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Investing with dual objectives

The investment decision of impact investors and their preferences for the business model of social ventures

A qualitative exploration

Helen Kvande Due and Christina Lund

Supervisor: Tina Saebi

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ABSTRACT

Impact investors aim to achieve social and environmental impact, alongside financial return on their investments. Thus, they are increasingly considered a potential source of funding for ventures that aim to address pressing social challenges. Despite growing interest from practitioners and policymakers, the academic literature on impact investing is limited. Several fundamental aspects have not been addressed; such as the investment decision of impact investors and the conceptual confusion. We address the conceptual confusion by conducting a critical review of the literature and background interviews in Uganda, Kenya and Norway, leading us to propose a working definition. Furthermore, as the pursuit of social impact and financial return are historically deemed incompatible, the question arises of *how* impact investors approach their dual objectives in an investment decision. We address this question by conducting semi-structured interviews with Norwegian impact investors and potential investees; social ventures. By applying a business model perspective to the investment decision of impact investors, we provide novel insight on their preferences for characteristics of social ventures.

We find that Norwegian impact investors aim to incorporate their dual objectives in the investment decision, however an informal and limited assessment of the potential social impact, lead to an emphasis on the financial objective. By identifying preferences regarding the business model, we find that impact investors approach their dual objectives by investing in ventures where the generation of profit and social impact are aligned. Thus, we find that the business model of the social venture should be given high importance in the investment decision, as certain characteristics lead to less conflicts between the dual objectives of impact investors.

This thesis contributes to the limited academic literature on impact investing, and to the best of our knowledge, it is the first study on the Norwegian impact investing scene. Our findings provide clarity on the concept of impact investing and the investment decision, with theoretical and practical implications. Furthermore, based on our findings we provide concrete recommendations that can be utilised by social ventures seeking funding from impact investors.

ACKNOWLEDGEMENT

In 2016, when pursuing studies in Social Entrepreneurship in Cape Town, we were introduced to the concept of impact investing. We were drawn to the phenomenon due to its potential to provide critical financial resources to address challenges like climate change and poverty, and thus to bring ethics into finance. This thesis serves as an initial attempt to explore the investment decision of impact investors and their preferences toward the investee, in the Norwegian context.

Our supervisor, Tina Saebi, deserves a special acknowledgement in this thesis. Firstly, for encouraging us to pursue the topic of our interest and agreeing to work with a rather untraditional timeline for a master's thesis spanning geographical distances and time zones. Secondly, for providing steady guidance, quick replies and invaluable comments. We also want to thank the Centre of Ethics and Economics at NHH for supporting our data collection process and Aksel Mjøs, for his enthusiasm for the topic and encouragement for this thesis. Last, but not least we would like to thank all our informants; their valuable time and knowledge have been fundamental for this thesis.

Lastly, we want to thank our families and each other. We feel lucky to have been able to explore the impact investing field together, as researchers and discussion partners, but especially as friends.

We hope the reader finds our thesis enlightening, and that it can spur interest from students, policy makers and investors.

Happy reading,

Helen Kvande Due Christina Lund

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1. INTRODUCTION

Historically, the government has been perceived as being responsible for solving social and environmental challenges, while it has been the duty of philanthropic individuals and organisations to address the unresolved problems in society. However, the nature and increasing magnitude of challenges faced by humanity today, such as climate change, population growth and rising inequality, renders governments and purely philanthropic efforts insufficient.

Over the past decade, a range of innovative mechanisms, often referred to as social finance, have been introduced to channel funds toward social challenges. The common feature of these mechanisms is that they seek social impact, beyond a financial return. A phenomenon that has gained momentum within the social finance field is impact investing. defined as investments with the intention to generate measurable social and/or environmental impact, alongside a financial return (Bugg-Levine & Emerson, 2011). Impact investors are individuals or organisations that pursue dual objectives of financial return and social and/or environmental (hereafter referred to as social) impact. Thus, impact investors are considered a new and important potential source of funding for those organisations that seek to alleviate some of society's most pressing social challenges.

Despite the growing interest in impact investing from practitioners and policymakers, the academic field is at an early stage and several fundamental topics have not been addressed. A common definition of impact investing is lacking; the term is found to be used interchangeably and the boundaries to related concepts remain unclear (Höchstädter & Scheck, 2015). Roundy et al. (2017) argue that a clarification of how impact investors perform an investment decision can provide a better understanding of the phenomenon. Extant literature has merely pointed out that impact investors perform a similar investment process to that of traditional investors, but appear to take an additional impact assessment is into account (Roundy et al., 2017; Grabenwarter & Liechtenstein, 2011). Thus, impact investors attempt to combine traditional financial criteria and philanthropic objectives in their investment decision; however, how these dual objectives are approached remains largely unexplored.

A better understanding of how the dual objectives are approached in an investment decision, can be explored by studying investor preferences regarding the investee - the organisation receiving funding. Practitioners suggest that impact investors have an affinity for social ventures (Roundy et al., 2017), as these ventures aim to create social and financial value by leveraging market-based mechanisms (Certo & Miller, 2008). Social ventures are built on an explicit social mission to address a social ill, such as alleviating poverty, reducing environmental pollution and facilitating access to healthcare and education (Zahra & Wright, 2016). By addressing these issues and creating social value, social ventures presumably are an attractive investee for impact investors, as they also aim to achieve dual objectives. However, it is unclear from extant research how impact investors interact with, and have preferences towards, the social venture.

This leads us to the overall aim of this thesis, namely to understand how impact investors approach their dual objectives when deciding to invest in a social venture. One important dimension, which has been neglected in extant research, is the role of the business model of the social venture. The business model of a social venture describes how value is created, delivered and captured (Teece, 2010), and can differ among ventures, e.g. with regard to the social mission, the revenue stream, value proposition and customers and beneficiaries (Dohrmann et al., 2015; Zahra et al., 2009). Hence, exploring the preferences of impact investors regarding dimensions of the business model of the social venture, can reveal how the dual objectives are approached in the investment decision. Furthermore, it can highlight practical implications for the social ventures seeking funding from these investors.

1.1 Research objectives and research question

Our research objective is thus twofold. Firstly, by understanding in what way impact investors approach their dual objectives in an investment decision, we can contribute to the terminological discussion of what impact investing is and provide insight into the investment decision of an impact investor. Secondly, by using business models as a tool to understanding investor preferences, we can further explore how the dual objectives of impact investors are approached in an investment decision. By exploring the investment decision of the impact investors and their preferences toward social ventures, we can subsequently offer hands-on recommendations for social ventures who are seeking funding from these sources. Thus, our research question is formulated as follows:

"How do impact investors approach their dual objectives in an investment choice and how is this reflected in preferences for the business model of the social ventures?"

1.2 Contributions of the study

Our findings provide important contributions to the fields of impact investing and social venture financing, two fields that are largely unexplored in academia (Calderini et al., 2017; Doherty et al., 2014). As impact investing lacks a common definition and suffer from unclear definitional boundaries, we critically review practitioner and academic literature and propose a working definition that delimits the term. We thus contribute to the terminological discussion, and offer theoretical implications with special relevance for policymakers. Additionally, as this thesis is the first study on the Norwegian impact investing scene, we provide the reader with a market overview, which eases the navigation for policymakers, social ventures and future researchers entering the field.

We address the limited knowledge of the investment decision of impact investors by conducting semi-structured interviews with practitioners, leading us to enhance the understanding of how impact investors approach their dual objectives. Our findings reveal an emphasis on the mainstream financial criteria and an unsophisticated incorporation of the social objective in the investment decision, which we argue can pose a threat to the legitimation of impact investing. Furthermore, as little is known about the investee, we contribute with initial insight by identifying preferred characteristics of the business models of social ventures. Furthermore, this leads us to identify types of business models that are perceived to reconcile the potential conflicting logics of an impact investors dual objectives. Thus, by introducing a business model perspective to the field of impact investing, allow us to understand how impact investors can overcome the conflicting logics of their dual objectives. As social ventures experience, significant challenges in obtaining funding, our findings offer important concrete recommendations that can help social ventures acquire funding from impact investors.

1.3 Outline of thesis

To answer our research questions, we adopt the following structure consisting of six chapters, see Figure 1. As impact investing is a new phenomenon, chapter 2 starts with a thorough review of the definition of impact investing, leading to our own working definition. Furthermore, we review existing literature on the investment decision of impact investors. As this literature is limited, we supplement the review with reviewing social impact measurement and relevant theory from traditional investment decision making. Finally, chapter 2 highlights gaps in the impact investing literature, revealing especially scarce knowledge on characteristics of the investee, beyond a mere suggestion that impact investors could have an affinity for social ventures. Thus, this leads us to studying social ventures in chapter 3, were we first review literature on social ventures. We then go on to explore, to be able to study the possible link between impact investors and social ventures we explore the challenge faced by social ventures in attracting funding. Lastly, we apply business model theory to formulate propositions of different characteristics of a social venture, which impact investors might have preferences for.

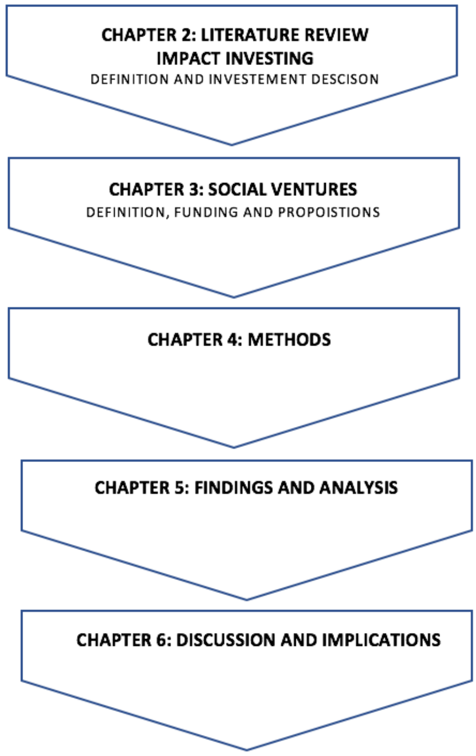

Figure 1: Outline of the thesis

The methods section describes the research design and strategy of our analysis, which has been an iterative rather than linear process. Through an explorative and qualitative design, we present the step-by-step approach of our research including the data collection and analysis methods uses in the thesis. We then move on to discuss the findings and the analysis resulted from the background interviews, ethnographic observations, and semi-structured interviews in chapter 5. We first provide an overview of the Norwegian impact investing scene, then move on to present findings related to our research question.

In chapter 6, we conclude our thesis with a discussion of our main findings and highlight three propositions. Furthermore, we present theoretical implications and the practical implications for social ventures, impact investors and policymakers. Finally, we discuss the limitations of this thesis and the recommendations for future research.

1.4 Boundaries of the thesis

We limit the scope of our research to focus on the Norwegian impact investment scene. Because different wealth systems and contexts are found to affect the role of the philanthropic sector and social ventures (Estrin et al., 2015), our results might not be generalizable to other regions. However, as most of our interviewees invest internationally, it can be argued that our results to a certain extent are generalizable. We also limit our study to mainly focus on investors who invest directly into ventures with equity, not investors who only invest in funds, through social impact bonds or other instruments. We apply this limitation to be able to study and explore the investor preferences toward the business model of the social venture.

2. REVIEWING THE IMPACT INVESTING LITERATURE: DEFINITION AND DUAL OBJECTIVES IN THE INVESTMENT CHOICE

The aim of this chapter is twofold. Firstly, we intend to provide a thorough understanding of impact investing, as this is essential to answer our research question. The lack of a common definition results in a need to clarify what this thesis refers to as an impact investment. Thus, we identify key defining components of impact investing, and furthermore review literature on how impact investing differs from related concepts. Based on our critical review of the literature, we thus propose a working definition. Secondly, we examine literature on how impact investors approach the dual objectives in an investment decision. To provide a conceptual background, we review literature on the investment decision of traditional investors directly investing in ventures and further examine existing theories on the interplay between financial and social performance in business. We end the chapter by highlighting important gaps in the literature concerning the investment decision of impact investors.

As the field of impact investing is still in a early stage of development, academic research is relatively scarce. Hence, this literature review has been conducted based on both academic and practitioner literature in the field.

2.1 What is impact investing?

The term impact investing was coined in 2007 at the Rockefeller Foundation's Bellagio Centre, by leaders from philanthropy, development and finance (Höchstädter & Scheck, 2015), as a means to mobilise capital to effectively solve social and environmental issues. Impact investing was founded as a hybrid concept, combining elements from traditional financial decision making with philanthropic objectives. The inception of the concept can be seen in tandem with a level discontent with the financial system, and ineffectiveness both in the public sector and philanthropic models in addressing social issues (Calderini et al., 2017).

Since then, impact investing has gained attention from a broad set of actors; including private investors, financial institutions, policy makers, universities and social ventures. The interest initially seen from foundations, wealthy individuals and private investors, has moved to include large mainstream financial institutions like BlackRock, JPMorgan and Credit Suisse.

Governments around the world are acknowledging the potential of impact investing in addressing environmental and social challenges and in 2013 The Social Impact Investing Taskforce of the G8, was set up in collaboration with the OECD to encourage impact investing in member countries (Social Impact Investment Taskforce, 2014). Furthermore, renowned universities like Oxford, Yale and Columbia have launched impact investing initiatives and included impact investing in course material (Höchstädter & Scheck, 2015)

While the term impact investing is young, the practice of deploying capital to ensure the well-being of society has been observed throughout history. Examples include the religious Quaker community in the 17th century in England, the environmental movements of the 1970s, the anti-apartheid divestment campaigns of the 1980s and the more recent movement of socially responsible investing (Bugg-Levine & Emerson, 2011). The concept of blended value was introduced in 1990, and defines the true value of an investment as the simultaneous creation of economic return, combined with a social and environmental impact (Emerson, 2003). Thus, this represents a holistic view of value creation; this was influential in coining the term 'impact investing'. Bugg-Levine & Emerson (2011) highlight that: "if impact investing is what we do, blended value is what we produce." Impact investing is hence explained as investments with the intention to generate social and environmental impact, alongside a financial return (Bugg-Levine & Emerson, 2011). A simplified version of the impact investment process is presented in figure 2 below. Different types of asset owners and managers deploy capital to organisations that create social value for beneficiaries, alongside financial return for the impact investors.

