

The Entrepreneurial Perspective in Impact Investing Research: A Research Agenda

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Abstract: The Covid-19 pandemic, climate crises, and regulatory changes are only a few reasons for the growing public alertness regarding environmental and social problems. This has caused a shift in the mindset of companies and investors in terms of sustainability and the long-term impact of innovation. Thus, sustainable investments, particularly impact investments, have continued to grow in importance and momentum to shift the focus on rebuilding the economy more sustainable and future-oriented. The current state of research in this field indicates that most academic contributions are mainly about theoretical considerations and deal with various areas. There is no aggregated state of the art in academia with a focus point on impact investment for entrepreneurship. Yet, entrepreneurs are seen as key actors to drive sustainable innovation. Compared to the current growing impact investment practices and the necessity of a strategy to get financing, the topic is still relatively unexplored scientifically. In this research, a systematic literature review is conducted to further review, evaluate, and analyze the current research agenda on impact investment and show how it relates to entrepreneurship research. In particular, impact investment-related decision criteria, as well as challenges associated with this, will be presented. This contributes to the nascent literature on impact investing by documenting how impact investors stand in relation to entrepreneurial ventures and what measurement frameworks and models are already scientifically analyzed, which has practical implications for both impact investors and entrepreneurs.

Keywords: impact investing, startup, entrepreneurship, SLR, sustainability

1. Introduction

The immediate consequences of global crises can be seen as a major reason for the growing public awareness regarding environmental and social problems (Kubatova and Krocil, 2020). In addition, the adoption of the United Nations' 17 Sustainable Development Goals (UN SDGs) in 2015 has led to sustainability and impact gaining urgency, and momentum (Rizzello and Kabli, 2020). Furthermore, this significant awareness has caused a shift in the mindset of companies and investors towards more sustainable business models and making a positive impact (Bengo, Borrello, Chiodo, 2021).

Particularly impact investments have grown in importance and can be seen as a unique opportunity to shift the focus to rebuilding the economy more sustainable and future-oriented (Kabli, Rizzello, and Trotta, 2021). Impact investments go beyond currently dominant sustainable investment types (Bose, Dong, and Simpson, 2019). Impact investments are "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (GIIN, 2020). In entrepreneurship, sustainability, profitability, and growth are considered more and more compatible goals (Santos, Pache, and Birkholz, 2015). Therefore, start-ups must develop a strategy to position themselves in the best possible way for their impact investment readiness (Cetindamar and Ozkazanc-Pan, 2017). Moreover, the focus is on a strategy that allows companies to measure, report, and verify their environmental or social benefits (Brandstetter and Lehner, 2015).

Despite the growing interest in impact investing on the practitioner's side and in academia, there has been limited literature in this field. Literature reviews focusing on general impact investing implications have been conducted by Hoechstaedter and Scheck (2015), Dagggers and Nicholls (2016), Clarkin and Cangioni (2016), Calderini, Chiodo, and Michelucci (2018), Kubatova and Krocil (2020), and Agrawal and Hockerts (2021). The focus of these studies is mainly on similarities and inconsistencies in definitions, terminology, and on a strategic level (Hoechstaedter and Scheck, 2015; Dagggers and Nicholls, 2016), only a minority focuses on research or outcome (Clarkin and Cangioni, 2016). Additionally, the literature mainly addressed opportunities and potential (Calderini, Chiodo, and Michelucci, 2018; Kubatova and Krocil, 2020). The associated research topics like social impact assessment models and frameworks, social return on investment, and early-stage impact investments have been covered by e.g., Grieco (2015) and Maier et al. (2015). Further research has been conducted in a variety of areas. Fichter, Widrat, and Olteanu (2021) have published a guide on managing

the impact of public and private start-up supporters. It gives insights into possible approaches for impact planning, analysis, improvement, and communication. In addition, Block, Hirschmann, and Fisch (2021) evaluate specific investment criteria applied by 179 impact investors.

