

Article

Preserving the Integrity of Social Impact Investing: Towards a Distinctive Implementation Strategy

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Abstract: Social impact investing (SII) is a strategy of asset allocation that aims to generate social and environmental impact alongside a financial return. Compared to other approaches of sustainable finance it holds an enormous potential of generating solutions to societal challenges. However, scholars have claimed that social impact often just employs logic upheld by the mainstream investment approach. Therefore, the paper investigates the assumption that SII has not developed a distinctive implementation strategy able to translate the prioritization of social impact into practice and how to overcome this issue. The thematic analysis of data collected through 105 interviews with Italian SII financiers and the top managers of social ventures allowed us to identify three features of an SII tailored practice: promoting a cultural shift of intermediaries, adopting a co-competition approach, and integrating the social impact in the terms of the financial transaction. Lastly, the paper drafts a research agenda to enhance the proper theorization of SII focusing on the definition of social risk, social return, and governance mechanisms. The key contribution of this article is confirming the lack of an SII-specific practice able to endogenize the intent of prioritizing social impact and providing suggestions to prevent the risk of impact washing.



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1. Introduction

The boundary between social and business sectors has become increasingly blurred [1]. Recently, companies have started considering the integration of social and environmental concerns not simply as initiatives required to comply with mandatory regulations but also as a strategic part of their core business [2]. The same is true of the financial sector with financiers shifting from filtering out harmful investing to selecting companies that perform better in environmental, social, and governance criteria. Social impact investing (SII) has emerged at the forefront of this movement [3] as a strategy for asset allocation that intentionally finances initiatives that combine a measurable social and environmental impact with economic sustainability [4]. The feature distinguishing SII from other forms of sustainable investments is its transformative power, i.e., the aim of creating novel and more effective solutions to solve societal challenges and generate a concrete positive change [5].

After more than a decade from its birth, SII is still a niche and emerging industry and it has not yet acquired a dominant design. Despite practitioners and scholars endorsing a share definition of SII, it seems that social impact investors have not been able to “walk the talk” by translating the ethos of SII into practice. Indeed, several scholars have claimed that social impact investors express their willingness to support the creation of social and environmental value but they often employ logic upheld by the mainstream investment approach [6–8]. For example, O’Flynn and Barnett underlined a paradox within social impact finance because the sector is concerned with “the prioritisation of social impact without prioritising impact evidence” [9]. Investors have not envisioned a tailored financing approach to implementing the joint pursuit of social and financial goals in processes and procedures,

such as specific assessment methodologies, portfolio management tools, and financial products [10–12]. As a consequence, the sector suffers a mismatch between the expectation of financiers and the needs of those ventures engaged in socially and environmentally oriented activities [13–15], which often do not see any advantage in approaching social impact investors and prefer to collect capital from commercial sources [16].

The absence of a distinct SII practice raises two significant risks for the growth of this industry and the realization of its transformative potential. On one side, mainstream investors might be discouraged to engage in SII because they do not understand its core elements. On the other side, there is the risk of so-called “impact washing” [5,17]. This term refers to organizations engaging in SII for marketing purposes to exploit the momentum and claiming to be impact oriented without having any demonstrable, substantive social or environmental effects [18]. Given the ambiguity of the term “impact,” an investment can easily be deemed impactful, allowing market players to use the name for product differentiation and fee generation purposes [17,19]. Rather, to maintain SII’s transformative power, it is crucial to endogenize the intent of generating social and environmental impact into practices.

A reason for this inability to translate the SII concept into practice is that its emergence largely pre-dated a proper theorization of its nature. The existing academic research on SII has thus far focused on disentangling the uncertainties of this novel concept, setting it apart from traditional finance but failing to grasp the distinctive features of SII implementation strategies [20].

This paper aims to investigate the hypothesis that SII has not developed a distinct implementation strategy able to translate the core principles of this approach into the capital allocation process and to understand how this issue could be overcome. Therefore, the research poses the following research question: What are the missing elements of an SII implementation strategy that translates the SII ethos into practice?

The paper analyzes the case of the Italian SII industry. We consider the Italian case informative because the SII literature is dominated by an Anglo-Saxon perspective and there is a lack of studies on SII in Continental Europe [21]. As Then and Schmidt (2020) underlined, SII has reached a multi-billion-dollar market in the USA, UK, and emerging market countries, whereas it is still struggling to reach this level in countries characterized by a social democratic welfare system [22]. Therefore, the analysis of the Italian case might help to extend the existing knowledge by investigating an SII approach grounded in a different background than liberal market economies.

We performed a thematic analysis of data collected through 105 interviews with Italian SII financiers and the top managers of social ventures (SV) they invested in.

The data analysis focuses on four areas of the social impact financing process: investors’ drivers in investee selection, due diligence and investment decisions, and the definition of the risk–return profile; the governance mechanisms used in the transaction; and the enabling infrastructures. Three themes emerge that can be considered the pieces of an implementation strategy that translates the core SII principle, i.e., the prioritization of the generation of social impact, into practice.

First, to effectively perform the investee selection, due diligence, and monitoring, the investment managers should develop very specific expertise in social sectors and be ready to embrace a cultural shift. Second, the governance of the SII industry seems to be contaminated by the intent of cooperation between investors and in the relationship between investors and investees. The last theme refers to the integration of social impact in the financial transaction; specifically, it envisions the definition of a way to include social risk in the definition of the risk–return profile of the investment opportunity and a transaction-based approach for social impact measurement. The adoption of these strategies would shape a specific approach, setting it apart from the traditional approach and other forms of sustainable finance, with distinctive features able to enhance the transformative power of SII.

However, we also claim that these elements deserve further investigation from scholars to be fully understood and operationalized. Therefore, they can be considered the key priorities of a research agenda to expand the understanding of how to develop and manage a joint social and economic value creation process. In addition, our analysis should be validated and expanded by exploring the themes identified in other geographical contexts, inside and outside of Europe.