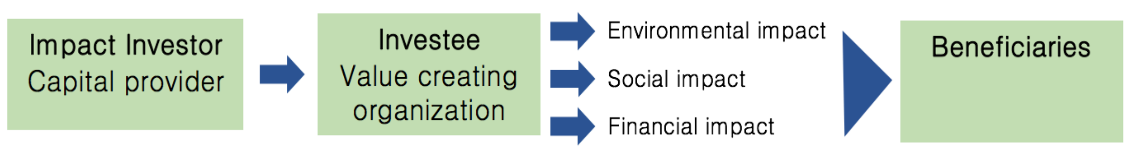

Figure 2: The impact investing process (Authors' own, adopted from UNDP, 2014)

2.1.1 Defining impact investing

Despite increased investment activity, along with interest from policy-makers and practitioners, impact investing lacks conceptual clarity. Höchstädter & Scheck (2015) emphasise that the term suffers from interchangeable use of terminology and unclear definitional boundaries. This issue is identified as a critical challenge for the growth of impact investing in the 2018 Annual Impact Investing Survey by GIIN (GIIN, 2018).

There exists a wide range of definitions of impact investing, which we have summarized in Table 1 below. Despite the difference in terminology, we notice a convergence regarding the key defining components. A widely cited definition claims that impact investment is: "investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return" (GIIN, 2018) Similarly, the World Economic Forum describes impact investing as an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured (Drexler & Noble, 2013).

Source	Definition	Components
The Global Impact Investing Network (GIIN, 2018)	Investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return. In addition, GIIN identifies four core characteristics: intentionality, broad range of return expectations (from below market to market rate), broad range of asset classes and impact measurement.	Financial return, non-financial return, markets, intentionality, measurement, asset classes
J.P. Morgan (O'Donohoe et al., 2010)	Investments intended to create positive impact beyond financial return, more specifically the investments provide capital with an intent to generate a positive social and/or environmental impact that should be measured and have an expected financial return	Financial return, non-financial return, intentionality, measurement
World Economic Forum (Drexler & Noble, 2013)	An investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured	Financial return, non-financial return, intentionality, measurement
OECD (Wilson et al. 2015)	A transaction between an investor and investee in a social area, targeting beneficiaries in need. Beneficiaries targeted should be at risk populations and the good provided should have a mix of public and private good characteristics. The investee in the transaction should, at least, inscribe a compulsory reporting clause of its social activity in the statutes, as well as provide a formal evaluation of social impact. In parallel, the investor should at least have a compulsory reporting clause for social impact investment and have return expectations above or equal to zero, but not above the market rate of return	Financial return, non-financial return, intentionality beneficiaries, measurement, investee
G8 Social Investment Taskforce (2014)	Social impact investments are those that intentionally target specific social and/or environmental objectives along with a financial return and measure the achievement of both	Financial return, non-financial return, intentionality and measurement

Calderini et al. (2017)	Social impact investing is a strategy of asset allocation to intentionally finance projects that combine a measurable social and environmental impact with economic sustainability and financial returns. (..) distinguished by three features: first, social and environmental returns are not incidental, but a priori defined and ex post measured; second, proactive approach is used in the search of social impact; and third, the expectation of at least the repayment of the capital sets it apart from philanthropic activities	Financial return, non-financial return, intentionality, measurement
UN Global Compact and Rockefeller Foundation (Power et al., 2012)	Impact investing, defined as the placement of capital (into social enterprises and other structures) with the intent to create benefits beyond financial return.	Financial return, non-financial return, intentionality
Monitor Institute (Freireich & Fulton, 2009)	Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor	Financial return, non-financial return, intentionality

Table 1: Authors selection of relevant definitions of impact investing

Key defining components:

Based on the various definitions provided in Table 1, we can identify four key defining components of impact investing; namely, financial return, non-financial impact, intentionality and measurement. We find these elements to be consistent in both practitioner and academic literature; however, what these components entail is debated and remains unclear.

Financial return. The element of financial return is crucial as it distinguishes impact investing from grant funding (Addis et al., 2013) and philanthropy (Wong, 2012). The range of return varies from below market to above market return (Mudaliar et al., 2018; Wilson et al., 2015), according to different definitions; even so, the majority of the definitions do not specifically state the expected level of return (Clark et al., 2012). However, there seems to be a consensus in the literature regarding a minimum expected return of "at least a repayment of the capital invested" (Freirich & Fulton, 2009; Calderini et al., 2017). Thus, the expected return for an impact investor can vary.

Non-financial impact. The vast majority of the definitions characterise the non-financial impact as social and/or environmental (Ashta, 2012). However, different terminology is used and "impact" can be a subjective concept. While most definitions refer to the non-financial impact as social and/or environmental, other definitions are more specific and include the terms ‘developmental’, ‘economic’, ‘cultural’ and/or ‘governance’ (Höchstädter & Scheck, 2015). Furthermore, other definitions refer to the non-financial impact as a social and/or environmental *good* (Freirich & Fulton, 2009) or *benefit for society* (Social Impact Investing Taskforce, 2014). In addition, one argument is that the non-financial impact itself is based on subjective and ambiguous grounds. Santos (2012) argues that what is deemed social and who is eligible for social help requires normative judgement. Thus, the non-financial impact is defined by the individual impact investor’s subjective opinion. Hence, while impact beyond financial return is at the heart of impact investing, the terminology is unclear and there seems to be a lack of clear criteria concerning the content.

Combined, the pursuit of both financial return and non-financial impact, are the core components of the definition, and is in this thesis referred to as the dual objectives of impact investing. Impact investors are found to make investments across a wide range of return expectations and some authors suggest that impact investors can be placed across a continuum based on their expected financial returns and expected non-financial impact (Freireich & Fulton, 2009). On one hand, *impact-first* investors are described as investor with the primary aim of generating social and/or environmental impact, and thus they are willing to give up some financial return and rather settle for a below market return (Brandstetter & Lehner, 2015). Meanwhile, on the other side of the continuum we find *finance-first* investors, who prioritise financial returns, and the social and/or environmental impact is created “in addition to the financial return” (O’Donohoe et al., 2010).

Intentionality. An intentional non-financial impact is the third key defining element of impact investing. Addis et al. (2013) refer to this as an investor’s deliberate intention to create a positive non-financial impact with an investment. This is an important factor in distinguishing impact investing from traditional investments, as it excludes commercial investments with “incidental side-effects” that create a social and/or environmental impact (Brown & Swersky, 2012). However, different terminology is used to describe this component, such as ‘purposeful impact’, ‘with the explicit expectation of’, and ‘proactive pursuit of’ (Höchstädter & Scheck, 2015).

Measurement The fourth defining element of impact investing is the measurement of the non-financial impact. Impact measurement is the process that allows impact investors to understand the effects of their investments, and set goals to adapt processes and improve outcomes (Mudaliar et al., 2016). However, definitions vary regarding whether it is sufficient that the non-financial impact is measurable in nature (Grabenwarter & Liechtenstein, 2011), or that active measurement is required (Social Investment Taskforce, 2014). The definition of impact investing does not provide guidelines for a measuring method or process; however, tools have been developed to support the measurement practice, such as GIIN's Impact Reporting and Investment Standards (IRIS) and Global Impact Investing Ratings System (GIIRS).

Other characteristics

In addition to these four key components, other components of impact investing often mentioned in the literature include: additionality, the investee, asset classes and financial instruments, providers and size of capital, and sectors and geography.

Additionality. Additionality of an investment refers to whether a project or organisation would have been realised without engagement from the impact investor (Koenig et al., 2016). Brest & Born (2013) argue that additionality is central to the concept of impact investing, implying that impact investments should provide an additional non-financial impact beyond that which traditional investments would have created. However, other authors do not mention this component in their definition of impact investing. Investment with a degree of additionality, thus entail that capital is not allocated into funds or ventures that can attract mainstream capital (Swiss Sustainable Finance, 2017). Additionality in an investment thus implies investing in funds, ventures, or projects that would not have been realised without that capital being deployed.

The investee There are different perspectives in literature regarding characteristics of the organisation receiving capital from impact investors, especially when it comes to the organisational structure, the stage and the size. Most authors do not explicitly mention the investee, while another group of authors limit this to organisations with a capacity to create social and/or environmental good (Höchstädter & Scheck, 2015). However, a third group have more stringent requirements concerning the investee. Some limit the investee to private organisations with mission primacy, such as social ventures and non-governmental organisations. Thus, the organisational structures include non-profits, cooperatives, and for-profits. Furthermore, the stage and size of the investee are often excluded from the definitions;

however, some authors state that the investee should be in early-stage and small- or medium-sized enterprises (Roundy et al., 2017).

Asset classes and financial instruments. Literature highlights that impact investing includes a range of asset classes and financial instruments such as, debt, equity, guarantees, deposits and combinations of these elements, like the more recently introduced social impact bonds (SIB). SIB can be defined as “a financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-governmental organisation, and investors to pay for the delivery of pre-defined social outcomes (Wilson et al., 2015). Some definitions however, limit impact investing to solely include private debt and private equity (Höchstädter and Scheck, 2015), which are also the two most common asset classes according to the GIIN (Mudalier et al., 2016).

Sector, geography and demography. Literature highlights that impact investing can span sectors, geography and demography. Impact investors commonly invest in sectors such as agriculture, energy, microfinance, education and health; however, literature indicates no specific sectors (Swiss Sustainable Finance, 2017). Even though impact investing is often associated with investments in developing countries and emerging markets, practitioner texts emphasise that impact investing can span across geographies. Impact investing has been seen to focus on marginalised populations, however impact investments targeting environmental issues often create benefits for broader population groups (Höchstädter & Scheck, 2015). While it may be easier to argue that investments located in developing countries are impact investments due to the severity and magnitude of social and environmental problems in these locations, it can be argued that addressing issues in developing countries, does not automatically qualify as an impact investment (Freireich & Fulton, 2009).

Providers of capital A wide range of providers of capital is mentioned in impact investing literature. Ashta (2012) presents an extensive set of investors that, among others, includes: foundations, development financial institutions, mainstream financial institutions, corporations, pension funds, insurance companies, private equity funds, family offices and high net worth individuals.

2.1.2 Overlapping terms and related concepts

The previous section highlights the lack of clarity in the definition of impact investing; moreover, Daggers & Nicholls (2016) argue that the proximity to other related fields and concepts further contributes to this confusion. As impact investing combines financial and philanthropic objectives, this section will review concepts from both fields.

First and foremost, the term social impact investing is often used interchangeably with impact investing, and the distinction between the two terms can largely be confined to geographical differences. Daggers & Nicholls (2016) state that the majority of literature in Europe, especially in the United Kingdom, prefers the term "social impact investing", compared to the United States where "impact investing" is more common. However, in some parts of the literature, social impact investing refers to impact investors who are willing to waive some of the return that a given level of risk would entail, also called social-first investors (Glänzel & Scheuerle, 2016). In this thesis, however, the term 'impact investing' is viewed as an overlapping concept with social impact investing.

Secondly, impact investing can be seen as a subcategory of the broader umbrella term 'social finance', sometimes referred to as social investment. Social finance can be described as an approach to financing projects and ventures that aim to generate both social and financial returns (Nicholls, 2010). Hence, this term comprises several concepts, such as sustainable investing, socially responsible investing, venture philanthropy, ethical banking and impact investing (Rizzi et al., 2018).

Social responsible investing (SRI) is a related concept, often confused with impact investing. SRI can be defined as "financial initiatives, which seek to integrate ethical, social, environmental/or corporate governance concerns in the investment process" (Sandberg et al., 2009). While on a general level the definitions seem similar, it can be argued that impact investing "goes beyond" SRI, in the target of non-financial impact. Impact investing is hence described as being more proactive and targeted than the "negative or positive screening strategy of social responsible investments" (Evenett & Richter, 2011). Moreover, SRI and impact investing can be argued to be distinct due to differences in nature and size of the investments. On one hand, SRI is used to describe the strategies asset managers of large investment funds use to perform investments in established and mainly publicly listed firms. In contrast, impact investing is considered to encompass individuals or organisations making direct, and mostly equity or debt based, investments in smaller enterprises, at an early stage (Das & Uma Rao, 2013).

Moreover, impact investing also relates to concepts originating from the philanthropic field, such as venture philanthropy. This concept entails providing high-engagement support to the organisation receiving funding over an extended time-period, thus contributing with skills and services, in addition to financial support (John, 2006). The financial support is mostly provided through grants, but also include loans or equity; however, the non-financial impact is the primary objective. Thus, impact investing differs from venture philanthropy in two main ways: firstly, by not requiring engagement with the recipient organisation, and secondly by requiring at least a return of the principal on an investment.

Figure 3 is helpful to illustrate how impact investing relate to other concepts. The different approaches of social finance can be arranged across a continuum ranging from finance-only to impact-only considerations.

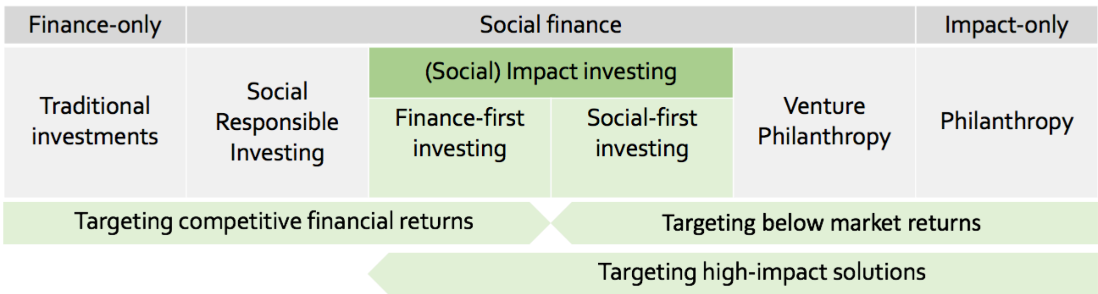

Figure 3: Impact investing and related concept
(Authors' own, adopted from *Social Impact Investment Taskforce, 2014).*

2.1.3 Our working definition

The literature we reviewed above reveals a broad concept with unclear boundaries, thus there is a need to specify the meaning of impact investing in this thesis. We found a consensus regarding the presence of four main elements in the concept of impact investing: financial return, non-financial return, intentionality and measurability. However, what these elements entail is disputed, along with other central characteristics. This results in a broadness and unclear boundaries of impact investing, which, it can be argued, poses a significant risk to the credibility and advancement of the field, both in academia and practice.

Our view is that to increase the credibility, and to conduct meaningful research and discussions on impact investing, it is necessary to delimit the definition. For example, by applying the commonly adopted definition by the GIIN, we find it difficult to determine whether an investment can be categorised as an impact investment. A stock investment made into a global health care company, like Novo Nordisk, that has a mission statement to defeat diabetes and measures their non-financial impact, could qualify as an impact investment, if the investor argues for intentionality. However, in practice this investment could be made by any traditional investor seeking financial profit, hence there is a critical need to delimit the concept. Thus, we propose our working definition of impact investing.