The current state of research indicates that most academic contributions are mainly about theoretical considerations and deal with various areas. There is no aggregated state of the art in academia in the field of impact investment covering the years after 2015 with regard to the entrepreneur-impact investor relation. To close that research gap, this research project conducts a systematic analysis of the current research to answer the following question: What is the current research agenda on impact investment, and how is it related to entrepreneurship? Consequently, this paper should serve as a foundation to determine how start-ups that do not only want to build up their company profit-oriented but also think about ecological and/or social engagement should position themselves strategically to get this kind of financing.

Thereby, this paper contributes to the growing literature in the impact investing field by connecting two highly interdependent research streams. Based on the findings, challenges, opportunities, and also research gaps are identified, which in turn provide further direction for future research. The remaining sections are organized as follows: Section 2 describes the research methodology, and Section 3 presents the results of the analysis. The paper concludes with a critical discussion and identification of limitations and future research directions.

2. Method

A systematic literature review is mandatory to systematically evaluate the existing body of literature and answer the research question (Kitchenham and Charters, 2007). According to Tranfield, Denyer, and Smart (2003), systematic literature reviews employ a comprehensible and transparent procedure to enhance the quality of the conducted study. The overall aim of this review is to collect relevant literature covering a period of search between January 2015 and December 2021. The year 2015 was chosen because the UN SDGs were adopted in that year, signifying a shift in scientific literature. Then, based on the found body of literature, the literature will be reviewed and evaluated to survey the status quo in research, answer the research question, and develop research gaps.

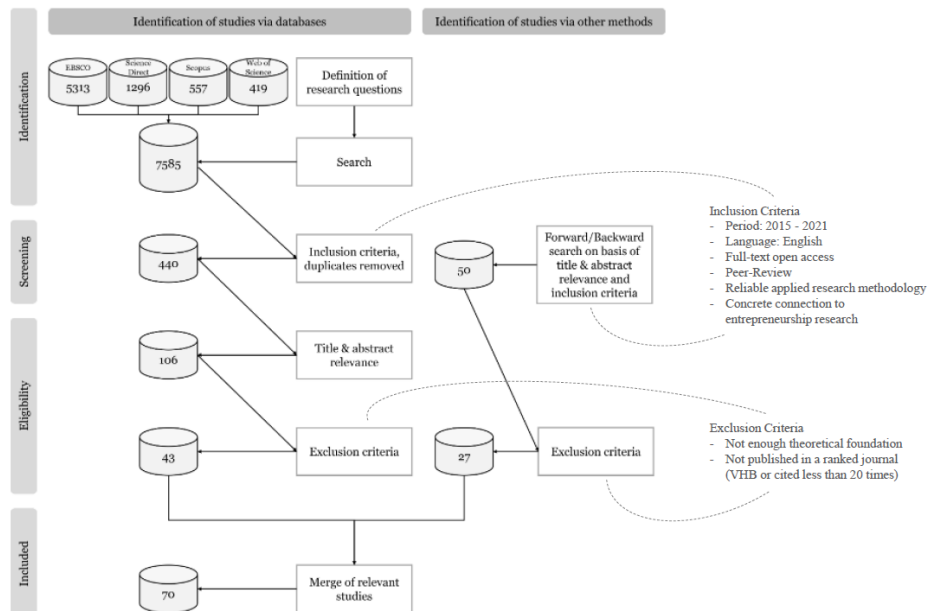


Figure 1: Search protocol, own illustration

To perform a first-stage search, the following databases were selected: EBSCO (Academic Search Premier and Business Source Premier), Scopus, Science Direct, and Web of Science. To find the desired literature, the following search string was used: "Impact Investment*" OR "Impact Investing" OR "Impact Investor*". The search string was adjusted slightly to meet the search requirements of the four databases. After conducting the first-stage search, the citation list was extended by doing a forward and backward search. The citation list before and after the forward and backward search was then reviewed in the following sequence: 1. Title relevance; 2. Abstract relevance; 3. Full article scan; 4. Full article read.