This paper extends the existing knowledge on SII by identifying the elements of an SII practice that clearly distinguish it from other approaches and contributes to the debate on what impact investments are and what they should cover. Nevertheless, the paper offers a novel perspective to this discussion because it does not simply focus on the definition itself but rather on its operationalization and the investors' implementation strategies. The definition of a tailored SII approach will also help to prevent the risk of impact washing and dilute the transformative power of SII [17]. Moreover, the design of a distinctive SII approach might support impact investors in finding investment opportunities and effectively engaging with the investees because they would be able to better address their needs and specificities.

The rest of the paper proceeds as follows. In the next section, we conduct a literature review on SII to underline the main issues hampering SII's development. Then we introduce the case and the methodology used to collect and analyze the data. In the fourth section, we present the three themes that emerged from the thematic analysis. The themes are then discussed against the extant literature on SII to draft a research agenda aimed at understanding how to preserve the integrity of this approach while attracting new players to enter this industry.

Research Background

In this section, we review the existing literature on SII to further articulate the assumption that a lack of an SII-specific implementation strategy causes many barriers that are hampering the functioning and development of the SII industry.

Investors often complain about the unattractiveness of existing projects with social aims [23,24]. In general, they report that social ventures usually show an inadequate investment readiness for several reasons [25,26]: weak operational capabilities, poorly defined business models and business plans, inadequate financial literacy, poor knowledge about SII, and a lack of robust governance structures and skilled management teams [10,27,28]. In turn, the eligibility criteria used by social impact investors are not able to properly consider the specificities of social ventures [16,29,30]. For example, Lyon (2016) claimed that social impact investors focus on repayable finance while at the same time targeting organizations that have an asset lock implied by the legal form to ensure legal protection for the social mission [31]. Overall, the selection and evaluation of social ventures during the investment decision is still dominated by the assessment of just business, legal, and organizational aspects.

Moreover, the assessment of a socially oriented investment opportunity should also include an estimation of the social return and social risk of the investment alongside the financial risks. The aim of addressing a social problem often leads social impact organizations to operate in sectors with higher chances of failure, raising the perception of risk to potential investors. On the other side, the lack of established methodologies to measure social impact [32] has jeopardized the development of a means to include social return in the decision-making instruments of investors [33–35]. The appraisals of the risk–return profile of SII investments are still unreliable because the higher perceived risk cannot be balanced by a fair assessment of the social return [36,37].

Therefore, the inability of social impact investors to properly define the risk/return profile of the socially oriented investment opportunity prevents them from finding attractive deals. In addition, these biases about the actual total risk and return of SII investments discourage new players from entering the market and raised the transaction costs [38,39].

The usual concerns in terms of governance—information asymmetry, moral hazard, and mission drift—become even more complicated in the context of SII [13]. The lack of

track records and reliable data about social services [40,41] makes it difficult to assess the social performance of the investees before and after the investment, and thus increases the common level of information asymmetries in the financial relationship [27,42,43]. Therefore, investors should rely on trust and shared values as substitutes for formal control to avoid opportunistic behavior [39,44]. The problem of mission drift affects both the investor and the investee. Social ventures might focus exclusively on the delivery of social services, disregarding the commercial aspects, and in turn be unable to pay back the financial return to investors [8,45,46]. The investor expects to have a certain degree of control and decision-making power in the organization, whereas the social entrepreneur wants to be independent to protect the social mission from drifting away due to the profit maximization expectations of the investor [47]. Indeed, social entrepreneurs believe that their financier's primary interest is profit maximization and worry that the investor's influence might lead them astray from their original social mission [48]. Custom governance mechanisms able to mitigate the fear of mission drift, the risk of moral hazard, and the lack of data sharing is a second missing element of the SII implementation strategy.

Large institutional investors generally remain at the margins of the SII industry due to a lack of various forms of infrastructure in terms of enabling regulatory frameworks (e.g., fiduciary duties) [24,26,49] and standards of measuring and reporting social impact [32]. The absence of established methods to measure and report social impact makes the social impact analysis employed by SII investors far less rigorous than the financial analysis [8]. Moreover, various studies [26,33] acknowledge a lack of liquidity and exit strategies caused by the absence of a unified market or exchange platform. It clearly emerges that the industry still needs to define shared infrastructures as standards for impact measurement, regulatory frameworks, exchange platforms, and exit strategies.

In conclusion, the analysis of the literature supports the assumption that social impact investors do not endogenize social impact in their approach and that this lack of specialized strategy hampers the development of this phenomenon.

Specifically, the propositions listed in Table 1 identifies those elements of social impact investors' approach that deserve further effort to be compliant with the SII ethos: the investors' drivers in the investee selection and assessment during the due diligence process, the tools to define the risk/return profile of the investee, the governance mechanisms during the investment period, and the infrastructures needed to enable a tailored approach.

Table 1. Barriers to Social Impact Investing (SII) development.

Barriers to SII Development Identified by Scholars	Non-Tailored Features of the Existing SII Approach
Misalignment between investors and investees' expectations regarding investment capital-funded growth Eligibility criteria not in line with organizations' characteristics Low level of attractiveness of existing social impact organizations Lack of knowledge about SII and inadequate financial literacy Poor managerial skills of social ventures	Business, legal, and organizational aspects are still the dominant drivers in the investee selection, due diligence, and investment decision.
Difficulty in assessing social performance due to scarcity of reliable data Lack of standards for measuring and reporting social impact Bias about the actual risk/return profile of SII investments	Financiers are unable to integrate the "social impact" in the definition of the risk/return profile of the investees.
High level of information asymmetry Risk of moral hazard by neglecting the economic aspects Fear of mission drift by neglecting the social mission	The investor–investee relationship is hindered by the lack of custom governance mechanisms able to mitigate the fear of mission drift, the risk of moral hazard, and the lack of data sharing.
Lack of enabling regulatory frameworks Lack of exchange platforms Lack of exit strategies	There is a need to define shared infrastructures as regulatory frameworks, exchange platforms, and exit strategies.