Firstly, to separate the phenomena from SRI and other related concepts, we propose a limitation to unlisted investments into ventures and funds. Thus, we do not characterise investments in publicly traded bonds and stocks as impact investing, but rather impact investing entails private debt and equity. However, our view is that public as well as private investors can be categorised as impact investors. Thus, this includes development banks and other governmental institutions investing in unlisted ventures and funds. By limiting impact investing to unlisted investments, we argue that a degree of additionality is incorporated into the concept, as these ventures will have a limited set of funding sources.

Secondly, to separate the impact investing from philanthropic concepts, we emphasise in our working definition that the expected financial return should at least be a return of the principal. If an investor does not aim for a financial return, but has social impact as the sole objective, we would characterise it as philanthropy or venture philanthropy.

Furthermore, adding requirements on the investee could provide clarity and distinguish impact investing further from related concepts. The majority of definitions do not explicitly mention characteristics of the investee; rather, it is the investor's individual intention that determines whether an investment can be categorised as an impact investment. However, we argue that it is easy and possibly attractive for an investor to claim an objective of intentional social impact, yet in practice his or her objective is solely financial. The definitions that do mention the investee argue that a mere intent or a capacity for social impact is a sufficient criterion for the investee to receive impact investments (Höchstädter & Scheck, 2015, Roundy et al., 2017). We argue that for the investor to successfully achieve social value creation by investing in a venture, the non-financial objective should be manifested in the mission, to ensure that the management is guided by this objective. Thus, we argue for the importance of adding an additional requirement of a social mission for the investee.

Thus, in accordance with our findings from the literature review and based on our critical argumentation above, we adopt the widely-used definition proposed by GIIN (2018); however, we delimit it regarding type of investment, the financial return expectation and the investee. We thus define impact investment as:

Indirect or direct unlisted investments made into ventures with a social mission, that intentionally seek to generate both financial (at least a return of the principal) and positive social and/or environmental impact that is actively measured.

We thus define an impact investor as an investor performing impact investments in line with the above definition, however we do not restrict an impact investor to only engage in impact investments. Moreover, for simplicity the social and/or environmental impact is referred to as social impact, in this thesis.

As this definition illustrates, impact investors arguably need to combine the dual objectives of social and financial value creation when evaluating a potential investee, and we further explore this further in the next section.

2.2 Dual objectives in an impact investment decision

In seeking to achieve both financial return and social impact, organisations and individuals performing impact investments are arguably faced with competing rationales, practises and priorities (Nicholls, 2010). Historically, combining logics from philanthropy focusing on creating benefits for society, with logics from mainstream finance focusing on financial returns have been deemed incompatible (Moore et al.,2012). While some strands of research argue that the differences in these logics can be effectively combined and with an emergence of a hybrid logic, others highlight that managing conflicting and competing logics lead to tensions and a prioritisation of one logic over the other (Pache & Santos, 2013) Thus the question arises of how impact investment deal with these tensions and competing logic in their investment decision.

We will in this section critically review extant literature on the investment decision of impact investors. The limited research on this topic leads us to further review social impact measurment in imaapct investing and theory on the investment decision of traditional investors; as our sample consists of angel investors and venture capital/private equity funds making equity investment into ventures, we thus review literature concerning these types of investors.

2.2.1 What influences the investment decision of impact investors?

Our review of the literature uncovered only a few studies that explore the investment decision of impact investors. These studies indicate that impact investors pursue a similar investment process to that of traditional direct investors; however, research find that the investors, to a varying degree, include additional steps to evaluate the potential social and environmental performance as a part of their due diligence process (e.g., see Roundy et al., 2017; Grabenwarter & Liechtenstein, 2011). In an exploratory study of impact investors, Grabenwarter & Liechtenstein, 2011) find that these investors undertake a similar investment process to that of traditional investors, but alongside the risk and return evaluation, there is an additional social impact assessment. Furthermore, in a study of American impact investors, Roundy et al. (2017) similarly find that in addition to evaluating criteria in line with perceived financial strength, an evaluation of the organisation using social value oriented criteria, is performed to a varying extent across investors.

Findings from the 2016 Annual Impact Investor Survey (Mudaliar et al., 2018) provide additional insight into the investment decision, and support the findings of Roundy et al. (2017) and Grabenwarter & Liechtenstein (2011). The survey finds that a majority of impact investors also allocate conventional capital. Furthermore, the investors in the survey report that the same investment committee evaluates both the conventional and impact cases, applying similar due diligence steps. However, some respondents note that the due diligence for an impact investment includes an additional assessment to evaluate the social and environmental characteristics of the possible investee. Thus, it seems that impact investors, adopt an investment process close to that of traditional investors.

The academic studies and practitioner reports we have reviewed provide an initial contribution to understanding the impact investor's investment decision. However, several foundational aspects remain to be addressed. As Roundy et al. (2017) and Grabenwarter & Liechtenstein (2011) find that the investment decision of impact investors entails a similar process and criteria of mainstream financial investors, in addition to a social impact assessment, we thus briefly review the concept of social impact measurement in impact investing and the investment decision of traditional ventures to supplement our understanding of impact investors decision making.

2.2.2 Social impact measurement in impact investing

Impact measurement is a core defining component of impact investing, and is essential to provide legitimacy for the impact created by an investment (Social Impact Investment Taskforce, 2014). Thus, the growth of the impact investing market has led to an increased focus on measuring the social impact resulting from these investments. However, at present there is no commonly adopted framework or measurement practises in the field, and this is often contributed to the complexity of measuring impact. The complexity arises due to the broad definition, long time span involved in creating impact, and the difficulty of attributing one agent to be responsible for a change (Hehenberger et al., 2015).

Impact measurement can take place within the different stages of the investment process, however most of the literature focus on measuring and managing impact post investments, while the pre-investment stage is less explored (Reeder., et al 2014). An evaluation of the potential impact generated by an investment is however, important to help the impact investor prioritise where to efficiently allocate their capital to achieve their dual objectives (So & Staskevicius, 2015). So & Staskevicius (2015) present an overview of approaches that they find American impact investors adopt, to a varying extent, in the pre-investment phase. These approaches include the concept of theory of change and social return on investments (SROI). SROI is an expected return method that aims to take into account the anticipated social benefits for key stakeholders of an investment, against its costs (So & Staskevicius, 2015). Thus SROI provides a quantifiable measure that can be utilised compare potential investment opportunities. On the other hand, theory for change is a simpler concept used by investors to understand how social change is can be expected to occur, the framework focuses on explaining cause-and-effect relationships of the investment (So & Staskevicius, 2015)

2.2.3 Investment decision of traditional direct equity investors

Private equity involves investments of equity capital in private businesses. Our sample conists of angel investors and private equity funds making direct equity investments into ventures, thus we review the literature on these investor types and their investment decisions. In accordance with our sample, we will focus on the investment decision with equity; however, debt is also a common instrument for impact investors.

Private equity is often used interchangeably with venture capital, where the term 'venture capital' in the domain of private equity is described as the provision of equity capital to unlisted early stage companies with high growth potential (Invest Europe, 2015). A venture capital fund is a professionally managed pool of capital that targets early-stage ventures, focusing on a strong potential for rapid and substantial growth as an investment criterion. Investment banks, financial institutions, and private investors invest as limited partners, while the general partners manage the investments in exchange for a fee (Deakins & Freel, 2003).

A large number of theoretical and empirical studies discuss venture capital investment decisions (Šimić, 2015); however, there are still no clear conclusions. Nevertheless, a common framework on the venture capital investment decisions includes five sequential steps of an investment process; (i) deal origination, (ii) screening, (iii) evaluation, (iv) deal structuring and (v) post-investment activities. For the purpose of our study, to understand more about the impact investment decision and their preferences regarding the investee, the screening and the evaluation stages are the most relevant.

The second phase of the investment process refers to the practice whereby the investor seeks to narrow down and concentrate on a few investment prospects for further evaluation (Kollman, 2009). To reduce the number of potential investments to a manageable size, investors have been found to screen ventures by comparing the proposals of entrepreneurs with their own investment profile, based on a set of broad screening criteria. The screening criteria differ among investors; however, Tyebjee and Bruno (1984) find several common criteria: 1) size of investment, 2) the technology and market sector of the venture, 3) geographic location and 4) stage of the venture.

The third step in the Tyebjee and Bruno (1984) framework is the evaluation process, where the investors carefully analyse the potential investment objects (Kollmann, 2009). In this step, the investor evaluates the venture using a multi-dimensional set of criteria, including a risk-return assessment. The most consistent finding from studies on venture decision-making is the importance placed on the management team and entrepreneur (Šimić, 2015). Other evaluation criteria are found to be product and service, business strategy, market composition and deal terms.

Angel investors are found to adopt a similar decision-making process as venture capitalists; however, the main variations arise due to agency differences (Van Osnabrugge, 2000). In comparison with venture capitalists, who need to justify their selection and rejection to the fund's investors, angel investors are often individuals without the same requirements. Business angels represent an informal source of capital, and often provide funds to ventures with a product, service or technology of which they already have insight and knowledge, as they are keen to add value by sharing knowledge with the entrepreneurs. Thus, angel investors are found to take higher risks or accept lower returns due to their sincere interest in the investee. However, the expected financial return is found to be the main objective of angel investors (Benjamin & Margulis, 2005). Furthermore, similar to venture philanthropy angel investors are found to highlight the entrepreneur as a critical criterion in an investment decision (Haines et al., 2003).

2.3 Gap in the literature

As illustrated in the previous chapter, the phenomenon of impact investing is still in a nascent stage of development, both in literature and practise. What constitutes as an impact investment is not clearly defined, and the concept today is used interchangeably with related terms and concepts. Our view is that; in order to legitimise the phenomena, and to conduct meaningful research and discussion on the topic, it is necessary to delimit the concept, leading to our working definition.

Impact investing arguably differs from traditional investments due to the dual objectives (Roundy et al., 2017), thus the dual approach should be visible in the investment decision of an impact investor. However impact investing is faced with competing logics, as they aim to combine elements from philanthropy and mainstream finance. In our review of the literature, we find that the investment decision of impact investor's is largely unexplored; however initial studies find that impact investors adopt a similar investment process to that of traditional direct private equity and angel investors with an social impact assessment. Moreover, Roundy et al.

(2017) argue that clarification of how impact investors evaluate prospective investees is necessary in order to understand the phenomena of impact investing. We thus address this gap by studying how impact investors approach their dual objectives in an investment decision.

Furthermore, a deeper insight of how the dual objectives are approached in an investment decision can be explored by studying preferences regarding the investee. Characteristics of the organisation receiving funding is a foundational aspect that has not been studied in literature (Höchstädter & Scheck, 2014), however practitioners suggest that impact investors have an affinity for social ventures (Roundy et al., 2017). Nevertheless, how these concepts are connected have not been studied in literature and it is unclear from research what preferences impact investors have toward the social venture and their business models. Cetindamar & Ozkazanc-Pan (2017) highlight that by understanding the preferences of impact investors, social ventures can develop better strategies to acquire capital from these investors. However, without a deeper understanding of the investment decision, and the interplay between financial and social objectives, recommendations for ventures seeking funding from this group of investors cannot me made. Thus, in order to further explore how impact investors approach their dual objectives in an investment decision, we review literature on an suggested recipient of impact investments; social ventures.

3. REVIEWING THE SOCIAL VENTURE LITERATURE: DEFINITIONS, CHALLENGES OF FUNDING AND THE BUSINESS MODEL OF SOCIAL VENTURES

The previous section identified a gap in the literature concerning the investment decision of impact investors, especially regarding their preferences for the investee, thus this chapter will review literature on social ventures. We first intend to provide the reader with an understanding of the concept of social ventures. Secondly, we address the significant challenges these ventures face when raising funding from traditional investors and highlight the need for social ventures to explore other funding sources, such as impact investors. Lastly, to be able to explore the preferences of impact investors regarding the social venture, we review literature on differences in the business model of social ventures.

3.1 The concept of social ventures

their employees hold special attributes; they all have the diagnosis of Asperger syndrome, which makes them extremely detail-oriented and structured in their work (Unicus AS, 2018). *Unicus* is an example of an organisation where building on the opportunities, rather than limitations of a disadvantaged group of people, has resulted in a profitable business. Another example is the Oslo-based producer of off-grid solar-lamps, *Bright*. This venture has provided more than two million people in marginalised communities in Africa, Asia and South America with the ability to light up their home. Not only does this product have environmental and health benefits, it has also provided opportunities for millions of children to do homework in the evenings (Bright Products AS, 2018). Thus, two common features of these two organisations is a pursuit of a social mission and a generation revenue.

The above-mentioned businesses are examples of social ventures, or social enterprises, a concept that has gained increasing attention during the past decade. The attention stems from a growing perception of social ventures as providers of efficient solutions targeting social and environmental issues, such as poverty, homelessness and carbon emissions (Doherty et al., 2014). Indeed Dees et al. (2002) refer to the mission as the cornerstone of the venture. In the case of *Unicus*, the social mission is to provide employment and opportunities for a marginalised group in society, and for *Bright*, it is to improve quality of life for millions of people living off-grid. Furthermore, Nicholls (2010) suggests that social ventures hold the potential to foster inclusive growth and bring about transformation and institutional change.

Literature does not provide a uniform definition of social ventures; however, similarities in the proposed definitions can be found. Miller et al. (2012) describe the concept as hybrid ventures utilising market-based methods to create social value. Furthermore, Foss et al. (2018) identify common elements in the definitions, namely that a social venture is built on 1) an explicit social objective, secondly that they strive to create social value while 2) securing profits and lastly that they do this in an 3) innovative manner. These elements are present in the case of *Unicus*; the venture's social objective is to improve the quality of life of people with Asperger syndrome, through revenue-generating consulting services. Thus, *Unicus* employ an innovative business model as they use the untapped potential and skills of a group often deemed unfit for a professional career. Thus, the main distinction between traditional ventures and social ventures is largely considered to be the presence of a social mission.

The terms 'social venture' and 'enterprise' are related to social entrepreneurship, and are often used interchangeably. Dees & Anderson (2006) explain social ventures as a range of business models available to the social entrepreneur. Moreover, Mair & Marti (2004) view social ventures as the tangible outcome of the processes and behaviour, that social entrepreneurship entails. Thus, defining features of social entrepreneurship are present in social ventures, namely a mission to create and sustain social value, a pursuit of new opportunities in an innovative way and acting boldly to overcome challenges of limited resources (Dees, 1998).