To achieve the highest possible quality of the SLR, clear inclusion criteria were defined: Period: January 2015 - December 2021; Language: English; Full-text open access; Peer-Review; Reliable applied research methodology; Contains concrete connection to entrepreneurship research. Exclusion criteria were not enough theoretical fundamentals, and not published in a ranked journal. A journal is considered ranked if it is listed in the VHB journal ranking or has been cited less than 20 times, to ensure that highly-relevant papers are included in the final set despite being published in a not-ranked journal. In total, this led to 70 articles and book chapters. Due to the limited scope of this paper, the focus lies on the distinct relationship between entrepreneurs and impact investors and the criteria underlying an investment decision, which reduces the number of included sources to 40. The complete list of references can be obtained per request to the authors.

3. Results

3.1 Investor-investee relationship

The basis of the impact investment process is the relationship between the investor and the investee.

Table 1: Classification of the literature focusing on the impact actors “investor” and “investee”, Source: Own table

Investors	Agrawal and Hockerts (2021), Agrawal and Hockerts (2019), Bengo et al. (2021), Block et al. (2021), Boni et al. (2021), Bose et al. (2019), Calderini et al. (2018), Castellas et al. (2018), Cetindamar and Ozkazanc-Pan (2017), Glänzel and Scheuerle (2016), Höchstädter and Scheck (2015), Ormiston et al. (2015), Roundy et al. (2017)
Investees	Agrawal and Hockerts (2019), Arena et al. (2018), Block et al. (2021), Bocken (2015), Brandstetter and Lehner (2015), Castellas et al. (2018), Gidron et al. (2021), Glänzel and Scheuerle (2016), Hazenberget al. (2015), Lall (2019), Martin (2015), Molecke and Pinkse (2017), Phillips and Johnson (2021), Santos et al. (2015), Tabares (2021)

Impact investors differ from traditional investors in terms of motivation: They seek to make both a financial return and a social and/or ecological impact (Roundy, Holzhauer, and Dai, 2017). The literature distinguishes between two types: 1) “impact-first” investors focus on reaching social or environmental goals while only requiring a minimum financial return; 2) “finance-first” impact investors pursue investments with market-competitive rates which generate positive social or environmental impact in addition (Barman, 2015; Cetindamar and Ozkazanc-Pan, 2017; Hoechstaedter and Scheck, 2015; Ormiston et al., 2015).

Impact investors apparently are driven by their personal values and beliefs. Typically, impact investors invest in enterprises with an explicit social and ecological mission, a transparent and well-defined theory of change, and a well-established track record at a growth stage (Castellas, Ormiston, and Findlay, 2018). If they decide to invest, impact investors have a strong involvement due to “high engagement, tailored financing, extensive support, organizational capacity building, and performance measurement” (Agrawal and Hockerts, 2021, p. 161). They operate mainly in markets where the public sector cannot meet the needs, with a more distinct focus on countries where more significant social inequalities prevail (Boni, Toschi, and Fini, 2021).

Among impact investors, high-net-worth individuals and family offices are the most famous investors (Glanzel and Scheuerle, 2016), alongside Social Venture Capitalist (VC) organizations (Bocken, 2015). The analysis showed that impact investors apply similar investment strategies to traditional investors (Arena et al., 2018), focusing mainly on financial ratios and classical VC metrics (Castellas, Ormiston, and Findlay, 2018). Hence, Glanzel and Scheuerle (2016) conclude that “social returns rather have a tick-box character” (p. 1653). This can be partly explained by the difficulties of adequate theorizing of impact approaches (Bengo, Borrello, and Chiodo, 2021) as well as assessing the drivers and impact itself, and the high transactions costs for additional due diligence (Castellas, Ormiston and Findlay, 2018).