2. Materials and Methods

The nature of the topic led us to choose a qualitative methodology and focus on the single case of Italy. Indeed, SII is a complex contemporary phenomenon with a limited amount of empirical evidence collected by scholars [50]. Therefore, qualitative research is ideal for exploring and broadening knowledge of real-world phenomena [51].

We selected the Italian case for several reasons. First, as evidenced in the most recent literature reviews on SII [20,21,52], there is a lack of discussion on the Italian context, with most of the research focusing on the US and the UK. Furthermore, since the establishment of the Italian National Advisory Board (NAB) of the G8 Social Impact Investing Taskforce in 2013, interest in that field and the number of actors involved have increased a great deal. Nevertheless, Italy, like many other European countries, still lags behind the UK and US markets. The Annual Impact Investor Survey conducted in 2020 by the Global Impact Investing Network (GIIN) reported that the overall impact investing assets under management (AUM) for the respondent sample was USD 404 billion as of the end of 2019, of which 30% was capital allocated in the US and Canada and 15% in Europe, where Europe was mostly represented by the UK. Other Continental European countries are trying to size their national SII market: In 2019 the market volume in terms of capital invested was approximately EUR 3 billion in Germany [22] and EUR 4 billion in France. The present research also allowed us to identify the size of the Italian SII industry. Accordingly, in Italy, the total amount of assets under management in 2018 was about EUR 2 billion. The Italian case allowed us to enrich the extant literature, mainly based upon studies of the US and UK, by providing insights emerging from the application of SII in a different background context and contributing to establishing a wider perspective on the topic.

Sample

The empirical analysis of the research involved a total of 74 organizations: 44 financial operators and 30 social ventures. To build the sample, we performed a desk search. To identify investors and financiers, we scanned Italian news, cases, law reviews, company information, country information, and publications from 2013 until 2019 in the Nexis Uni research engine. The materials were collected using keywords such as “impact investing,” “impact finance,” and “hybrid finance.” This first step identified 61 stakeholders. Afterwards, each press release was triangulated with the stakeholders’ websites and publicly available official documents. At the end of the screening process, a total of 50 organizations were recognized as social impact investors in the Italian market.

To study the demand side of the SII market, we selected the investment portfolios of the five main investors. These investors are considered pioneers in the Italian SII industry and have committed the most capital. Desk research led to the identification of 45 different Italian social ventures.

The targeted stakeholders were first informed about the purpose of the research to determine their willingness to participate in the project and they received the list of questions before the interview. After this introduction, out of 50, 31 financial organizations in 2018 and 44 in 2019 agreed to take part in the project, and 30 social ventures were involved in 2019. The sample including both supply-side and demand-side organizations is presented in Tables 2 and 3.

Table 2. Sample of social impact investors.

#	Organization	Role	Headquarter	Target	AUM (mln EUR)	Geographical Focus	Asset Class	Financial Return	Sector Focus	Year of Interview
1	AssetManagement Company1	CM	Milan	Maturity	4	National	Equity	MR	Healthcare/Social housing/ Circular Economy	2019
2	Insurance Company1	CM	Trieste	Growth/Maturity	10	National	Equity/ Debt	UMR	Multisector	2018/2019
3	Venture Capital1	CM	Milan	Seed/Growth	0	International	Equity	UMR	Environment/Health/Agriculture/Art/ Urban regeneration/Social care	2018/2019
4	Venture Capital2	CM	Milan	Maturity	0	Local	Equity	UMR	Multisector	2019
5	Bank1	CM	Roma	Growth/ Maturity	n.a.	National	Debt	MR	Multisector	2018/2019
6	Bank2	CM	Padua	Seed/ Growth/ Maturity	n.a.	National	Debt	MR	Agriculture/Environment/Manufacturing	2018/2019
7	Bank3	CM	Milan	Maturity	n.a.	National	Debt	UMR	Multisector	2018/2019
8	Bank4	CM	Roma	Seed/ Growth/ Maturity	28,8	National	Equity/ Debt	MR	Education/Social housing	2018/2019
9	Consortium1	CM	Brescia	Maturity	n.a.	National	Debt	UMR	Multisector	2019
10	Foundation1	CP	Turin	Growth/ Maturity	5,5	Local	Equity	UMR	Health/Art/Social housing/Urban regeneration/Social care/Education	2018/2019
11	Corporate1	CM	Turin	Growth/ Maturity	n.a.	National	Equity	MR	Environment/Energy/Health/Urban regeneration	2018/2019
12	AssetManagement Company2	CM	Padua	Maturity	n.a.	International	Equity	MR	Multisector	2019
13	Foundation2	CP	Padua	Seed/Growth	25	International	Equity/ Debt	UMR	Agriculture/Microfinance/Technology	2018/2019
14	Bank5	CM	Rome	Seed/Growth/Maturity	n.a.	National	Debt	MR	Crafts and small business/ Agriculture/Tourism/ Non-profit institutions	2019
15	Family Office1	CP	Turin	Seed/Growth	41,9	Local	Equity	MR/ UMR	Social housing/Art/Urban regeneration	2018/2019
16	Public Financial Institution1	CM	Milan	Seed	0	Local	Equity	UMR	Social housing/Healthcare/ Sport	2019
17	Public Financial Institution2	CM	Turin	Seed	0	Local	Equity	UMR	Social Infrastructure/Education	2018/2019

Table 2. Cont.