The definition presented by Thomson (2002) states that social ventures could operate in both the business and non-profit sectors. Accordingly, Dees & Anderson (2006) argue that a full range of business models are available to the social entrepreneur. This creates a continuum where social ventures can be found between purely philanthropic and purely commercial businesses (Dees & Anderson, 2006). On one end of the continuum, social ventures that focus primarily on the creation of social value can be found, however as creating profit is given less priority, these venture are often not self-sustained and thus are reliant on donations (Mair & Marti, 2006). The other end of the continuum, features social ventures that prioritise the profit earning goals above the social mission, this type of social venture is more similar to the traditional, or in other words more commercial ventures (Dohrmann et al. (2015). However, the broad definition of social ventures has led to the inclusion of a wide range of concepts, such as firms applying corporate social responsibility (CSR) and nonprofits solely relying on donations, thus, resulting in making social ventures a "fuzzy term" (Foss et al. 2018).

Social ventures, like traditional ventures, seek to create profit; however, social ventures have a dual objectives as they also seek to generate social impact. Santos et al. (2015) emphasise that social ventures focus on opportunities for value creation, without regard for the potential for value capture. It is argued that social ventures have a limited ability to capture the economic value they create, as their customers are from a more disadvantaged segment of society, and are thus unable to pay the full price of a service or product (Seelos & Mair, 2005). Dees (1998) explains that the generation of revenue in a social venture is an objective, but rather as a means to a social end, not as the end itself. As in the case of *Unicus* the sale of IT consultancy services to large companies generates revenue that enables the organisation to employ an increasing number of people with Asperger syndrome. Hence, the economic value can be seen as a by-product of the organisation, rather than the primary objective in comparison to a traditional enterprise's focus on both the creation and capture of mainly economic profit.

3.2 The problem of obtaining funding

Access to capital is essential for the creation of any type of venture; moreover, it is described as the critical factor to ensure growth and scale of social ventures (Dohrmann et al. 2015; Clarkin, 2014; Glänzel & Scheuerle, 2016). Historically, social entrepreneurs have relied on grants and contracts from government agencies or philanthropic organisations as a primary source of financial support (Kickul & Lyons, 2015). However, these funding sources are found to be limited and insufficient to fund the growing number of social ventures. Thus, social ventures need to seek funding from traditional investors and markets to sustain and scale their impact; however, it is found that social ventures face increased challenges, compared to traditional ventures (Doherty et al., 2014).

Social ventures are a relatively new construct, and are mostly unknown to commercial lenders and investors, which can lead to increased information asymmetry between the social venture and investor. Studies have highlighted a general scepticism and lack of understanding related to the concept of social enterprises by for-profit investors (Doherty et al., 2014). Furthermore, Dees & Anderson (2003) identify a scepticism related to pursuing a profit, which is associated with wealth and self-interest, and serving a social objective, which is seen as the responsibility of the public sector. Furthermore, social ventures are struggling to document their social impact, due to lack of proper social impact measurement (Kickul & Lyons, 2015). This leads to a challenge for potential investors to evaluate how successful they are in pursuing their social mission, thus contributing to increased information asymmetry.

Furthermore, traditional investors view the dual objectives of social ventures as an increased risk. The social mission prevents the social ventures from increasing market prices and targeting customers with the highest purchasing power for their product or service. As traditional investors view this as economic benefit forgone, it leads to a misalignment with investor return expectations (Karaphillis et al., 2010). Additional economic benefits are forgone, as social ventures create social impact that benefits a larger group of society, rather than a group of customers (Kickul & Lyons, 2015). Furthermore, achieving a social mission can be time consuming, which is not aligned with the relatively short time horizon of traditional investors.

While traditional financial investors view social ventures as less attractive investment objectives, social ventures might also be sceptical to make investment deals with traditional financial investors due to the fear of mission drift (Kickul & Lyons, 2015). As traditional investors are profit seekers, the social venture might face pressures to prioritise the financial objective over social goals, that in turn may lead to a displacement of the social mission (Santos et al., 2015). A more compatible source of funding for social ventures is the emerging field of social finance, supplying a capital with additional objectives beyond the financial return. Impact investing is a concept within this field and is suggested as a potential funding source for social ventures (Kickul & Lyons, 2015). However, in the same way as some ventures are more successful than others in obtaining funding from investors, it can similarly be suggested that certain types of social ventures are more attractive to impact investors. To further explore this question, we will use the business model of social ventures as a tool to study preferences of impact investors.

3.3 Business model of social ventures

As emphasised in section 3.1, social ventures can be placed on a continuum, spanning a wide variety of ventures with equally varied business models. Firstly, this section introduces the concept of business models, and secondly it highlights differences in the business models of social ventures.

3.3.1 What is a business model?

Similar to traditional ventures, social ventures can offer products or services, or a combination of both; for instance, *Unicus* offers IT consulting services and *Bright* sells solar lamps. The product or service provided by a venture can be seen as being embedded within a system of activities and relationships which describe the venture's business model (Chesbrough & Rosenbloom, 2002). A business model can be defined as "how an organisation creates, delivers and captures value" (Osterwalder & Pigneur, 2010). Value creation relates to how the enterprise creates value for the customer, whereas value delivery refers to the process of distributing the product or service to the customer. Finally, value capture is the mechanism by which revenues are earned from the provision of the service or good (Teece, 2010).

Business models can also be described as stories that explain how enterprises work (Magretta, 2002). Furthermore, Osterwalder & Pigneur (2010) propose nine key building blocks that provide a thorough understanding of an organisation's business model, namely: the customer segment, value proposition, channels, key activities, key resources, key partnerships, customer relationships, revenue streams and cost structure. The building blocks of the business model of the social venture also include the social mission, differentiation and the magnitude, the latter highlighting the size of both the social and economic impact opportunity (Calderon, 2014).

3.3.2 How can business models of social ventures differ?

Business models are found to be heterogeneous, thus they can serve as a suitable tool to help investors evaluate the investee. Malone et al. (2007) find by studying the stock market that investors have preferences toward certain business models, as markets consistently value some types of business models more highly than others. Furthermore, business models are found to provide a suitable tool to help investors visualise the different characteristics of the investee (Magretta, 2002) Additionally, as business models of social ventures describe how the organisation addresses tensions involved in a dual objectives, it can be suggested that the business model is especially important for impact investors (Lazzarini et al., 2017). However, which dimensions that could be influential in the impact investor's investment decision has not been explored. In this section, we thus review and propose four dimensions for which investors could have preferences.

Social mission. Firstly, we propose that the social mission could play a key role in the investment decision. Social ventures address a variety of social issues, as highlighted above; *Unicus* addresses the unemployment for people diagnosed with Asperger syndrome, while *Bright* addresses the lack of access to light for off-grid communities. Bocken (2015) explains that investors could be more motivated to invest in social ventures if they have a personal attachment to the cause the venture aims to address. Furthermore, other differences regarding the impact created by the social mission include scale, depth and systemic impact. The reach of the impact related to the number of people affected, the depth is an assessment of the degree of impact on the live of one individual.

Furthermore, Zahra et al. (2009) differentiate social ventures based on characteristics regarding the social mission they aim to address, and three main categories are identified. Firstly, one group of social ventures addresses specific social needs at a local level, these are referred to as Social Bricoleurs. Even though the target group of these ventures is smaller, the social mission can have a large depth, as they provide substantial impact on the individual level. Thus, these ventures can provide essential solutions to serious local issues. Secondly, the Social Constructionists exploit opportunities by providing goods and services that address social needs, that other public and private agents have not manages to do (Zahra et al., 2009). These ventures have a larger target group and aim to scale their impact to a larger degree than the Social Bricoleurs. The reach of these ventures often ranges from local to international level, hence these ventures develop scalable solutions, that can be adapted to new and different social contexts. *Unicus* can be placed within this group, as it addresses a problem that the social welfare system in Norway has not managed to solve in a suitable manner. In addition, the venture has scaled to other Norwegian cities. The last group of ventures addresses national, transnational or global issues; Zahra et al. (2009) call this group Social Engineers. These enterprises differ to a great extent from the two other categories as they intend to create systemic change within existing social systems, often entailing a revolutionary change (Zahra et al., 2009). *Grameen Bank*, by providing an innovative microfinance solution, and revolutionising the access to the financial system for previously excluded groups in society, is an example of a Social Engineer.

Value proposition. Secondly, a factor where investors could have preferences concerns the value proposition of a social venture. This is referred to as the bundle of products and services that create value for the customer (Osterwalder & Pigneur, 2010). This can differ greatly between ventures in terms of scalability, degree of innovation and of course the type of product or service offered.

In reference to the value proposition, Santos et al. (2015) argue for a difference in business models of social ventures based on whether the social impact happens automatically with the provision of the product or service, or whether the social impact is contingent on additional activities. Santos et al. (2015) refer to the social impact as value spill-overs, and argue that if value spill-overs happen automatically with the provision of a product or service, it implies that the social impact and revenue stream are aligned. This type of business model, thus entail less risk of mission drift. Furthermore, adopting a value proposition where the value spill-overs happen automatically, entails a business model that is closer to commercial models, as the venture can focus on capturing value from the transaction. This is the case of *Bright* AS, where the value spill-overs happen automatically with the provision of solar lamps to off-grid communities, thus additional activities are not needed to ensure social impact. On the other hand, if value spill-overs require additional efforts and activities by the social venture, it adds to the complexity and costs of the business model, leading to a less commercial business model (Santos et al., 2015). The example of *Grameen Bank* illustrate this case, as offering micro loans to low-income households will only create limited value spill-overs from the loan itself. Thus, there is a need for *Grameen Bank* to engage in additional interventions, such as entrepreneurial training, to ensure that value spillovers contributes to the social mission of poverty reduction.

Customer and beneficiaries. Thirdly, impact investors could have preferences regarding the customer group and beneficiaries. In addition to customers, beneficiaries are an important differentiating dimension for social ventures, characterised as the group targeted by the social mission. Moreover, Zahra et al. (2009) highlight that social ventures can differ in terms of the perceived distance of the beneficiaries; either in terms of geography, such as a group of people in rural Africa, or in terms of psychological distance, such as supporting a rare medical condition. Some investors could favour supporting a cause that targets a group that is more local and closer to their heart.

Calderon (2014) highlights the importance of distinguishing between beneficiaries and customers in the business model of the social venture, as in some instances the two segments are different groups. *Bright*'s has a business model where the customers and beneficiaries overlap, more specifically people living in remote off-grid areas in developing countries. The customer group of *Unicus* is corporations in need of testing of their IT systems; on the other hand, the beneficiaries, are in fact their employees, namely people with the Asperger syndrome diagnosis. In cases where clients and beneficiaries are different groups, Santos et al., (2015) argue that the need of the social venture to serve both groups, leads to more complex business models that are harder to manage and scale. Secondly, Santos et al., (2015) highlight that these business models are associated with a greater danger of mission drift since these social ventures may be tempted to focus on serving the needs of their paying customers, rather than the beneficiaries.

Revenue stream. Lastly, as impact investors also aim for a financial return, it can be argued that the revenue stream is an important factor in the investment decision. The revenue stream describes how social ventures secure income through its value proposition. Lumpkin et al. (2013) highlight different funding sources for social ventures, and describe how they can range from earned income from investment to donations, mentioning cash donations, grants from different providers, income from endowments and volunteer labour. Another difference affecting the revenue stream that can be relevant for the investor, is the number of different funding sources, as this in turn could affect the investor's ability to influence the venture. On the other hand, investing in partnership with other agents can reduce the risk involved.

Here, Dohrmann et al. (2015) characterise differences in social ventures by the degree of monetisation of the social value creation and by the type of revenue stream, illustrated in Figure 5. Firstly, the type of revenue stream on the vertical axis describes to what extent the venture can cover their expenses by generating revenue, or whether it is reliant on grants and donations. Secondly, the degree of monetisation of the social value creation is found on the horizontal axis and describes how a venture can be placed between acquiring funds for the social mission and generating revenue with the social mission. Dohrmann et al. (2015) find that social ventures can largely be divided into two groups, where the main difference relate to what extent the social target group is involved in the revenue earning activities.

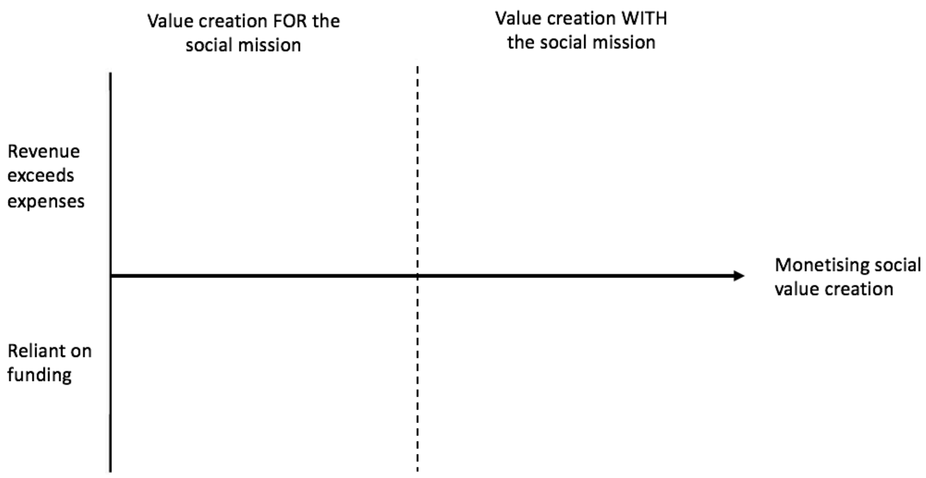

Figure 4: Framework to position business models according to degree of monetisation and ability to generate profit adapted from(Dohrman et al., 2015)

A business model where value is created for the social mission can be illustrated with the case of Lær Kidsa Koding. As this social venture offer technology courses to kids for free, no revenue is generated from the customer, making the business model dependent on donations. Dohrmann et al. (2015) argue that this type of business model, thus is less commercially oriented, as it cannot generate revenue in the market to cover for its expenses. Since the beneficiaries are the customers in this business model, and they have a low ability to pay, this entails a low degree of monetisation of the social value. On the other hand, *Unicus* represents a business model that creates value with the social mission. *Unicus* employs the social target group in the production, thus the social target group is directly contributing to the value creation. Dohrmann et al. (2015) argue that this kind of business model is more commercially oriented, as it involves a higher degree of monetisation of the social mission. This is true for *Unicus*, as their customers are large corporations with a high ability to pay, this enables the venture to generate market revenues.

This chapter has proposed four dimensions of the business model that can influence the investment choice of impact investors. However, if and how these factors are taken into account by impact investors has not been explored in literature. Thus, our analysis will explore how impact investors incorporate both the dual objectives in their investment decision.

4. METHODOLOGY

In the following chapter, we will present the thesis's purpose and research design; secondly, the main steps are introduced and finally we will evaluate the research method. As an effective presentation of the research method is thought to impact the reader's belief that the findings proposed in the research are supported (Zhang & Shaw, 2012), this chapter aims to explain the systematic approach utilised in this paper to achieve the purpose of the thesis.