The analysis of existing literature has shown that the focus is on the investors’ perspective. The literature on investees often discusses them in a way that is decoupled from impact investing. It mainly deals with investment readiness and measuring the impact (Agrawal and Hockerts, 2019). The definition of an investee applies to companies that demonstrate either a “mission primacy” or are a “social enterprise or social purpose organization” that is “unlisted” and can be “for-profit or not-for-profit” (Hoechstaedter and Scheck, 2015, p. 459). These hybrid organizations create value for society and the environment by developing advanced business models and employing entrepreneurial and very innovative approaches (Agrawal and Hockerts, 2021).

Literature focuses on social or sustainable enterprises in general, or on impact tech start-ups. Social entrepreneurship’s primary goal is to solve social challenges (Lall, 2019). Instead of maximizing profits, social enterprises try to optimize their impact (Martin, 2015). As the social and economic impact is pursued with the effectiveness and efficiency employed for commercial activities, entrepreneurs can attract both traditional investors and impact investing entrepreneurs (Tekula and Andersen, 2019; Viviani and Maurel, 2019), if they set up their business models accordingly (Cetindamar and Ozkazanc-Pan, 2017).

Yet, social entrepreneurs face several challenges since investments are assumed to be riskier due to the high complexity of the business models, the third sector, the lack of a track record, the small market size, and the associated small portfolio (Brandstetter and Lehner, 2015). Due to their hybridity of achieving both financial return and sustainable positive impact, there is a high risk of mission drift to either side (Hazenber, Seddon and Denny, 2015). Also, their collaborative and personal focus can limit them from properly extending and scaling their activities (Gidron et al., 2021).

Most literature only focuses on describing these aforementioned challenges and barriers yet does not provide many recommendations on how to overcome those. However, two studies give an overview of success factors to overcome these barriers. Bocken (2015) identified three top reasons for success for impact start-ups: business model innovation, the formation and usage of reliable collaborations and networks, and the focus on a reliable business model. In addition, she identified key traits and principles of entrepreneurs: Key traits incorporate promoting interdisciplinarity and diversity, thinking ahead, and soft skills. Principles are based on an organizational goal and mission to maximize the usage of human and ecological sources, exploiting synergies between sustainable impact and financial return to meet the needs of several stakeholders, and on quality over quantity (Bocken, 2015). Moreover, Hazenber, Seddon, and Denny (2015) identified a series of characteristics that allow social entrepreneurs to demonstrate their impact investment readiness. First, organizational persistence, resilience, and adaptability are regarded as decisive. This allows for a quick adaption to changes in the market and revenue to secure financial sustainability. Second, a social entrepreneur should be able to demonstrate a clear vision and have the experience and a suitable plan for implementation. Third, they should show irrepressible will and desire to embrace organizational change in order to move towards investment readiness (Hazenber, Seddon and Denny, 2015).

Arena et al. (2018) and Gidron et al. (2021) address social tech start-ups and impact tech start-ups. Tech-focused start-ups use advanced technology to address current dominant social and economic challenges. Impact investors seem to prefer tech-focused over purely social enterprises because they are credited with being able to generate higher impact due to their global market orientation (Gidron et al., 2021). Yet, they often operate in the social sector and due to their hybrid mission, they often do not have the ability to charge market prices. Therefore, these start-ups are regarded as riskier compared to normal tech start-ups (Arena et al., 2018). Further, they also have problems demonstrating their impact due to the absence of meaningful impact assessment frameworks and metrics. This leads to increased costs of financing (Arena et al., 2018). Often, not until the growth stage do they become attractive to social impact investors. Still, investors seem to

understand that it takes longer to reach the break-even point and generate social impact at the same time. Hence, they are willing to accept longer repayment periods (Arena et al., 2018; Gidron et al., 2021).