#	Organization	Role	Headquarter	Target	AUM (mln EUR)	Geographical Focus	Asset Class	Financial Return	Sector Focus	Year of Interview
18	Foundation3	CM	Milan	Seed/Growth	3,3	National	Equity	UMR	Microfinance/Environment/Health/Agriculture/Art/Social housing/Social care	2018/2019
19	Foundation4	CP	Rome	Seed/Growth	1,1	National	Equity/Debt	UMR	Multisector	2018/2019
20	Foundation5	CP	Cuneo	Seed/Growth	10,3	Local	Equity	UMR	Multisector	2018/2019
21	Foundation6	CP	Turin	Maturity	120	Local	Equity	UMR	Social housing/Social care/Urban regeneration/Others	2018/2019
22	Foundation7	CP	Milan	Growth	0	National	Equity	UMR	Multisector	2018/2019
23	AssetManagement Company3	CM	Milan	Seed	0,9	National	Equity	UMR	Environment/Agriculture	2018/2019
24	Venture Capital3	CM	Luxemburg	Growth	0	International	Equity	MR	Multisector	2018/2019
25	Venture Capital4	CM	Milan	Seed	0,4	National	Equity	MR	Multisector	2018/2019
26	Bank6	CM	Milan	Growth/Maturity	n.a.	National	Debt	MR/UMR	Multisector	2018/2019
27	Public Financial Institution3	CM	Rome	Seed/Growth	223	National	Debt	MR	Multisector	2018/2019
28	Corporate2	CM	Milan	Seed/Growth	25	National	Equity	UMR	Multisector	2018/2019
29	Equity Crowdfunding Platform1	CM	Turin	Seed/Growth	0,3	National	Equity	MR	Territory development/Urban regeneration/Renewable energies	2019
30	Venture Capital5	CM	Milan	Growth	23	International	Equity	MR	Health/Agriculture/Art/Social housing/Urban regeneration/Social care	2018/2019
31	Venture Capital6	CM	Milan	Growth	1,9	International	Equity	UMR	Migrant-led enterprises/Female entrepreneurship	2019
32	Advisor1	n.a.	Milan	n.a.	n.a.	National	n.a.	n.a.	Multisector	2018/2019
33	Family Office2	CP	Milan	Growth/Maturity	10	International	Equity	MR	Multisector	2018/2019
34	Venture Capital7	CM	Padua	Growth/Maturity	5	National	Equity	UMR	Multisector	2018/2019
35	Corporate3	CM	Luxembourg	Growth	0	International	Equity	MR	Social housing/Agriculture/Environment/Food	2019

Table 2. Cont.

#	Organization	Role	Headquarter	Target	AUM (mln EUR)	Geographical Focus	Asset Class	Financial Return	Sector Focus	Year of Interview
36	AssetManagement Company4	CM	Milan	Maturity	n.a.	International	Equity	MR	Multisector	2018/2019
37	Venture Capital8	CM	Turin	Seed/Growth	0,8	National	Equity/Debt	MR	Agriculture/Education/Social care/Circular economy	2018/2019
38	Advisor2	n.a.	Rome	n.a.	n.a.	National	n.a.	n.a.	Multisector	2019
39	Bank7	CM	Paris	Maturity	0	International	Equity/Debt	UMR	Multisector	2019
40	Bank8	CM	Driebergen-Rijsenburg	Growth/Maturity	10	International	Equity/Debt	MR	Financial inclusion/Impact and equities bond/Sustainable food and agriculture/Energy and climate	2019
41	Bank9	CM	Bergamo	Growth/Maturity	150	National	Equity/Debt	MR	Multisector	2018/2019
42	Bank10	CM	Milan	Growth/Maturity	n.a.	International	Equity/Debt	MR	Multisector	2019
43	Bank11	CM	Rome	Seed/Growth	47,8	National	Debt	UMR	Multisector	2018/2019
44	Insurance Company2	CM	Milan	Growth	n.a.	International	Equity	MR	Environment/Energy/Social housing/Social care	2018/2019

Role: CM = capital manager; CP = capital provider. Financial return: MR = market rate; UMR = under market rate; OMR = over market rate; C = capital. AUM = Asset Under Management; mln = million

Table 3. Sample of social ventures (SV).

#	Organization	Legal Form	Headquarter	Sector	Life Cycle	Investment Year	Year of Interview
1	SV1	LLC	Bari	Education	Growth	2018	2019
2	SV2	Social enterprise	Milan	Culture	Seed	2018	2019
3	SV3	LLC	Milan	Healthcare	Seed	2019	2019
4	SV4	Joint stock company	Milan	Healthcare	Maturity	2017	2019
5	SV5	LLC	Milan	Healthcare	Growth	2018	2019
6	SV6	LLC	Milan	Education	Seed	2019	2019
7	SV7	LLC	Milan	Culture	Seed	2020	2019
8	SV8	LLC	Milan	Food	Seed	2018	2019

Table 3. Cont.

#	Organization	Legal Form	Headquarter	Sector	Life Cycle	Investment Year	Year of Interview
9	SV9	LLC social benefit	Rimini	Welfare	Growth	2017	2019
10	SV10	Joint stock company	Milan	Environment	Maturity	2018	2019
11	SV11	LLC social enterprise	Turin	Social housing	Growth	2019	2019
12	SV12	Social cooperative	Brescia	Social housing	Seed	2018	2019
13	SV13	LLC	Paris	IT	Growth	2018	2019
14	SV14	LLC social enterprise	Cuneo	Tourism	Growth	2018	2019
15	SV15	LLC	Milan	IT	Growth	2018	2019
16	SV16	LLC	Milan	Environment	Growth	2018	2019
17	SV17	LLC	Milan	Education	Growth	2019	2019
18	SV18	LLC	Siracusa	Education	Growth	2018	2019
19	SV19	LLC	Rome	Tourism	Growth	2018	2019
20	SV20	LLC	Milan	Culture	Growth	2018	2019
21	SV21	Joint stock company social enterprise	Milan	Culture	Growth	2018	2019
22	SV22	LLC	Turin	Healthcare	Seed	2019	2019
23	SV23	LLC	London	Social housing	Growth	2018	2019
24	SV24	Social cooperative	Verona	Manufacturing	Startup	2018	2019
25	SV25	LLC	Palermo	Healthcare	Growth	2018	2019
26	SV26	LLC	Ginevra	Manufacturing	Start-up	2018	2019
27	SV27	LLC	Turin	IT	Growth	2017	2019
28	SV28	LLC	Milan	Healthcare	Seed	2019	2019
29	SV29	LLC	Turin	IT	Growth	2017	2019
30	SV30	LLC	Milan	Tourism	Growth	2017	2019

SV = Social Venture. Legal form: LLC = limited liability company. Sector: IT = Information technology.