4.1 Purpose, choice of research design and approach

The purpose of our study is to provide insight on the phenomenon of impact investing. Firstly, by understanding how the dual objectives are approached in the investment decision, and secondly, what preferences impact investors have for the business model of the social venture. This has been achieved by conducting semi-structured interviews with impact investors and ventures receiving funding from these investors. Thus, we aim to provide clarity and insight into the field of impact investing. Furthermore, by understanding impact investors' preferences regarding different dimensions of the business model of a social venture, we aim to provide valuable insight for ventures seeking funding from this investor group.

We apply an exploratory research method in our thesis, as the academic field of impact investing and social venture financing is nascent, and suffers from ambiguous concepts and numerous unexplored aspects. Saunders et al. (2011) state that an exploratory research design is advised in a field that is not clearly defined, or where knowledge is too limited for conceptual distinctions to be made. As exploratory research is flexible, this research design has allowed us to adjust the research question according to our findings and hence gain valuable insight into a new field. Moreover, this thesis aims to make an initial attempt to study the link between impact investors and social ventures, as this interaction is, to a great extent, unexplored in literature this emphasis an exploratory research design.

The thesis applies a qualitative method of data collection and analysis technique, as it is appropriate for early-stage research of an exploratory nature (Ghauri & Grønhaug, 2010). Additionally, a qualitative study is valuable for introductory research to generate hypotheses, which can inform and provide a basis for further research (Creswell, 2002). Qualitative data also allow us to uncover and gather the subjective perceptions and interpretations of impact investors. Secondly, the study is primarily focused on the process whereby impact investors internally make an investment decision. Graebner et al. (2012) emphasise that qualitative data is particularly well suited for generating insights in process-based research, especially when the processes are complex and exist largely in the minds of informants.

An inductive approach is applicable for our thesis, as we aim to develop theory regarding impact investors through data collection. An inductive approach is described as beginning with a general research interest regarding a topic, rather than a set of hypotheses (Carlile & Christensen, 2004). Additionally, this research approach is adopted as the findings of our thesis contribute to generating a direction for further research on the Norwegian impact investing field.

4.2 The thesis' main steps

We will in the following section describe the main steps of the research process presented in Figure 5. The exploratory and inductive nature of our study, allowed us flexibility to adopt a nonlinear advancement through the research steps.

Figure 5: Illustration of the thesis' main steps

4.2.1 Background interviews and observations

After being familiarised with impact investing in 2016, we quickly understood that we wanted to write our thesis on the topic. The research process commenced through informal interviews with actors in the field and ethnographic observations. Aksel Mjøs, the NHH professor and chairman of the board of Kavli Trust, provided us with an extensive list of contacts that gave access to relevant informants, who further referred us to other knowledgeable people within the field. We conducted background interviews with impact investors, experts and investees in Norway, Kenya and Uganda. See Table 2 for a list of the interviews conducted.

Name	Institution name	Institution type	Date	Type
Tharlad Nustad	Nordic Impact	Impact fund	17/11/2016	Face-to-face
Per Haagensen	ResponsAbility	Impact fund	17/11/2016	Face-to-face
John Bjørnersen	KLP	Pension fund	25/11/2016	Face-to-face
Marte Løfman	Grieg Invest	Wealth advisor	25/11/2016	Face-to-face
Elisabet Klerck Nilsen	Klerck Consulting	Consultancy	15/12/2016	Face-to-face
Christian Thommessen	ResponsAbility	Impact fund	19/12/2016	Face-to-face
Mattew Smith	Storebrand	Pension fund	04/01/2017	Face-to-face
Punit Purthi	Amos Dairys	Investee	10/01/2017	Face-to-face
Meralyn Mungerza	Technoserve	NGO	11/01/2017	Face-to-face
Craig Neilson	Buyzinka Farmers	Investee	11/01/2017	Face-to-face
Duncan Onyango	Acumen	Impact fund	17/01/2017	Face-to-face
Kjartan Stigen	Norfund	DFI	18/01/2017	Face-to-face
Lia Mayka	Village Capital	Impact fund	18/01/2017	Face-to-face
Eline Blaauboer	TBL Mirror Fund	Impact fund	31/01/2017	Telephone
Trond Randøy	UiA	University	01/03/2017	Telephone
Guro Sundsby	Kavli Trust	Foundation	19/02/2018	Face-to-face
Øyvind Sandvold	FERD SE	Impact fund and accelerator	11/06/2018	Telephone

Table 2: Background interviews

Additionally, we attended the following events and conference: "Breakfast seminar; Impact Investing - trends and developments" hosted by Norsif in Oslo; "Impact Investment" hosted by Impact Hub in Bergen; "Nordic-African Business Summit 2017" hosted by the Norwegian-African Business Association (NABA) in Oslo and "Impact Investor Day" at Katapult Future Fest in Oslo.

Insights gained from the events and background interviews were carefully recorded in field notes and memos. Our recordings included descriptions of people, places, things and events, as well as reflections on our observations and patterns observed. This means of data collection is also known as ethnographic participant observations; this data can be thought to form the context that transforms qualitative data into meaningful findings (Brodsky, 2008). Due to the impact investment field being in its infancy, we considered field notes and memos as effective means to better understand the large set of actors involved, and provide context to the study.

This initial stage of the research process was critical for our understanding of impact investing in the Norwegian context. Furthermore, this part of the research process has been essential in formulating a suitable research question that addresses a need both in academia and for practitioners. Moreover, the background interviews and ethnographic participant observations have provided us with an additional source of data, along with the semi-structured interviews. Additionally, the background interviews and attendance at conferences provided us with an extensive network that allowed us to identify relevant interviewees for our semi-structured interviews.

4.2.2 Literature review

An essential part of our research was conducting the literature review to identify the current state of knowledge in the field of impact investing, and further identify gaps in the research. We systematically reviewed the literature in three major databases: EBSCO Business Source Complete, JSTOR and GOOGLE Scholar. We searched for scholarly, peer-reviewed articles using the phrase “impact invest*” in the title, subject terms and abstract. This generated 111 searches on EBSCO that were examined and sorted manually, where results that did not serve to answer the purpose of our study were excluded. Due to ambiguities concerning the definition of the field, we also repeated the search using the phrase “social impact investing”. Furthermore, due to the scarce academic literature on impact investing, practitioner reports were included in the literature review; these were mainly obtained from the Global Impact Investing Network, GIIN. Based on the critical review of the literature, we developed a working definition of impact investing.

Secondly, as our thesis aimed to explore the link between social ventures and impact investing, we also conducted a literature search on social ventures. We specifically reviewed relevant articles on definition, social venture financing and heterogeneity in business models of social ventures. Finally, we also reviewed literature found when applying the following searches: “social venture”+“impact invest*” and “social enterprise”+”impact invest*”, on EBSCO, collectively giving us only seven relevant articles, thus highlighting a gap in the literature.

4.2.3 Semi-structured in-depth interviews

The main data collection for this thesis was performed through semi-structured in-depth interviews with investors. This method is well aligned with the purpose of the study, as it is a suitable method to gain deeper insights into a new phenomenon (Saunders et al, 2011). Semi-structured interviews allow us to alter both the interview questions and the sequence while conducting the interviews, in addition to probing further into the answers given by the interviewees (Saunders et al., 2011). The possibility to ask follow-up questions of the investor is especially relevant for the field of impact investing as this allows us to clarify ambiguities. As emphasised by Saunders et al. (2011), qualitative in-depth interviews are optimal for understanding the decision-making process of the interviewees, and to further understand the underlying reasons for their actions.

Semi-structured in-depth interviews require thorough preparation from the researchers in order to demonstrate credibility and obtain the confidence of the interviewees (Saunders et al., 2011). Through extensive background interviews, ethnographic observations and a literature review prior to the interviews, we were able to achieve this successfully.

Before conducting the interviews, we developed an interview guide (see appendices 1 and 2). The interview guides had three main sections: (1) impact investing as a concept, (2) investment process and (3) business model of social ventures. We had several sub-questions to each section to uncover precise answers. Furthermore, open-ended questions in the interview guide and the semi-structured nature of the interviews allowed the respondents to talk more freely during the interview. Additionally, we chose not to send the interview guide in advance, to ensure that the interviewees gave an immediate and more honest answer.

The sampling of candidates for the interviews was conducted through convenience sampling and the snowball method. Thus, our candidates were found through our established network in the impact investing field in Norway and by interviewees referring us to other candidates. This method allowed us to get in touch with relevant informants who would otherwise have been hard to identify. Hence, we also searched the internet by using keywords such as "Impact investing Norge", to ensure awareness of key actors in the field.

Our sample consists of six investors performing impact investments presented in Table 3. The sample includes investors performing investments that meet the following criteria;

- Operating from Norway
- Actively engaged in impact investments
- Perform investments aligned with our working definition
- Directly investing into ventures, not only funds.

Name	Company	Type	Date of Interview	Length	Type of interview
Trond Riiber Kundsen	TRK Group	Angel investor	19/05/2018	1t 5 min	Face-to-face
Ingrid Stange	Ingrid Stange	Angel investor	17/04/2018	1t 10 min	Face-to-face
Kjell Skappel	TDVeen	Family office	02/05/2018	1t 10 min	Video conference
Eline Lorentzen	Stratel AS	Family office	10/05/2018	1t	Face-to-face
Tellef Thorleifsson	Voxtra	PE/VC fund	22/05/2018	55min	Face-to-face
Investment Director	Impact Fund X	PE/VC fund	22/05/2018	50 min	Face-to-face

Table 3: In-depth interviews with impact investors

To be able to explore the preferences of impact investors toward the business model of the social venture, we limited the sample to investors directly engaged in investing in ventures. Furthermore, we requested to interview the investment manager or members of the investment committee. To secure a sufficient sample, however, the sample includes different investor types, from business angels to private equity firms that differ in terms of size of the investments, return-expectations, geographies and sectors. In other words, the sample can be seen to reflect the ambiguities related to the definition of impact investing.

Additionally, our interviewees are knowledgeable informant, as they have broad insight and experience in impact investing but also related field. For instance, Eline Lorentzen is a lecturer on social entrepreneurship at the University of Oslo. Furthermore, Tellef Thorleifsson is a co-founder of one of the first Norwegian impact investing funds, *Voxtra* AS, and has thus been engaged in the field for several years. Additionally, Ingrid Stange can be seen as an early adopter in the impact investing/venture philanthropy field and central in bringing the concept to Norway. Furthermore, Trond Riiber-Knudsen is one of the most active angel investors in Norway.

As a supplement to the semi-structured interviews with impact investors, we conducted additional interviews with social ventures that have received funding from impact investors. Although the investees' experience of receiving the impact investments is not the focus of this thesis, we saw this step as essential to improve the triangulation and external validity of our findings. As our research entailed directly asking impact investors about their preferences to gain knowledge on the investment decision, our findings would have been highly subjective and without any form of verification. Hence, to ensure that our findings to a greater extent matched the investors' actual behaviour, we saw the need to validate these statements with ventures receiving funding from these investors. To increase the honesty of the entrepreneurs' responses, we ensured their confidentiality and anonymity in the thesis. The entrepreneurs' interview is shown in table 4:

Name	**Position**	**Stage**	**Date of interview**	**Time**	**Type**
Venture A	Co-Founder	Growth	23/04/2018	30 min	Face-to-face
Venture B	Co-founder	Seed	31/05/2018	45 min	Face-to-face
Venture C	Co-Founder	Growth	21/05/2018	25 min	Telephone

Table 4: Interviews with social ventures receiving funding from impact investors

The interviewees were contacted by phone or email, and in the request for an interview, the purpose of our research was described. As the investors and entrepreneurs have busy schedules, it was challenging to find available time slots for the interviews, which caused delays in our research schedule.

<u>Conducting the interviews</u>

We conducted the semi-structured interviews in person, or over Skype when geographical distance was a factor. Informants were offered anonymity and the option for pseudonyms to be used to ensure their confidentiality. Furthermore, we assured the informants that the information they provided would not be communicated in other interviews. The interviews were recorded with the approval of the interviewees, and during the interviews we took notes to ensure that no data was lost. The interviewees were given a choice of conducting the interview in either Norwegian or English, according to their preferred language, to avoid misinterpretation. We aimed at conducting an hour-long interview with each informant; however, some of the interviews were shorter, due to a busy calendar, and some were longer due to the interviewee's keenness to extent the discussion.

4.2.4 Data analysis

As a first step in the data analysis, we processed the data collected by transcribing the interviews. We aimed to conduct the transcription shortly after the interview was performed. This process was time-consuming; however, we viewed it as essential to secure accurate data, and it allowed us to reflect on key takeaways from the interviews. A full transcription of the interviews can be requested by email from the authors of this thesis. The majority of the interviews were conducted in Norwegian; however, the quotes we use in the thesis were translated into English. To assure that the translation of the quotes represented what the interviewee wanted to convey, the quotes were sent to the specific informant for approval.

To analyse the data, we used template analysis, which is a suitable method when conducting inductive research. In accordance with this method, we used codes and categories to organise and discover different themes and patterns in our data. Firstly, we read through the transcripts several times, to acquire an understanding of the key themes. As our interviews were semi-structured, the transcriptions were relatively unstructured, thus secondly, we colour-coded the transcript, giving each key theme a different colour. Finally, we compressed the data by extracting the relevant information from the colour coding in each interview.

4.3 Evaluation of the research method

The following section evaluates the credibility of our findings by analysing the validity, generalisability and reliability of our research.

4.3.1 Validity

The validity of our study relies on our representation of the informant's knowledge, and whether our understanding from the interviews is aligned with the informant's intended meaning. To secure credibility of our findings we were especially attentive to the use of different kinds of questions and were well prepared for each interview.

We used an interview guide with open-ended questions and we asked the interviewees to elaborate in greater detail after posing a statement. Furthermore, in some cases, we explained our impression to check if we had understood a statement correctly. Due to ambiguities in the field, a precise understanding of the interviewee's perception of impact investing was essential, thus this was discussed in detail in the beginning of the interview. This is in line with Saunders et al. (2009), who argue that to secure high validity in semi-structured in-depth interviews, one should be attentive to appropriate use of different kinds of questions, discuss topics from a variety of angles and test understanding.

Prior to the interview, we provided the informants with the purpose of the study, and indicated different themes to be addressed. We read background information on each interviewee in advance of the interview which enabled us to ask follow-up questions and facilitate discussion. The significant prior background interviews and observations conducted ensured that we had a high level of knowledge before conducting the interviews, which helped us demonstrate our credibility and encouraged the interviewee to offer a more detailed account. Finally, the translated quotes we use in the text were sent to the relevant interviewee to ensure that this reflected the intended meaning of the interviewee.