3.2 Impact investment criteria and associated challenges

The fundamental basis of every investment decision-making is evaluating promising investment projects. Researchers have analyzed the investment criteria of impact investors, yet there is only a limited amount.

Since the impact is complex to quantify, non-financial criteria play a major role in decision-making. Investors seem to assess especially four dimensions: 1) the sector in which an organization is operating in, 2) the geographic location, 3) the mission, and 4) the management's governance and skills (Islam, 2021). Despite the different investors' preferences, the main focus of the investment decision is on the social impact a company wants to deliver, the scalability, and associated innovativeness (Hazenberg, Seddon, and Denny, 2015). Impact investors favor "social entrepreneurs who have a strong passion for social change, high professionalism, a clear vision and ambition, and strong community-based social networks" (Islam, 2021, p. 5). Hazenberg, Seddon, and Denny (2015) also add that personal relationship greatly influences investment decision. The analysis showed that impact investors mostly use the same financial criteria as traditional investments, as well as build on the overall business proposal (Block, Hirschmann and Fisch, 2021; Hazenberg, Seddon, and Denny, 2015). Still, some investors are willing to accept a lower rate of return if social impact is pursued (Block, Hirschmann, and Fisch, 2021).

Investors often try to quantify and monetize the social impact (Roundy, Holzhauer, and Dai, 2017). A better understanding of impact generation and the related accountability can help investors prevent investees from mission drift (Ormiston, 2019). Yet, there are associated challenges with the measurement and assessment of impact, which are mostly of conceptual, methodological, and practical nature and are based on a cause-and-effect relationship (Spiess-Knafl and Scheck, 2017).

Impact investors and investees have different visions, preferences, and priorities of impact and its value leading to subjectivity (Clarkin and Cangioni, 2016). No common understanding of impact is making it difficult to collect and document outcome data fully (Moody, Littlepage, and Paydar, 2015). This leads to the fundamental need to better comprehend and incorporate the characteristics and evolution of impact (Aschari-Lincoln and Jacobs, 2018).

Still, research shows that the UN SDGs as universal goals are crucial as a reference framework for impact investors in terms of impact target setting (Castellas, Ormiston, and Findlay, 2018; Santamarta et al., 2021). Nevertheless, the applicability of the SDGs remains demanding for companies, as their contribution depends on the ability to quantify outcomes that are tied to the SDGs' targets and indicators outlined (Tabares, 2021). Secondly, most indicators try to quantify or monetize impact, which is perceived as questionable (Costa and Pesci, 2016; Spiess-Knafl and Scheck, 2017). Furthermore, despite the attempt and motivation to set up standardized impact assessment and management frameworks, there is still no sufficient universal framework with appropriate and valuable indicators (Bengo et al., 2016). A closer look at these frameworks reveals that they are output-based instead of being outcome/impact-based (Bose, Dong, and Simpson, 2019). In addition, they mainly employ an ex-post view that is only useful if enterprises have an established track record. An ex-ante view is required to evaluate potential impact investments (Brandstetter and Lehner, 2015). The most popular standardized frameworks, e.g., IRIS and GIIRS, are made for investors and, consequently, cannot assess the true impact achieved by young ventures (Costa and Pesci, 2016).

Because of scepticism about the effectiveness to accelerate outcomes, entrepreneurs mostly have not adopted a standardized framework (Phillips and Johnson, 2021). This absence of meaningful standards, on the one hand, promotes entrepreneurs to develop and use their own set of indicators but with which they do not feel comfortable to adequately communicating their impact (Castellas, Ormiston and Findlay, 2018; Moody, Littlepage, and Paydar, 2015). On the other hand, if investors determine the impact, they prefer to use a transaction-based approach leading to different methods among different investors and deals (Bengo, Borrello, and Chiodo, 2021). Nevertheless, investors also struggle to determine impact leading to confusion among investees as to what investors want other than financial return (Phillips and Johnson, 2021). An excellent ability to measure and communicate the impact is the prerequisite for financial support (Clarkin and Cangioni, 2016). Finally, data collection is challenging due to the previous causes and effects, possibly causing

