Typologies*

The context includes socioeconomic conditions, location of the impact investing (head-office) and location of the investees, stakeholders that are primary investors to the impact investing firms, and the firm's founding principles. Both the stakeholder theory (Freeman, 1984; Mason et al., 2007) and hybrid organization framework (Pache & Santosa, 2010; Thronton et al., 2012) suggest that the context influences the organizational process of any investment process. Impact investors must align with the institutional environment, respond to government rules and regulations, and make investments that address local socioeconomic problems. The mandates by the stakeholders determine the degree of inclination toward social or commercial outcomes. It implies that not all impact investing are same. It implies that not all institutional logics blend in the same way.

Daggers and Nicholls (2016, pp: 77) discussed the lack of typologies among impact investing firms and how using a monochromatic analytical lens causes the understanding of impact investing to be superficial. The findings suggest that the impact investing process is highly dependent on antecedents. The primary antecedents are location, the country of the head office, and the country of investing affect the impact investing goals. The study suggests dividing impact investing into three broad categories. 1) Influencers 2) Pursuers 3) Empathizers. These types indicate that impact investors have different investing motivations, social goals, financial goals, and methods for addressing risks of competing goals and subsequent mission drift. Influencers and Empathizers focus more on social goals than financial goals. Influencers are backed by public funds or international aid organizations, while Empathizers' investees are bootstrapped and function in a

market environment. Pursuers' investees are highly innovative and have a strong social business model backed by a robust financial bottom line. Categorizing impact investors into Influencers, Pursuers, and Empathizers extends our understanding of impact investing and how those differences driven by geographical location and emphasis on social and financial goals are played into categories.

### ***Findings 2: Impact Investing Strategies***

Highlighting the lack of a knowledge base within the impact investing field, Gregory (2016) suggests that impact investors to focus on well-defined selection screens (due diligence processes). replicate proven social business models, finance growth stage social enterprises, and match instruments with types of investments. Using cross-case analysis, the study empirically demonstrates that three impact investing strategies exist, each with different social and financial motivations: Value creation, value distribution, and value capture investment strategies. Each of these strategies have unique social and commercial goals.

First, ***value creation investment strategy*** focuses on investing in early stage social enterprises or under-developed social section to complex socioeconomic problems and addresses issues related to perpetual poverty, grave socio-cultural problems, and complex socio-environmental issues. They take higher risks and focus on social innovation that have the potential to create a disruptive social effect. The strategies include investing in unique innovative solutions or highly motivated social entrepreneurs.

Second, the ***value distribution investment strategy*** focuses on investing in social enterprises that engage in market creation. Most public sector impact investors, developmental financial institutions with an impact investing fund, invest in social enterprises to scale their reach toward beneficiaries.

These impact investors have higher capital and public mandate to efficiently increase the scope of their services and help in creating markets for socially relevant products and services. These impact investing firms provide low-cost capital to investee social enterprises to innovate in business models or in subsidizing their products or services to increase their reach. This helps in not only financially sustaining the investee social enterprises but also creating markets under challenging regions and communities.

Finally, *value capture investment strategies* involve investing in a socially distressed sector with a strong market potential. These investment strategies target already matured social enterprises. Value capture investment strategies employ investment strategies similar to those used by venture capital funds. Value capture investing strategies concern investing with the **intent** of capturing fragile markets existing in vulnerable areas. Their primary purpose is to seek profits, but they seek legitimacy from both social and financial stakeholders. Value capture investment strategies have a higher risk of mission drift and competing goals.

### ***Findings 3: Hybridization of Competing Goals***

The hybridization of competing goals is one of the primary fields of study among scholars of social enterprises and impact investment firms (Bruneel et al., 2016; Mullins et al., 2012; Smith et al., 2013). Most research on hybridization focuses on the internal organizational structures related to the management of competing goals (Battilana & Dorado, 2010; Pache & Santos, 2012). Here, we suggest that the hybridization of competing goals should be studied contextually. Hybridization among impact investors is a function of many factors; among them, the organizational antecedents, categories, and organizational goals (investment strategies) are essential. **Figure 2** indicates how antecedent influences leads to the categorization of impact investing firms. The figure also explains each impact investing category may have a unique or shared impact investing strategy. Influencers,

Pursuers and Empathisers emphasise social value creation, while, each follows a unique set of investment strategies driven by context. The depth and details varied for each category of impact investing firms. The investment strategies are a set of responses to manage and mitigate the effects of competing goals.