A limitation of our study that could affect the validity is that the sample is a convenience sample, rather than a random sample. Thus, there is a possibility that respondents might propose informants that are similar to themselves, resulting in low diversification of the sample (Saunders et al., 2011). Furthermore, interviewees did not have equal seniority within the field of impact investing, resulting in different levels of insight.

4.3.2 Reliability

In qualitative research, reliability concerns the issue of whether other researchers would achieve the same results based on the same data sample (Saunders et al., 2011). In other words, that our findings in the thesis are dependable and consistent. It is important to acknowledge the continuous growth and development in the impact investing field, both academically and in practice, thus a similar study conducted in another time period could yield different results. Moreover, as social ventures and social financing are closely related to the political and social context in a country, the same study could result in different findings in another geographical area.

Additionally, the lack of standardisation in in-depth semi-structured interviews may lead to concerns of reliability, related to interviewer and response bias. To decrease the possibility of bias, the interview guide consisted of open-ended questions, and clarifying questions were asked in the case of ambiguities in the responses. Furthermore, we were conscious of our tone of voice, body language, and vocabulary, to mitigate bias. This has been especially important in our research as through our studies and work experience, as we have developed a personal attachment to the field. Moreover, a response bias relevant for our research could be that the interviewees strive for a socially desirable position, and hence could exaggerate the importance of the social aspect in their investment decision. To increase the reliability of the research, we gave the informants the opportunity of anonymity. We also conducted interviews with social ventures that had received funding from impact investors, to triangulate the responses.

4.3.3 Generalisability

Generalisability refers to the findings being applicable to other settings (Saunders et al., 2011). This study focuses solely on Norwegian impact investors, more specifically on business angels and venture capital investors within this field. Our aim is not to make generalisations about the entire global or Norwegian population of impact investors across investor types.

4.4 Ethical considerations

To ensure ethical standards, we took several precautions. We obtained permission to record and transcribe the interviews, as well as to use the name of the interviewee/organisation in the thesis. Furthermore, we strived for the informants to be well informed about the study, to ensure that they participated voluntarily, and we avoided asking questions of a sensitive nature. Moreover, the data collected has been saved on our own personal computers, and all personal data will be deleted when the thesis is completed. Additionally, we used codes to ensure anonymity of the respondents throughout the research process. For the integrity and objectivity of the research, we were both present at all the interviews. We thus opted to act in a moral and responsible way throughout the research process.

5. FINDINGS AND ANALYSIS

In this chapter, we will present our analysis and findings based on the background interviews, ethnographic observations and the semi-structured interviews. The chapter consist of three parts. Firstly, as an initial study on impact investing in Norway, we find it important to provide the reader with an overview and characteristics of the growing Norwegian impact investing scene. This helps put our findings later on into a context and offers practitioners who seek to enter the field an overview of the scene. Secondly, we will explore the first part of our research question, namely how impact investors approach their dual objectives. The last section of this chapter aims to analyse the impact investor's preferences regarding the business model of the investee.

5.1 Industry overview: The Norwegian Impact Investing Scene

The last two years of observing and conducting research on the Norwegian impact investing scene leads us to describe the field as nascent, but in rapid growth. We observe an increasing interest as more practitioners have entered the field and impact investing has increasingly been the topic of conferences and featured in the Norwegian popular press.

Impact investments in Norway are made across a range of asset classes, sectors, geographies, stage and size and return-expectations, which is in consistency with international findings (GIIN, 2018). Our observations of the Norwegian impact investing scene reveal investments across a range of asset classes, such as: private equity/venture capital, private debt, real estate and SIB. Furthermore, this investor group is active across several sectors, including agriculture, finance, energy, health and education. We find investments made across geography, however, consistent with international findings, we observe a larger amount of capital being deployed in emerging economies. Moreover, a significant quantity of the investments are made into early and growth-stage ventures.

Terminological confusion Based on our background interviews and semi-structured interviews we observe terminological confusion among Norwegian impact investors, and there is no common Norwegian term used to translate impact investing. Some actors translate the term to "effektinvesteringer", "samfunnseffekt investeringer" or "formålsinvesteringer"; however, the English term 'impact investing" seems to be widely used.

Consistent with findings in literature and practitioner studies, we have observed considerable confusion not only concerning the Norwegian translation, but also regarding what the term ‘impact investing’ entails, as discussed in chapter 2. We find that Norwegian practitioners to a great extent associate the term with different social finance approaches found in literature, ranging from venture philanthropy to traditional investing. Thus, on the one hand we find that some investors use the term ‘impact investing’, but by definition cannot be described as deploying capital into impact investments. On the other hand, we find investors actively pursuing impact investments, but refraining from using the term ‘impact investing’. Thus, it must be noted that as impact investing is not clearly defined, it is challenging to accurately describe the Norwegian impact investing scene.

Supply side While the supply side activity has been dominated by angel investors, family offices, high-net-worth individuals (HNWI) and venture capital/private equity funds, an increasing interest from foundations, institutional investors and corporations has been observed. For example, the pension fund *KLP* has co-invested with Norfund in impact projects and Danske Bank has developed an impact initiative where it showcases and promotes ventures addressing social challenges. We have also observed that foreign impact investing funds are raising money from Norwegian investors, and the Swiss impact fund ResponsAbility, has even established an office in Oslo. Furthermore, the field is witnessing an increasing number of intermediaries and consultants providing services for investors, for example Grieg Investor and Formuesforvaltning.

In Norway, we also find some foundations involved in impact investing; however, engagement from this field can be expected to grow. The two major actors within this segment are The *Gjensidige Foundation* and *The Kavli Trust*. However, they still seem to be in a learning stage, and are currently deploying relatively small sums of capital in impact investments. For example, *The Gjensidige Foundation* made its first impact investment in 2014, and has committed 1% of its portfolio in impact investments. However, engaging in impact investing, is a way for foundations to also manage their portfolio in alignment with their values and mission, as an addition to solely using the returns of their portfolio to pursue their mission. This notion has been acknowledged in the newly proposed law for Norwegian foundations, where practices regarding impact investing have been clarified, to ensure that the governing law does not hinder enhancement of these type of investments by foundations (NOU 2016:21). Thus, more engagement from these actors can be expected in the future.

Furthermore, the Norwegian government is involved in impact investing through *Norfund*, the Norwegian Development Bank and through pilots of social impact bonds (SIB) in different municipalities. *Norfund* argue that they have a maximum of 1 billion NOK committed in impact investments. They define impact investing as a special asset class with risk levels that are higher than those usually accepted by the fund and the expected development impacts are particularly high. However, another part of the *Norfund* mandate is to catalyse private investments to sustainable ventures in poor economies, through partnership and knowledge sharing. We find that compared to other countries like Finland, *Norfund* and the Norwegian government in general have taken a rather passive approach to promoting the Norwegian impact investment ecosystem.

Demand side. The field of impact investing in Norway has developed alongside the increased interest and activity in social entrepreneurship and social ventures. However, the market for social ventures is still relatively nascent, compared to other countries. On the demand side, it is argued that the potential for impact investing in Norwegian ventures is rather limited until this point, due to the strong presence of the Norwegian welfare system (DAMVAD, 2012) and also a rather limited tradition of philanthropic activity. However, we find that as the welfare system in Norway is under increased pressure, combined with higher expectations of quality, thus the field of social entrepreneurship and social ventures are expected to increase. Initiatives like *Ferd SE* and *TDVeen*'s social venture accelerators and the *Katapult Accelerator* are contributing to creating a pipeline for impact investors in the Norwegian setting.

Challenges for growth. Our observations have revealed several challenges that hinder growth in the Norwegian impact investing field. Firstly, Norwegian investors and international impact investors face similar challenges, such as a lack of investment-ready projects, successful exit cases, impact measurement challenges, and definitional complexity. Secondly, impact investing cases are often not aligned with the criteria for risk profile, size of investment and time horizon of Norwegian investors. As for financial institutions, we observe a regulation limiting only 10% of the portfolio to alternative investments, such as private equity; this might constrain the funds from these investors channelled to impact investments for these investors. Lastly, our interviewees argue that a lack of incentives from the Norwegian government further hinders the engagement in impact investing and hence the growth of the market.

Opportunities. While the market faces several challenges for growth in Norway, we find overall that more investors are tapping into the market. We observe a growing set of networks and conferences which contribute to knowledge-sharing within the field and attract new entrants. *Nordic Impact*, a Norwegian impact investing fund, has been essential for knowledge-sharing, hosting the technology and impact investing conference *Katapult Future Fest*, and initiating the *Nordic Impact Investing Network*. Furthermore, we observe especially that a change in the law for foundations is projected to lead to increased activity. Finally, the Nordic countries have been found to be a forerunner in adopting sustainable investment practices, and thus adopting impact investing strategies should be the next step in this development.

As we have highlighted in this section, the impact investing field in Norway is nascent, but growing. We observe several actors moving into the scene, where business angels, family offices, and venture capital/private equity funds are especially driving the activity. We will in the next section explore the investment decision of impact investors and their preferences regarding the investee.

5.2 Impact investors approach to the dual objectives

In the following section of the analysis, we will present findings related to the first part of our research question: "**How do impact investors approach their dual objectives in an investment choice** and how is this reflected in preferences for the business model of the social ventures?"

5.2.1 Strong interest for the pursuit of the dual objectives

We find a strong motivation among all our interviewees to achieve a dual objectives, entailing a social impact beyond financial return. We find that the investors express an explicit aim to address social challenges with their investment, and thus put their capital to work for the benefit of society. For example, Eline Lorentzen from *Stratel AS* explains that they engage in investments that have a clear positive social impact, in addition to generating a return. Furthermore, we find that several of the investors argue that being a wealth holder entails an increased responsibility to contribute toward solving social challenges. They argue that deploying their capital through impact investments is one way they can fulfill this responsibility.

We find that several of the investors view impact investing as a reaction to the current view of business in society. The angel investor Ingrid Stange states:

"We have been subject to a couple of decades influenced by Milton Friedman and the 'business of business is business' with a pure 'bottom-line' mindset; however, I think this actually is quite alienating, and not the natural mindset for most of us."

Thus, it can seem that impact investors oppose the notion that the role of business is solely to maximize profit for shareholders, and rather adopt the view that business has a larger role in society. Similarly, Tellef Thorleifsson, member of the investment committee at *Voxtra*, elaborates:

"I view impact investing as a way to move away from the years with focus on shareholder value, dividend maximisation, quarterly focus and the school of Milton Friedman (...) If you operated a company in a local community 100 years ago, as an owner you did not only focus on capturing dividends, but rather they thought of welfare: building hospitals, schools and kindergartens. Thus, you applied a more holistic perspective of running a business, where profit only was one part of the equation."

The adoption of both a social and a financial objective can be seen as an incorporation of the concept of blended value. However, while this confirms that there is motivation to incorporate both the social and financial objective, the next sections will explore how this is performed in practice.

5.2.2 Emphasis on the financial criteria in the investment decision

Consistent with practitioner and academic literature, a majority of our informants argue that they perform a similar investment process to that found in venture capital/private equity literature, while incorporating an additional impact element throughout the investment process. The investment process thus entails deal origination, screening, evaluation, deal structuring and post-investment activities, for most of the investors. This thesis focuses mainly on the screening and evaluation phase. Tellef Thorleifsson from *Voxtra* sums up their process in these two phases;

“Similarly to a traditional venture or private equity funds we evaluate the team, the market and the competitors etc. and then perform a more detailed due diligence. However, in an impact investment we also perform an impact assessment, where we firstly make up an intuitive apriori meaning of the impact of venture. Hence, we develop a hypothesis regarding the impact of the venture, before we move on to a more detailed, active review of the social impact.”

Furthermore, we find that three of the investors perform the screening and evaluation through their own accelerator or co-working spaces. In these cases we find that the investment decision is thus based on a long-term assessment and the relationship with the entrepreneur team.

When describing the investment decision, our informants clearly state that they adopt practices from mainstream financial decision making in their investment decision. In the screening phase, the investors highlight screening factors consistent with literature on venture capital decision making, such as geography, stage and sector. Similarly, in the evaluation phase, impact investors evaluate criteria such as the entrepreneur and team, the market size, competitors and risk-return. These criteria are also consistent with traditional financial theory, and highlights the strong presence of the financial objective in the impact investor’s practices.

A strong emphasis on criteria from financial decision making can be explained by the fact that all the impact investors in our sample have backgrounds in mainstream business and finance. We find that a business background is consistent both for the wealth holders and the wealth managers. Thus, a strong familiarity with traditional financial decision making could imply that these investors are more knowledgeable about how to achieve the financial objective, than the impact objective in an investment decision.

Coinciding criteria

We find that impact investors argue that assessment of the mainstream financial criteria can also serve as an incorporation of the social objective. Our interviewees explain this by saying that social impact will not be achieved if a venture cannot sustain operations in the long run. Our informants argue that the above-mentioned criteria; market size, entrepreneur, management team and co-investors, are criteria that also are essential for achieving the social objective.

A majority of the investors emphasise that the entrepreneur and the management team are two of the most important factors in the impact investment decision. While this is consistent with traditional venture capital literature, our informants further explain that the entrepreneur is even more significant in an impact investment decision, as the entrepreneur is considered essential in achieving the dual objectives. They emphasise that the goal of achieving dual objectives could entail higher complexity and dilemmas, thus a highly skilled entrepreneur and management team are crucial to tackle future challenges and opportunities. Furthermore, the entrepreneur's integrity and values are also emphasised by investors, as an alignment between their own values and the entrepreneur's is perceived as factor that can ensure that a social venture does not divert from its social mission. To evaluate whether the entrepreneur possesses these skills and values, impact investors state that they devote extensive efforts to getting to know the entrepreneurs and the management team. These findings are confirmed in our interviews with ventures receiving funding from impact investors, who report that there perception is that the skills and values of the entrepreneur, was given high importance in the investment decision.

Another coinciding factor emphasised by our informants are the co-investors, and the importance of their skills and values. We find that most impact investors prefer co-investors who also pursue dual objectives. The investment director at *Impact Fund X* argues that the type of co-investors is more important to impact investors than traditional investors, due to the complexity triggered by the pursuit of dual objectives. Eline Lorentzen emphasised that in cases where the co-investors are traditional investors, the social ventures can be at more at risk of drifting from away from their social mission, due to pressure of prioritising profits by traditional investors. Thus, shared values with co-investors can enable impact investors to ensure their social objective. On the other hand, *Voxtra* prefers a diverse group of co-investors, as this can provide a complementary competency and network, which can ensure that the venture can successfully achieve both its objectives.

5.2.3 Informal and limited incorporation of the social impact objective

We find a social impact assessment is present both in the screen and evaluation phases; however, we find a lack of clarity concerning the definition of social impact, as well as diversity of the extent/rigour and formalisation of the social impact assessment across our sample in the investment decision. We thus argue that the social objective is incorporated to a lesser extent than the financial objective in the investment decision.