data quality issues like inaccurate and unreliable data (Molecke and Pinkse, 2017). Consequently, the impact assessment and management are limited and, additionally, very resource-intensive and costly (Bengo, Borrello and Chiodo, 2021; Castellás, Ormiston and Findlay, 2018; Phillips and Johnson, 2021; Spiess-Knafl and Scheck, 2017). This results in a permanent trade-off between utility, cost, and accuracy and a great need for expertise and knowledge to determine the impact (Spiess-Knafl and Scheck, 2017).

Summed up, the challenges to set up a universal framework with meaningful and comparable indicators that captures the actual value of impact is still unsolved (Clarkin and Cangioni, 2016). It needs to be resolved urgently to promote the impact investing field and adequately represent social and environmental impact (Moody, Littlepage, and Paydar, 2015). A potential improvement should include that impact assessment should be incorporated as early as possible to develop a meaningful roadmap for impact management and assessment, including indicators and required information (Courtney, 2018).

4. Discussion

The review shows that the field of impact investing literature is continuously growing. Nevertheless, there are topics like impact measurement and management with only a few contributions. Also, the focus of the conducted research is mainly on investors. The existing research shows that despite impact being the elementary component of impact investments, financial criteria play a predominant role. It can be concluded that investors either do not have a sufficient understanding of impact, do not know how to consider it sufficiently in the investment process, or financial return is more important to them. Furthermore, the analysis of investing criteria per paper is only focused on one type of investor. Therefore, there is no overview of investing criteria possibly varying across investors. This makes it difficult for investees to align with investors' expectations and requirements to improve their chance of getting financed. This paper concludes that researching and theorizing the frameworks for impact measurement is a good starting point for introducing investors and companies to impact investing and improving their impact understanding and orientation. These models or frameworks can each be used for goal setting, internal and external impact measurement, and management. They are necessary to develop impact business models further and reach a certain minimum standard in social and environmental issues. However, for example for investors, they offer little possibility to distinguish whether companies only avoid negative impacts in the context of sustainability or have the intention to generate a positive impact. For investees, no model or framework can be used to fully and transparently map the impact investing and business process. In addition, little is known about how these models are applied in practice. Therefore, this paper ultimately concludes that there is a greater need for a framework that can be applied explicitly in the impact investing process and unites both investor and investee needs.

This paper provides comprehensive insights into the impact investor-investee relation, the investing criteria, and impact measurement and management. It differs from previous SLRs in that it reviews the field of impact investing more comprehensively and in a more entrepreneurial research direction.

Nevertheless, this review has several limitations. First, a considerable high number of potentially relevant publications had to be scanned. To handle this well, inclusion and exclusion criteria were defined which may have been applied subjectively. In particular, because of the limited publication period 2015-2021 and the paywall, essential findings may have been missed. Finally, it is a comprehensive but not complete review of the research streams since not all models, and actors have been part of the review.

In terms of future research, closing the research gaps would help impact investing unfold its true meaning and generate the impact that companies envision. This includes that young entrepreneurs should not only be looked at from the investors' point of view. In addition, more should be known about the investing criteria. On the one hand, young entrepreneurs can then better adjust to the expectations and requirements. On the other hand, investors might be able to include more non-financial criteria in their investment and decision-making process. This would be beneficial for all actors involved, as impact investments are not only characterized by their financial return. Finally, impact measurement and management should have a fundamental role in researching, theorizing, and conceptualizing models and frameworks. This kind of future research seems to be the way to meet the actual intention of generating impact by making the topic more accessible and inclusive. It might determine whether more companies, particularly young social enterprises and other hybrid organizations, get such funding. More research could even trigger a chain reaction so that more funding can

become available. An enhanced understanding might close the gap between demand and supply as well as prevent green and impact washing.

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