Data Collection and Analysis

Data collection was performed for two consecutive years: the first round between January and April 2018 and the second round between June and October 2019. We conducted 105 interviews: 30 interviews targeted social ventures, whereas 75 interviews involved social impact investors and financiers. This latter figure was justified because we conducted 31 interviews in 2018 and 44 interviews in 2019 with investors and financiers, whereas all the managers of social ventures were in interviews only in 2019.

We developed a flexible protocol to conduct the interviews that helped to gain an understanding of the characteristics of the financing approach and how it has been implemented in practice, from the perspective of both the financier and the social venture. The list of questions covered all the different steps of the financing process with a specific focus on those elements emerging from the literature review (see Table 1): how they performed the scouting and due diligence, both social and economic, of the potential investees; how they finalized the investment decision and structured the contractual agreements; how they monitored the social and financial performance of their investment; and how they measured the social impact. Lastly, we asked what they perceived as missing enablers in the industry to support them in realizing their approach.

Each interview lasted between 30 and 80 min. Interviews were conducted either face-to-face or via Skype/telephone and they were recorded and subsequently transcribed.

The data were analyzed using the thematic analysis method [53] to identify how to approach the main challenges that are hampering the Italian SII ecosystem and to identify the core elements of the SII development strategy. Thematic analysis is the structuring and interpretation of collected data into major concepts by identifying prominent or recurring themes. A theme represents a pattern or meaning within data, which captures something concerning the overall research question [54,55]. Thus, the thematic analysis is an accessible and theoretically flexible approach to map an intellectual field into major themes and sub-themes [54,56].

We employed a deductive coding approach shown in Table 4 (using NVivo software, which helps in organizing and analyzing qualitative data) to extract the relevant themes from our data. We derived the categories from the four theoretical propositions that emerged from the extant literature on SII [54]. The propositions referred to four areas of the social impact financing process: investors' drivers in the investee selection, due diligence and the investment decision, and the definition of the risk–return profile; the governance mechanisms used in the transaction; and the enabling infrastructures.

Table 4. Coding process and data structure.

Categories	Core Concepts Emerging from Codes	Themes
Scouting process	Need for specialized intermediary or business units	Promoting a cultural shift and specific expertise development
Investment readiness assessment process	Engaging social sector experts in investment advisory boards	
Due diligence process	Role of universities and local authorities in building knowledge	Adopting the coepetition paradigm
Eligibility criteria	Local networks and geographical proximity	
Social risk estimation	Financiers' willingness to transfer skills and play a signaling role	Integrating impact in the financial transaction
Social return appraisal	Co-investments and exchange of know-how among financiers	
Governance mechanisms	Joint-venture investors and incubator/accelerator	
Risk of moral hazard	Reference methods to assess social risk and social return	
Risk of mission drift	Mechanisms to foster the availability of data to assess social impact	
Transaction costs	Instruments based on an outcome-based approach	
Enabling infrastructures	Rigorous evidence of social impact generated	
	Supportive legislative framework	
	Establish secondary markets for SII	

During the coding process, we assigned a label to concepts that emerged within the text based on the different categories [56]. Reviewing the coded sentences allowed us to identify recurring themes. A theme represents a pattern within data that captures concepts important to the research question [54]. In our analysis, the themes were implementation strategies that enabled us to translate the SII principle into practice.

The three researchers independently coded the transcripts to enhance the quality and reliability of the analysis. They are summarized in the column “Themes” in Table 4. Finally, we grouped these themes into four aggregated theoretical dimensions.

3. Results

In this section, we examine the capital allocation strategies and processes of the Italian social impact investors and their investees to understand how they are trying to translate the core SII principles into practice. We organized this section to present the three themes—promoting a cultural shift, adopting a co-competition approach, and integrating the social impact in the financial transaction—that emerged from the deductive qualitative analysis of the data. These themes might represent actions that enable the development of a distinctive SII implementation strategy.

Promoting a Cultural Shift and Specific Expertise Development

Financiers insisted that traditional investment principles are not appropriate for the SII approach because they are unable to capture the specific characteristics of the demand side. Indeed, they claimed that professionals with specific competencies are required for the SII field. As argued by an investor, “This sector requires specific skills: specialized operators are needed and generalists should have a unit specialized in impact investments” (Corporate2). One-third of the interviewed financiers noted that social venture managers have poor awareness of the opportunities offered by the SII approach. This also emerged in the interviews with social venture managers who declared that “We do not have a very extensive knowledge of the suppliers of impact capital in Italy” (SV2 and SV30). According to the financiers, there is a very low propensity on the demand side to receive innovative financing due to the fear of losing control over the company and the fear that investors’ pressure might lead to mission drift. As one investor pointed out, “If you analyze how these organizations finance themselves, innovative tools are not preferred for several reasons: the loss of control, the problem of governance, the lack of returns that make their projects attractive to investors. The world of the social sector, therefore, prefers traditional financial instruments such as bank debt, shareholder loans, mutual guarantee systems, mutual funds” (Foundation3).

Both financiers and social venture managers mentioned the need to engage experts from the social sector in the investment process.

Another barrier in the relationship between the social impact investor and the investee was the higher burden in terms of time and costs of the assessment process required to evaluate the social parameters before committing any capital. Overall, social ventures perceived that financiers did not have a standardized screening process, and they did not see how social impact was structurally included in the evaluation criteria. Instead, elements such as financial sustainability, the soundness of the business model, and the quality of the team—measured in human resources skills and internal cohesion—were deeply examined before and during the investment process, whereas the social objectives were treated simply as gatekeepers, without a proper assessment. This problem was amplified by the small size of socially oriented initiatives, and, thus, of the potential deal.

To overcome this issue, financiers created joint investment programs to prevent the fragmented replication of similar initiatives implemented by socially oriented organizations, and this also allowed them to share the more costly screening and due diligence efforts suggested by financiers through different actions. For example, Foundation3 underlined the importance of identifying “networks of organizations to avoid the replication of similar initiatives and create innovative forms of collaboration among socially oriented organizations.”