We find that all our informants highlight the presence of an impact criterion in the screening phase, along with traditional criteria; however, the assessment is often highly intuitive. In the impact screen, our informants emphasise that they review the social mission, along with an intuitive assessment of the potential social impact of the venture. Our interviewees stress the importance of the impact screen, and some investors even state that this is their first applied screening criterion. The investment director of *Impact Fund X* emphasises: *"As the impact is fundamental to how we invest, we thus review the impact category first when presented with an investment proposal."* Furthermore, our interviewees state that if a venture does not have a clear potential for a social impact, it will not be considered further in the due diligence process. However, we find that the impact investors describe the initial impact screen as an intuitive assessment of the venture's ability to create social impact, with little formalisation concerning the expected scope necessary to pass the screen. Thus, while an inclusion and emphasis of the impact criteria suggest an incorporation of the social objective in the screening phase, there is a high degree of intuition concerning the assessment of the social impact.

Furthermore, we find that the assessment of the social impact in the evaluation phase is performed with varying degrees of rigour and formalisation in an investment decision. We find that similarly to the screening phase, the evaluation of the social impact entails a high degree of intuition and a case-by-case approach of assessing the potential impact of a venture. Furthermore, we find that investors describe their evaluation of the impact as of a checkbox nature, thus with little rigour. We find that most investors do not use any form of standard framework to assess the potential impact of a venture. On the other hand, some investors state that they use the framework provided by the Sustainable Development Goals (SDGs) in the impact screen. Furthermore, three impact investor report a somewhat more formalised process to evaluate the potential impact of a venture, such as applying the concept of theory of change. Additionally, we find that investors emphasise that they are more confident in incorporating and assessing the potential environmental impact of a venture, such as the carbon footprint, as these metrics are described as more familiar and less complicated.

We find that a majority of the impact investors do not mention that they take into account potential unintended consequences, in their assessment of the social impact. Only one investor, Ingrid Stange, explicitly highlights that she applies a holistic approach that this addressing potential unintended consequences, she states: *"the most important thing for me is to know that the effect is significant, and it is important to view the impact created in a holistic manner, as* *in some cases negative externalities can occur."* Thus, the wide lack of emphasis on potential negative externalities could suggest limited knowledge among the impact investors in the field of impact measurement. Interestingly, Ingrid Stange is the only investor with extensive experience from the field of philanthropy and social impact assessments.

We find that most investors are in a learning and formalisation stage of how to approach the social impact objective in the investment process. Our informants acknowledge that the lack of rigour, sophistication and clarity in their approach to the social impact assessment, raises questions of the legitimacy of impact investing as a concept.

We find several factors that could serve as potential hindrances for impact investors to incorporate their social objective. Firstly, we find that all the impact investors view the impact evaluation of a venture as challenging and complex, and this is enhanced when evaluating early-stage ventures, as these ventures have not yet been able to prove their potential impact. Secondly, all the investors apply a rather broad definition of what they constitute as social impact, thus arguably making it hard to incorporate an evaluation of an objective that is not clearly defined. Thirdly, we find that a lack of knowledge and experience of social impact assessment contributes to a less sophisticated incorporation of the social objective. As previously highlighted, most of the investors and fund employees have a background in business and traditional finance, and only a few have a background in philanthropy or the government sector. Lastly, we find that impact investors only to a small extent formulate concrete goals regarding the future social impact they aim to achieve. This is an important point as one can argue that without proper measurements or concrete goals for the intended social impact, it is challenging to manage the social impact sufficiently, to ensure that the social objective is met. This perception is to a large extent confirmed through our interviews with organisations receiving funding from impact investors, as these ventures report that the assessment of potential impact was conducted in a more intuitive manner, furthermore there is largely a lack of concrete goals and guidelines for the venture's expected future social impact.

<u>Degree of additionality</u>

Furthermore, we find that some investors argue that they incorporate the social objective by addressing investments with a high degree of additionality. They argue that by investing in social ventures with a high-risk profile, such as early stage ventures or ventures operating in developing countries, the investment entails a high degree of additionality as these investments are unfit for traditional investors. Thus, targeting these types of investments can be seen as incorporating the social objective, as the impact created by the venture would not have been achieved without the impact investment. However, we find that the degree of additionality addressed can affect how impact investors approach their dual objectives, as some investors argue that these types of investments entail a default impact, thus there is a lesser need for a rigorous impact assessment.

5.2.4 Heterogeneity in approach to the dual objectives in the investment decision

We find that the approach to the dual objectives in the investment decision varies across investor types, and the return expectations. We find that the differences in the approach to the dual objectives can be due to the broad definition of impact investing.

Investor type

In line with financial literature, we observe that the different investor types, namely impact funds and angel investors/family offices, approach the dual objectives differently in an investment decision. Firstly, we find that impact funds to a larger extent incorporate a sophisticated impact assessment in their investment decision. Secondly, we find that angel investors have a greater opportunity to prioritise the impact objective in the investment decision.

We find that the inclusion of the social objective is more sophisticated for the venture capital and private equity funds. As these investors invest on behalf of their limited partners, they are thus required to report on why they invest in a venture and on the performance of the fund, both the financial return and social impact. Thus, we find that they adopt a more formalised and professional inclusion of the social objective. *Impact Fund X* describes that they apply a two-step approach for evaluating the impact beyond the initial impact screen, where the first step is an evaluation of the impact with qualitative measures, and the second step a more quantitative assessment. On the other hand, business angels invest their own wealth, and thus do not have the same responsibility as an impact fund. Ingrid Stange, a business angel, highlights the fact that she is not a professional investor, and thus does not need to justify her choices to the same extent as venture capital funds, and hence adopts a less formalised and demanding impact assessment.

We find that the share of portfolio allocated to impact investments affect how the dual objectives are approached. Angel investors are often high net worth individuals or families, thus, due to significant wealth, they have the possibility to focus more on the social objective. We observe that the majority of business angels and family offices in our sample have only allocated a smaller share of their portfolio to impact investing. Thus, these investors are more willing to prioritise the social objective in their impact investments, as financial return is secured through their mainstream investments in their portfolio. We argue that the angel investors in many cases carry out investments that can be placed closer to venture philanthropy on the social finance continuum, as they are less concerned with a return on the principal of the investments. On the other hand, impact funds will need to incorporate the financial objective in the investment decision to a greater extent as they are managing the investments of their limited partners solely in impact investments.

Return expectations

We find that all investors express the fact that they target an expected return of above the principal, which is in line with our working definition of impact investing. However, beyond this we find differences in expected returns across investors. Firstly, one group of our interviewees state that they prioritise social impact over financial return. These investors emphasise that they are willing to sacrifice some financial return in order to achieve a high impact. In literature, this type of impact investors is often described as impact-first investors. We observe that these investors indicate a more realistic approach regarding the ability of ventures to achieve a high impact, and that there is a need to take higher risks, and be more patient to achieve high impact with an investment.

On the other hand, we find that some impact investors to a lesser extent are willing to compromise financial return for social impact. Thus, according to literature, this group of impact investors can be placed closer to the financial-first investors. However, we find this categorisation less fitting for the investors in our sample; we rather argue that these investors adopt a more optimistic approach to impact investing. They argue that they can achieve high social impact, in addition to high financial returns, simultaneously, by investing in the right business models. Thus, this rather entails a belief that the social and financial objectives can be aligned. The investment director at *impact Fund X* emphasises this and states: "Impact investing has the potential to become investing", indicating their belief in a possible long-term financial return through impact investing.

5.3 Preferences regarding the business model of the social venture

In this section, we will present findings related to the second part of our research question: "How do impact investors approach their dual objectives in an investment decision and **how is this reflected in preferences for the business model of the social ventures?"**

We thus review preferences for the four dimensions of the business model of a social venture, as we presented in section 3.3.

5.3.1 Social mission

Based on our findings, impact investors indeed highlight the importance of the nature of the social mission addressed by the social venture. We argue that this can reflect an emphasis on the social objective in the investment decision. However, the preferences related to the type of social missions are subjective and thus differ to a great extent between the individual investors. Even so, we find that impact investors prefer social ventures targeting a social cause of systemic nature, with a global reach. Moreover, a measurable social mission is favourable, especially according to impact funds.

We observe that impact investors have strong preferences for social ventures that address a social mission they are passionate about, or to which they have a personal attachment. This is especially apparent for angel investors, one example being Ingrid Stange, who is dedicated to the issue of climate change, education and women empowerment, hence she is more willing to invest in ventures that address these issues. Furthermore, several of our interviewees mention that they are attracted to ventures targeting a social mission for which they have a personal attachment. For example, Trond Riiber-Knudsen states that one of his investments was made based on the strong emotions the social mission triggered, in this case a father of a rape and murder victim wanting to develop an alarm system, so that similar incidents could be avoided in the future. Thus, in line with Bocken (2015), a social mission that triggers deep emotions for the individual investor is a motivation for an impact investor to invest in a social venture. However, the individual preferences are highly subjective, thus we observe preferences for a wide range of social causes among impact investors.

Furthermore, we find that the majority of the informants have an affinity for a social mission with a global reach, with the possibility of systemic change. Both impact funds and business angels express preferences regarding a social mission with the potential to reach a global target group and bring about systemic change, thus suggesting a business model with characteristics similar to Social Engineers (Zahra et al., 2009). *Impact Fund X* states: "the larger the potential impact, the more we are triggered to invest in the venture." Similarly, Kjell from *TDVeen* emphasises that they target social ventures "aiming to create radical change through a demanding process, with the potential for substantial impact". As mentioned in section 5.2, the strong preference found for a social mission with a high reach, can also be suggested to reflect the financial objective of an impact investor; a large reach can be seen as advantageous from a financial perspective, by reflecting a larger market for the venture.

However, we still find our informants acknowledge the importance of local solutions, and some of our interviewees also highlight that they have an interest in ventures addressing more local or national issues. As an example Voxta express that they invest in organisations that address needs on a national or regional level, their investment strategy is to contribute to the development of infrastructure in agriculture, in the context of a developing country. Thus, they address issues regarding infrastructure systems, where government or other institutions are not sufficiently providing a solution. Characteristics of these types of ventures can be seen in line with how Zahra et al. (2009) describe Social Constructionists.

Furthermore, we observe that impact investors prefer ventures that create a measurable social impact. In line with the definition of impact investing, *Impact Fund X* highlights that "the social impact needs to be measurable, so that it is possible to determine what the venture aims to achieve in a couple of years". We find that private equity funds highlight the measurability of the social impact to a larger degree than the business angels, which can be explained by their fiduciary responsibility to their limited partners.

5.3.2 Value proposition

We find that impact investors emphasise a value proposition that is scalable and innovative. Furthermore, we find that impact investors prefer business models where the social mission is aligned with the value proposition, which reflects their dual objectives.

A majority of Norwegian impact investors highlight the attractiveness of business models with a scalable and innovative value proposition, which is often associated with a technological solution. Scalability is especially stressed by our informants as both q prerequisite for having a high impact and generating sufficient revenue, thus representing the dual objectives of impact investors. For some impact investors, technology is central in their investment strategy, as ventures with technological solutions often inhibit scalability and innovation. Trond Riiber-Knudsen highlights that "new technological solutions are often easy to scale, as they require low resource intensity." However, some investors argue that innovation does not necessarily refer to a "state of the art tech" as stated by Tellef from *Voxtra*, but to thinking about existing problems in a new way or implementing a proven business model in a new market.

Furthermore, we find that impact investors prefer a value proposition that is aligned with the social mission of the venture, as this could prevent mission drift. As stated by Eline from *Stratel* AS: "A direct correlation between core activities and impact makes it a lot easier to be an impact investor." We find this to be aligned with a business model with automatic value spill-overs, as proposed by Santos et al. (2015). Furthermore, Santos et al. (2015) highlight that a model with automatic spill-overs is closer to commercial business models. Our interviewees express the view that this type of value proposition reduces the complexity, and furthermore reduces potential conflicts between the social and financial value creation. *Impact Fund X* elaborates thus: "If the impact is created by a side-activity of the venture, rather than through the main product or service, there is a risk that the financial objective will be prioritised. However, if the social impact is at the core of the service or product, it is less likely that the venture will drift from the social objective." Hence, a value proposition that incorporates the social mission is preferred by impact investors, as it is perceived to be more compatible with pursuing dual objectives simultaneously.

5.3.3 Beneficiaries and customers

We find that impact investors express preferences for the type of beneficiary and customer groups and regarding the extent to which these groups overlap.

In similarity to the social mission, some impact investors have preferences toward a target group that is close at heart, either in terms of geographical presence, or in relation to the issue the venture seeks to address. For example, TRK focuses purely on issues that target a group of customers or beneficiaries in Norway and Ethiopia, as he is passionate about the state of

Norwegian welfare and Ethiopia is his place of birth. Furthermore, as Ingrid Stange has a great passion for women's empowerment, several of her investments target ventures with groups of women as their main beneficiaries.

We find that a common feature regarding beneficiaries is that impact investors prefer business models that target marginalised groups in society. However, this focuses on groups located in both developed and developing countries. Ingrid Stange states that their target beneficiaries are always the least privileged; however, she targets the least privileged segments of society both in Norway and Ethiopia. Thus, depending on the context, these groups can have very different needs, even though they are equally important to be addressed. On the other hand, *Voxtra* conduct investments solely in developing countries, more specifically East and West Africa. The focus on creating impact for marginalised groups in society, it can be argued, reflects the social objective of impact investors.

Lastly, we find that some of the investors have preferences concerning the degree of overlap between customers and beneficiaries, namely that business models where these two categories overlap are preferred. *Impact Fund X* states: "We mostly invest in business models where the customer and the beneficiaries are the same, where the beneficiaries are willing and able to pay for the product. We perceive these business models as less problematic, as the social and financial performances are more aligned." This is consistent with the business models of Santos et al. (2015), where the beneficiaries and the customers' overlap are easier to manage and scale. Hence, it can be suggested that business models where the customer group and beneficiaries are aligned protect the dual objectives of the impact investors.

5.3.4 Revenue stream

We find that impact investors emphasise the importance of the revenue stream, and stress that a potential investee needs to be able to generate market revenues. This could indicate an emphasis on the financial objective. However, similarly to our findings in section 5.2, investors also perceive these criteria as important to achieve the social objective. This is reflected in a statement from Tellef in *Voxtra*: "An unsustainable business model will not have the ability to scale and thus it is not possible to create an extensive social impact."

We observe that impact investors find business models that are dependent on donations and grants less attractive; they rather prefer business models that can rely solely on market revenues. Impact investors are more cautious about business models that are dependent on external sources of funding, such as grants or donations, as this implies that the venture is unable to generate self-sustaining revenue. Tellef from *Voxtra* builds on this argument and voices another concern related to receiving donations and grants, namely that a large focus on maximising the sum of donations can shift the focus away from building the business. However, our informants express the view that they acknowledge the importance of grants and donations for early stage ventures.