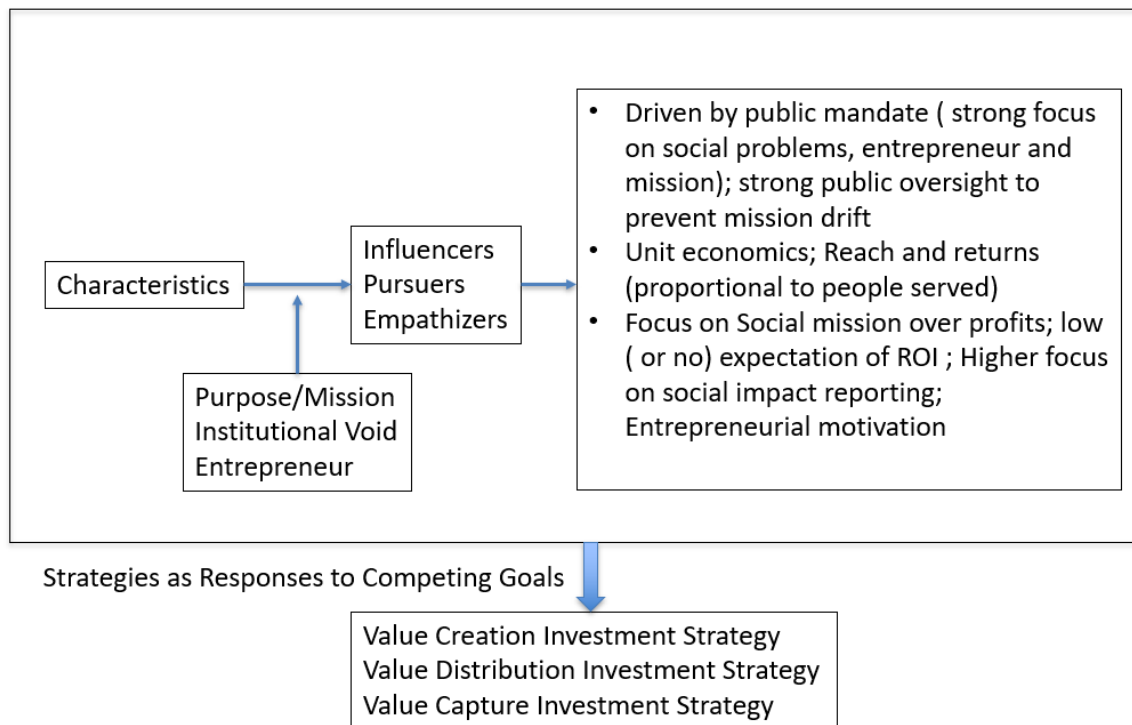


Figure 2: Strategies as Responses to Competing Goals and internal structures

Impact investing firms following value creation investing strategies have a strong social motive; therefore, they prioritize social goals over financial goals. Impact investing firms following strong value distribution strategies focus on expansion and scaling, reach, the number of beneficiaries served, the number of hospitals and schools opened, the number of microfinance branches opened, and MSMEs served with loans. By focusing on the number of beneficiaries reached, the social goals and financial goals become intertwined because increasing number of beneficiaries also indicates higher revenues.

## **6.2. Conclusion**

### **Future Research and Limitations**

Future scholars must focus on the critical aspects of impact-investing and the long-term consequence on public goods and public services. The rapid development of impact investing funds within banks, foundations, for-profit entrepreneurs further encourages the worldview that impact investing is promoting neo-liberal capitalism. Some may believe that markets and profit maximization are framed euphemistically as “impact investing.” Many researchers see the social impact created by impact investing as a legitimization of neo-liberalism and laissez-fair. In that scenario, the future researchers must study the impact investing from a critical position on how impact-investing is affecting the current models of public services and public governance. Many governments are already implementing social impact bonds (an application of impact investing) where private contractors are providing public services in jails and hospitals at highly optimized prices. Private contractors drive profits by optimizing and prioritizing costs and services. In the long run, how such models would negatively impact the quality of public services and social services. There is a severe need of research and critical thinking to continuously develop processes of impact-investing such that the “impact” dimension within impact-investing is strengthened.

Finally, the methodological aspects associated with the qualitative research limit the scope of the findings. It is based on retrospective interviews where the researchers ask the interviewees to reflect on the process. The scholars should engage in ethnographic and document analysis of the selection process among impact investors to contextualize how hybridization is organized. Therefore, there is room for a more in-depth analysis of the selection process, cross-sector comparison, and cross-country comparison of impact investing firms. Exploring the role and scope of the social entrepreneur during the selection process and relating it with the outcomes will enhance our understanding of the impact investing selection process. This research found that empathizers are investing in social entrepreneurs who show empathy.

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