Investors also mentioned the need to “exchange know-how and practices between operators” (AssetManagementCompany1) and suggested that “advisory teams should not be made up solely of people who are experts in finance” (VentureCapital2).

Furthermore, universities and local authorities played a key role in the dissemination of SII knowledge. Both investors and social ventures suggested that “Universities can certainly play the role of creating a culture in overcoming those barriers; indeed they are at the forefront of the SII knowledge and they work with international groups such as GIIN. However, they should work together with other stakeholders” (VentureCapital6). Another important player to promote both knowledge and initiatives was the local authority: “We work a lot with the local councils to spread SII culture throughout the territory” (Advisor2).

Expertise in providing social services was more common than managerial and financial capabilities among the managers and entrepreneurs of socially oriented ventures. Therefore, the importance of accelerators and incubators became even more crucial in the SII industry compared to the traditional for-profit sector, and a common model that emerged from the analysis of Italian investors was the creation of a joint venture between investors and players providing capacity-building to entrepreneurs.

Adopting the Coopetition Paradigm

The SII industry is still missing a common platform at the national level that helps financiers intercept investment opportunities. Indeed, financiers reported that the best way to intercept investment opportunities was by relying on several local sub-ecosystems. The geographic proximity between investors and potential investees became a crucial element in building the pipeline. Thus, facilitating platforms were created in the main cities to bring stakeholders together from the impact capital supply-and-demand side.

Indeed, social impact financiers reached potential investees through a network of mutual relationships, or else investors proactively approached their target. Rarely did investors promote open calls to attract potential targets.

The issue of governance emerged concerning the definition of social objectives before investing. The social impact was the primary driver for both investors and investees, and their social goals should be aligned. However, not all financiers included in the investment memorandum specific social targets to be met during the investment period. In most cases, financial transactions in which social targets were set were negotiated between the investors and the investee, and in one third they were suggested by the investors. The requirement to set social objectives occurred mostly when using public resources. Rarely did impact investment funds link the carried interest to the effective fulfilment of the social objectives.

Lastly, in some cases, the presence of the investor on the board of directors was envisaged by the same financial operators as a way to ensure that both the social mission and the financial goals were achieved. The investor engagement could impose specific duties such as the “reinvestment of revenues within the organization” (SV3), “the right to veto the entry of a new shareholder into share capital if the new potential shareholder proves to be of dubious reputation” (SV7), and the possibility for the impact investor to “change top management if the company’s direction changes” (SV17).

Most of the financiers offered support to investees in the form of non-financial services. Indeed, they underlined that most of the social ventures did not have strong managerial competences. For example, VentureCapital1 declared explicitly its aim to “exploit the time of investments to support the organizations to develop a social impact measurement system that might be a permanent tool for them.” Others claimed to transfer knowledge and skills, such as problem-solving skills, in an informal way, claiming, “What we can transfer is a certain managerial capacity, a certain way of dealing with problems. It is, therefore, an indirect contribution from a managerial and strategic point of view without setting specific training courses or service” (VentureCapital2). This was confirmed by social ventures who stated that being engaged with the SII investor enhanced their skills and brought networking advantages, while also helping them define the business strategy and strengthen its structure. Indeed, one venture operating in the healthcare sector mentioned

that “the impact investor was really helpful in clarifying certain aspects of business and networking. He reached external team members, advised on certain strategic decisions, made some resources available as med-tech and business strategy specialists, in particular, some contacts that led us as a regulatory consultant.” In addition, the financier played a key signaling role for the social businesses within the SII network, allowing greater visibility of the organization in the sector, and supporting the creation of links with similar organizations and other potential investors. Indeed, social ventures underlined the difficulty of creating a network on their own in the SII industry. The investees clearly saw advantages beyond the deployment of capital in the relationship with their investor: “We looked for impact investors immediately. It is a very one-to-one relationship with mutual trust” (SV2).

Integrating the Social Impact in the Financial Transaction

The poor understanding of the SII approach, and the consequent difficulty in developing specialized competencies, led investors to apply traditional portfolio allocation frameworks that were only based on the assessment of financial risk and return to make investment decisions. However, given the blended mission of SII, elements beyond financial return and risk should be assessed in SII financial transactions, that is, social return and social risk. Unfortunately, the majority of financiers and social ventures had never seriously envisioned how to assess social risk. Those who took this dimension into account interpreted it mainly as the probability of failing to achieve the impact, whereas others viewed it as the possibility of mission drift in the social venture or as the probability of generating a negative impact. Lastly, some investors considered impact risk as inherently embedded in the financial risk assessment. Therefore, no one tried to define a standard measure of social risk. The analysis also indicated that Italian social impact investors remained very skeptical about the existing tools to measure and evaluate returns in terms of social impact since they were considered too expensive and complicated. As a consequence, a vast majority of financiers used ad hoc measurement tools composed of a few mainly qualitative indicators customized for each investment. We defined this current approach as transaction-based because the method and metrics change from investor to investor and from deal to deal.

The measurement of performance in terms of social impact should be considered throughout the entire investment process: in the screening and due diligence phase to assess the companies and set the objective and targets, during the investment to monitor the results in terms of social outcomes, and at the end of the investment to verify the achievement of the target and the generated social impact. The interviewees reported that, given the current state of the theorization of social impact measurements, the measurement process was rarely implemented in everyday business life, and a pragmatic approach was requested by social ventures: “The measurement activity requires one person fully dedicated, furthermore it is necessary to require a large amount of data every day to have a complete and detailed report” (SV6). In an ex ante phase of the investment, an impact assessment was conducted by less than half of financiers during the screening and due diligence procedure because it was perceived as being excessively sophisticated. During and after the investment period, the vast majority of financiers used ad hoc measurement tools composed of a few quantitative indicators assessing the outputs that were customized for each investment. According to investors, the main elements that hindered the implementation of an integrated impact measurement process were technicalities such as difficulty establishing the attribution of social outcomes to a specific intervention (i.e., the deadweight issue) and the need to identify quantitative proxies. For example, Bank6 reported that, “In general the intermediaries who have a very large portfolio of projects whose effects are not direct, have a more complicated attribution problem.”

Moreover, financiers cited not only a lack of measurement methodologies and tools, but also a poor institutional culture of impact measurement, where impact measurement was still confused with social reporting and was not considered a managerial and decision-making tool by social ventures. Indeed, financiers complained about the low propensity of companies to equip themselves with measuring tools because it was still a new topic

and “a low benefit for those who decide to have a measuring system, which is however expensive” (Consortium1). These insights also emerged in interviews with social ventures.

In addition, investors emphasized the difficulty of accessing information about social ventures they could rely on to build their pipeline during the due diligence step. In particular, social ventures did not keep records of their social results, and there was no structured database social ventures could use to build proxies and forecast social outcomes. Thus, it was difficult for social impact investors to assess the reliability of the information provided by social ventures and to compare the performances of different organizations since each one used a proprietary methodology. To address this problem, “More work on the digitization of the measuring system would be needed to overcome some difficulties thanks to the technology” (Bank11).

A mechanism that would support investors in monitoring the results of social ventures in terms of social value creation is linking the achievement of results in terms of social impact generation to the financial terms of the instrument, namely, adopting the outcome-based approach, which makes the company more accountable for upholding the social mission. However, financiers underlined that a greater and scientifically sound understanding of these pay-for-results instruments was needed: “For my financial background, I think we need to go from greater scientificity in measuring the impact and in the financialization of some instruments” (Foundation3). Moving at the end of the investment process, there was little evidence of exit operations thus far because the industry is still in its early stages, and the average investment duration in a social venture is seven years. However, to enhance the feasibility of exit strategies, it would be crucial to understand how to include social mission lock clauses in the exit process, ensuring that the new buyer will maintain the focus on the social mission.

4. Discussion

In this section, we discuss the three themes that emerged from the thematic analysis against the extant literature. Overall, the analysis of the Italian case corroborates the issues identified by SII scholars, but it also helps identify potential strategies not envisaged by the existing literature [57]. This allows us to draft a research agenda including those topics that need to be further investigated by scholars to support practitioners in translating distinctive SII principles into practice.

The analysis of the Italian case confirmed scholars’ concern [7,38,48] that financiers engaged in SII still apply the logic of the mainstream investment approach. Along with Castellás et al. [7], we found that impact investors decouple and prioritize investment logic rather than reconcile with a hybrid logic. In particular, the results suggest that financiers are still not able to endogenize social impact in their financial transactions because the core distinctive elements of SII have not been fully disentangled. The non-existent conceptualization of social risk and the struggle to measure social return make the social impact analysis far less rigorous than the financial one. This confirms the doubts about the ability of social impact investors to sustain impact and investment logic simultaneously [7]. Moreover, as highlighted by Lyon [16] and Viviani and Maurel [39], financiers are unaware of the specific features of social ventures’ capital structure [58]. These elements might explain the predominance of financial metrics over social impact metrics during the assessment process [8,10] and the high level of information asymmetries noted by scholars [27,42,43]. Therefore, the initial assumption of the research is supported by our analysis; indeed, many asset owners are interested in committing their capital to the SII approach, but management firms show a poor understanding of the specificities of SII and the profit motivation (or at least the capital preservation motivation) is still driving the practice of those who manage the capital. This confirms the concern raised by Findlay and Moran [17] of losing the integrity of the hybrid approach when participants enter the industry with no respect for SII principles and no true intention to invest in transformative solutions to pressing social challenges.

Therefore, the first step to support the development of SII is the promotion of a cultural shift in the intermediaries. However, this will be possible only if we are able to elevate the comprehension of the social impact to the same level as the economic value [39]. Thus, portfolio allocation frameworks are still based on financial risks and returns, and they do not yet include social risks and returns [33,37]. We claim that the first priority for scholars should be to understand what social risk is and how it can be measured, addressing the issue of a “trade-off” between market-rate returns and social impact [38,59] in the portfolio allocation instruments.

The second pivotal domain of expertise and infrastructure to be strengthened is social impact measurement. Lall [57], in his qualitative study of eight social enterprises and their respective funders, suggested that social impact measurement should be framed not in terms of methodologies and indicators [32,39,59] but as a tool for organizational learning and a means to establish mutual legitimacy between investors and investees. Building on this insight, our analysis shifts the focus from technicalities and methods to data for social impact measurement and the governance of impact management.

Despite numerous attempts to find a standardized methodology [60], we argue that the social impact measurement process cannot be standardized across sectors and geographies. Instead, the transaction-based approach (a custom method and Key Performance Indicators for each deal) is the most appropriate way to measure the real changes a company produces.

This is suggested by the fact that despite the existence of many methods developed by reference institutions, a vast majority of financiers are currently using ad hoc measurement tools, whereas social ventures mostly do not have a social impact measurement system before approaching the financiers.

However, this customized effort requires an organization to design a measurement infrastructure and gather specialized data. To make this kind of approach less resource-consuming and easier to implement, mechanisms to ease the collection and sharing of data must be built, most likely leveraging technologies and data analytics. What should be standardized is not how we measure social impact, but rather what we measure and what the minimum level of data infrastructure (channels to make data available and frameworks to aggregate and organize impact data) required for a social venture to be involved in SII is.

Our findings suggest that the SII industry requires a governance system of social impact measurement where organizations that label themselves as socially oriented are compelled to report their results in terms of social outcomes and where a third party audits these results to ensure their reliability. This would support the due diligence process of financiers, but it also requires helping social ventures develop in-house expertise to implement these practices. Moreover, a crucial aspect that should be considered is the separation of social impact measurement and audit. The first function, taking an impact investment fund as an example, is the responsibility of the fund’s board, which is called upon to define processes, indicators, and objectives in the (i) *ex ante* and (ii) risk assessment phase, possibly with the support of an advisor/consultant. The second function, to guarantee not only the accuracy and reliability but also the transparency and impartiality of the entire measurement process and impact results pursued, should be attributed to a third and independent party. Examples of this division of functions can be found, for example, in the Italian legislation of Benefit Corporations. This is an issue still neglected by the existing literature [61].

The definition of these two elements, social risks and social return, and the development of expertise specific to those by the financial intermediaries, will allow them to tailor their criteria to build the pipeline, perform a due diligence check that can properly frame the potential value generated by a social venture, and bind the financial return to social outcomes targets. Moreover, this will increase the feasibility and attractiveness of outcome-based schemes such as the sustainability-linked bonds that embrace the real principles underpinning the SII approach.

The Italian case revealed another interesting trend: the behavior of SII financiers follows a cooperation approach. Cooperation is defined as a situation where two or more

organizations simultaneously cooperate and compete, and this mutual relationship brings added value [62]. Although SII investors compete to attract valuable investment opportunities, the need to develop specific expertise on social outcomes and lower the risks and costs related to the absence of track records on financials and social performance pushes them to cooperate in supporting socially oriented initiatives. We found many examples of co-investment efforts, and another diffuse practice was the open sharing of information both in the scouting and investing phase. This helped decrease the burden of scouting and performing due diligence. The co-competition approach among financiers and between financiers and social ventures seems to be a peculiar trait of the SII market. A collaborative approach among financiers and social ventures has already been identified by Lall [57] and Chen and Harrison [41], who specifically investigated the context of impact measurement. This trend is reinforced by a transfer of skills and expertise from the SII financier to social ventures and the fact that financiers play a signaling role [10,63]. The existence of networks and collaborative partnerships proved crucial for overcoming the challenges posed by the inadequate supporting infrastructure, the restricted range of investment opportunities, and the limited expertise of stakeholders. The competition to collect and deploy capital and the collaboration to develop specific competencies might lead financiers to push one another towards the establishment of a dominant SII design, which could increase the legitimacy of this heterogeneous industry with blurred boundaries.

In conclusion, our analysis expands the existing SII research agenda by identifying several gaps in the understanding of the SII concept that prevents a further expansion of this phenomenon or might threaten the transformative power of this approach. Specifically, future scholarship should focus on the following topics: outlining the utility function of the social impact investors, disentangling the issue of “trade-off” between the achievement of financial returns and social impact, the governance of social impact measurement, and understanding how co-competition research might help unpack the relationships among the stakeholders involved in the SII industry and solve the issue of the fragmentation of this industry.

5. Conclusions

As an emerging concept, SII remains largely understudied, especially in non-Anglo-Saxon countries, and it seems to be broadly understood but not operationalized [5,64]. The lack of a proper theorization of the social impact investing concept has led to failure in translating the core SII principles into practice and the development of a distinctive SII approach in capital allocation. This paper aims at understanding which elements still need to be investigated to define a distinct SII implementation strategy.

We identified three elements that are able to distinguish the SII approach from any other approach: financial intermediaries with specific expertise on social challenges and sectors, a co-competition approach among investors and in the relationship between investors and investees, and the integration of social impact into the financial transaction. However, the extant SII literature has still not developed a proper understanding to support practitioners in undertaking a transformation towards these actions. Therefore, they also inform the draft of a research agenda for future scholarship on SII.

The study makes several contributions. The recent studies on SII mainly explored definitional and terminological clarifications [65]. Yet sometimes it is confused with other approaches, such as socially responsible investment or ESG (Environmental, Social and Governance) investment. In addition, the articles that discussed the definition of impact investing mostly considered principles and classifications, neglecting to what extent practitioners understand them. Therefore, the present analysis contributes by outlining how the definition of SII can be translated into practice by the players of the industry without losing the features that set it apart from approaches that, despite showing commonalities, do not bear the same transformative power.

As already mentioned, enabling investors to understand and translate the distinctive SII principles in the financing process and mechanisms is crucial to legitimizing the

existence of impact investing as an asset class to attract new players and increase the opportunities to generate social value and address urgent societal challenges. Moreover, given the nascent stage of SII theorization and the growing interest of practitioners in entering this market, it is important to prevent the risk of impact washing. Clarifying the shape of a distinctive SII implementation strategy, it will be possible to understand which players are willing to preserve SII integrity and prioritize impact in the financial transaction, and which are just exploiting the momentum for marketing purposes.

Second, given the nascent stage of scholarship in impact investing, this paper offers a research agenda contributing to orienting future scholars. We propose three elements as crucial to establishing a complete theorization of SII: understanding the differences between the utility function of traditional and SII investors, exploring the topic of social impact measurement not from a technical point of view but rather by looking at governance theories and models, and deepening the investigation of the investor–investee relationship and investor–investor relationship in light of the insight of the cooperation research. Third, this paper enriches SII literature by providing insights on a Continental European market when the existing scholarship is dominated by an Anglo-Saxon perspective. Given that our analysis is based on a single case, we are cautious about generalizing the results and we offer as an avenue of future research the need to verify those results in other geographical countries. Another opportunity to expand this research is to understand the role of the public sector in a distinctive SII implementation strategy.

In conclusion, the current study contributes to the debate on the role of SII within the broader revolution of rethinking capitalism [66]. In 2009, a report by the Monitor Institute [19] proposed two possible scenarios for the developmental trajectory of social impact investing. The first scenario envisions that to grow the pool of capital in the SII industry, the players embrace a loose definition of social and environmental impact, diluting the concept to be virtually meaningless. The second scenario is more radical, where “investing for impact will ultimately be too hard” because “hype, poor thinking, and sloppy execution would cause disappointment” and mainstream investors will no longer be interested in this approach, making the industry irrelevant. The current research wanted to investigate how to prevent the risks envisioned by Freireich and Fulton [19]. Indeed, our findings support the idea that the pioneers currently populating the SII industry must remain true to the SII concept and, at the same time, they should develop a paradigm of practice that preserve its integrity. This practice could be offered as a reference for those who may be able to fully revolutionize the way of doing finance thanks to the injection of trillions of assets in impact-generating projects.

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