Furthermore, impact investors state that they prefer a revenue stream that is generated with the social mission; according to Dohrmann et al. (2015), this implies a higher degree of monetisation of the social value creation. Thus, impact investors have an affinity for business models generating revenue with the social mission, implying that impact investors have an affinity for social ventures where the social target group is involved in the revenue earning activities.

Based on these characteristics, Dohrmann et al. (2015) place ventures that generate market revenues and have a high degree of monetisation of social value creation on the end of the continuum that features more commercially oriented business models.

5.3.5 Business models reconciling the dual objectives

We find that both the dual objectives are reflected in preferences for the business model. Consistent through all the dimensions of the business model reviewed above, we find that impact investors' preferences for social ventures suggest an affinity for business models that reconcile the social and financial objectives. Our findings regarding preferences for a value proposition with automatic spill-overs, a revenue stream aligned with the social mission and overlap of customers and beneficiaries are all characteristics that ensure performance of both the objectives are met simultaneously. This can be explained as: a focus on achieving one objective automatically leads to strengthening the efforts in achieving the other objective. Thus, these kinds of business models decrease the likelihood of mission drift of the venture, as a focus on the financial objective is aligned with achieving the social objective. By targeting these dimensions in the business model, impact investors tend to prefer less complex business models, where there is less conflict in pursuing their dual objectives. According to Dohrmann et al. (2015) and Santos et al. (2015), these business models can be described as more commercially oriented social ventures.

5.3.6 Perceptions of social ventures and social entrepreneurship

Our findings regarding the preferences of Norwegian impact investors suggest that they consider social ventures as potential investment objects. The investors highlight a preference for business models with a clear presence of a social mission, a degree of innovation and generation of profits. These elements coincide with the definitional characteristics of a social ventures, thus suggesting an affinity for these ventures. However, our findings suggest that impact investors prefer social ventures that are more commercially oriented and the investors in our sample highlight that they do not uniquely target social ventures. Rather, we observe a disconnect between Norwegian impact investors and social ventures. Our informants highlight the fact that they view Norwegian social ventures as less attractive, as they are perceived as less ambitious in adopting scalable business models, and rather more focused on local needs. They furthermore associate social ventures as ventures unable to generate revenues. As an example, Eline Lorentzen highlights *No Isolation*, a social venture using robots to address the issue of social exclusion and loneliness. It has received funding from several impact investors; however, she questions whether *No Isolation* would have been able to raise these funds if they had communicated that they were a social venture. Thus, impact investors in Norway seem to have similar perceptions of social ventures to those we found for traditional investors in chapter 3. We argue that these perceptions might emerge from the lack of knowledge of social ventures and different business models, or that there actually is an immaturity in the field of social ventures where the business models are less commercial in Norway.

6. DISCUSSION AND IMPLICATIONS

This thesis set out to explore the phenomenon of impact investing, and more especially *how* an impact investor approaches the dual objectives in an investment decision. In the following, we highlight the key findings of our study and derive three propositions, which can serve as a point of departure for future empirical studies. Furthermore, we discuss theoretical and practical implications, and finally discuss the limitations of this thesis and provide directions for future research.

6.1 Key findings and propositions

Through our in depth-interviews with Norwegian impact investors, we find that impact investors aim to incorporate both the and financial objectives in the investment decision. The financial objective is approached by adopting mainstream financial processes and criteria. Furthermore, the social objective is approached by incorporating a social impact assessment throughout the investment process. In comparison with the financial criteria however, the social assessment is conducted in a more informal and intuitive manner. Furthermore, a check-box process is applied, where a mere presence of social impact can be sufficient to satisfy the social objective. However, some investors argue that by targeting investments with a high degree of additionality, such as investments into early stage ventures and ventures that operate in emerging markets, achievement of the social objective is by default ensured. Additionally, impact investors consider several of the mainstream financial criteria, such as the entrepreneur and market size, as equally important for achieving social impact.

Even though impact investors aim to address the social objective, we argue that several elements act as barriers for this to be achieved successfully, thus we argue that the financial objective is given larger emphasis. Firstly, we observe that most impact investors in Norway have a background from business or finance. This implies that they are more confident and familiar with mainstream financial criteria in an investment decision, as they additionally have little experience from philanthropy. While some investors apply frameworks for assessing social impact, they still seem to be making decision rooted in their financial background. Secondly, assessing impact is a complex field, where there are no agreed-upon metrics, thus impact investors perceive this assessment challenging. Lastly, we find that impact investors to a small extent formulate tangible impact targets and measurements, thus we argue that it is hard to manage the objective successfully. Hence, we find that there is a dominance of financial logics, that can lead to the social objective being undermined in the investment decision. This leads us to our first proposition.

Proposition 1: The financial objective is emphasised in the investment decision of impact investors.

We find that our informants acknowledge that the lack of rigour in the social impact assessment, can be seen as a threat to the legitimacy of the impact investing field in Norway. We observe that most of the Norwegian impact investors are still in a learning and formalisation phase of developing good assessment practises of the social impact. However, we stress that without a more rigorous assessment of the social impact of an investee, impact investing will face a risk of drifting away from its dual objectives and thus diluting the concept.

However, the dual objectives are to a larger extent seen reflected in preferences for the business model of the social venture. We find that the dual objectives of impact investors are reflected in their preferences for the business model, as they are found to prefer business models aligning profits and impact. Thus impact investors seem to prefer business models where there is less conflicts between their dual objectives. More specifically, they prefer business models where the social mission is aligned with the value proposition and where the revenue stream is generated with the social mission. According to Santos et al. (2015), this relates to ventures where the impact happens automatically with the provision of the good or service, as in the case of *Bright*, where the provision of solar lamps automatically creates value spill-overs. Moreover, following the framework of Dohrmann et al. (2015), business models where the revenue stream is generated with the social mission entail a high degree of monetisation of the social value creation, as in the case of *Unicus*. The business model adopted by *Unicus* ensures a high degree of monetisation as it uses the speciality of the beneficiaries on the production side to secure market revenues from its highly competitive IT consultancy services. We find that impact investors perceive these business models as simpler, and that they to a lesser extent involve a conflict betweens their goals. This can be explained as the increase of the sales and revenue from the value proposition simultaneously enhance the social impact. In line with this argument, we also find that impact investors prefer business models where the customer and beneficiaries are the same group, this further decreases the potential conflict between two objectives. Hence, impact investors can seem to deal with the inherent complexity of investing with dual objectives, by investing in ventures that to a lesser extent need to prioritise between the and financial objectives.

According to Dohrmann et al. (2015) and Santos et al. (2015), business models with these characteristics, namely where the impact happen automatically with the provision of a good or service and where the value is created with the social mission, are more commercially oriented social ventures. This entail that the social venture has an ability to generate market revenues that exceeds its expenses. In comparison, socially oriented business models, often generate revenue for the social mission, thus the venture is not financially self-sustained but rather dependent on donations. Thus, we propose the following;

Proposition 2: Impact investors prefer business models, where the social mission is aligned with the value proposition, and where revenue is generated with the social mission, suggesting an affinity for more commercially oriented social ventures.

Furthermore, to achieve both high social impact and financial performance, impact investors highlight the importance of a scalable and innovative value proposition, with a social mission that has a potential for a large reach. A social mission that has the ability for large reach, at least national or international, can ensure that the social venture has an impact on a large number of people. Furthermore, impact investors highlight the fact that a scalable value proposition is essential to ensure that the venture can create impact for a large group of beneficiaries. Simultaneously, the investors emphasise that these characteristics are necessary to secure revenue. Thus, we find that impact investors seem to prefer social ventures with characteristics similar to *Social Constructionists* and *Social Engineers* proposed by Zahra et al. (2009). In comparison, *Social Bricoleurs* are perceived as less attractive due to their focus on a local target group and a limited ability to scale. Furthermore, a degree of innovativeness is highlighted as an attractive characteristic, as it secures a competitive advantage for the social ventures. We find that an affinity for innovative and scalable solution with a global reach often leads impact investors to invest in social ventures adopting a technological solution to address the social mission.

Proposition 3: Impact investors prefer business models with a social mission that has a potential for national or international reach, and a scalable and innovative value proposition.

Our research reveal that certain characteristics of the business model allow impact investors to reconcile their dual objectives. Hence, we have highlighted the special importance of the business model for the impact investor, as it is particularly important to be able to achieve the dual objectives. Thus, we find that one way impact investor can align their conflicting dual objectives is by paying close attention to the characteristic of the business model of the social ventures.

6.2 Theoretical implications

The phenomena of impact investing and social venture financing are largely unexplored in academia, especially in the Norwegian context. As stated in chapter 2, the term 'impact investing' lacks a clear definition and suffers from interchangeable use of terminology and unclear definitional boundaries (Höchstädter & Scheck, 2015). We address this gap by critically reviewing practitioner and academic literature and highlight the key components of the definition, leading us to propose a working definition of impact investing. We argue that a delimitation of the term can contribute to the increased legitimacy of impact investing and is necessary for conducting meaningful research on the topic.

We contribute to the understanding of the investment decision of impact investors, which is largely unexplored. In line with extant literature, we find that Norwegian impact investors adopt a similar investment process to that of mainstream venture capital funds and business angels, with an additional impact assessment. We further explore *how* the dual objectives are approached in the investment decision, which, it is argued to be essential to understand the phenomena of impact investing (Roundy et al., 2015). We find that impact investors emphasise the mainstream financial criteria in an investment decision, adopting a less rigorous assessment of the potential impact of the venture. Furthermore, the absence of rigour in the assessment, along with a lack of knowledge and familiarity, hinders impact investors from optimally incorporating the objective in the investment decision, which can further pose a danger to the legitimacy of the concept.

Our research provides new insight on how impact investors approach their dual objectives by exploring preferences for the investee through a business model perspective. Furthermore, identifying characteristics of the organisations impact investors invest in, is argued to be important in understanding the concept of impact investing; however, this has not been studied in literature (Höchstädter and Scheck, 2014). We address this gap by providing insight into the impact investors' preferences for characteristic of a type of investee, namely social ventures. Furthermore, we confirm practitioners' suggestions that impact investors do invest in social ventures; however, by applying a business model perspective, we deepen this insight by proposing an affinity for certain types of social ventures.

To the authors' knowledge, this is the first study exploring impact investors' preferences for the business model of social ventures. Our findings highlight that business models of social ventures are heterogeneous and that investors have preferences for different business models. Furthermore, understanding impact investors' preferences regarding the social venture provides further clarity as to how the dual objectives are approached in practice. Our findings indicate that impact investors approach their dual objectives by investing in social ventures where impact and profit are aligned, thus they have an affinity for social ventures where there is less perceived conflict between the dual objectives. Thus, these types of business models suggest that impact investors have an affinity for simpler and more commercially oriented social ventures. Thus, by applying a business model perspective, we find that Norwegian impact investors to a great extent consider it possible to pursue an investment where there is little trade-off between the financial and performance. Hence, they approach their dual objectives by investing in certain social ventures where the business model is perceived to reconcile social and financial goals. This illustrates that a business model perspective can provide valuable insight to understanding the concept of impact investing, thus we urge future studies to build on our propositions to develop typologies of business models in which impact investors are likely to invest.

Furthermore, our insight is not only limited to the field of impact investing or social ventures, rather we contribute to the larger debate regarding how organisations cope with dual and often conflicting objectives. We also consider our insight important in the general debate concerning the pursuit of objectives beyond financial return in strategic management and finance.

6.3 Practical implications

Implications for social ventures

Our findings confirm that impact investors in Norway are a potential funding source for social ventures. Even though the practice of impact investing is gaining momentum, however, Norwegian impact investors are still few in number, and thus social ventures should be careful of solely focus their financing activity on this group of investors. Furthermore, we find that impact investors have an affinity for certain types of social ventures, and find other types less attractive. Social ventures face significant challenges in obtaining funding to sustain and scale their impact, thus a better understanding of a new type of funding source, namely impact investors, has important implications for social ventures.

Our study contributes to a greater understanding of the investment decision of impact investors, thus social ventures can prepare and adapt their fundraising strategy accordingly. Our research suggests that impact investors emphasise the assessment of mainstream financial criteria, while the assessment is approached with less rigour and formalisation. Thus, social ventures should familiarise themselves with mainstream financial investment processes and criteria, and furthermore adopt their communication with the investors accordingly. However, we find that Norwegian impact investors are in the learning stage of incorporating an assessment for a impact, thus we expect an increased focus on the assessment, hence social ventures should emphasise their measurable potential impact. Furthermore, as we observe a potential disconnect between Norwegian impact investors and social ventures, possibly due to a lack of knowledge, it could be advisable not to emphasise the "social venture label" too strongly when interacting with impact investors.

By applying a business model perspective, we highlight important managerial implications for the social ventures who are seeking funding from impact investors. Social ventures can use our findings and real-life cases when designing their business model, or to adapt their existing business models if aiming to fundraise from impact investors. Our findings highlight that impact investors express an affinity for the characteristics of a scalable and innovative value proposition, thus ensuring that the business model can be scaled. Moreover, another preferred characteristic is a social mission with a global reach, which can be measured.

Moreover, we find that impact investors prefer a simple and more commercially oriented business model, where the impact and profit are aligned. This entails a revenue stream that has the potential to cover the venture's expenses, making the venture less dependent on donations. Furthermore, the value proposition of the venture to a lesser extent requires additional interventions to secure a high impact. We find that the cases of *No Isolation* and *Unicus* serve as examples of business models that are preferred by impact investors, as they create value *with* the social mission. Firstly, *No Isolation* addresses the problem of social isolation and loneliness for elderly and for children with a communication device, where the user pays a subscription fee. Thus, by increasing the number of subscribers, *No Isolation* simultaneously increasing its impact, hence the impact happens without the need for additional activities. Secondly, in the case of *Unicus,* the beneficiaries are involved on the production side, in the IT consultancy, as they are employed in the business. By including its beneficiaries, namely people with Asperger's syndrome, in the value creation, the social mission is aligned with the revenue-generating activities as an increase in sales of consultancy services directly leads to an increase in impact. Thus, *No Isolation* and *Unicus* both generate revenues *with* the social mission.

On the other hand, *TOMs Shoes* is an example of a business model that we find is less attractive for impact investors, as this venture creates revenue *for* the social mission. The business model of *TOMs Shoes* means that for every pair of shoes sold, one pair of shoes is provided to people in need. However, in comparison to *No Isolation* and *Unicus,* the impact does not happen automatically with the revenue generation; it rather happens through an additional activity where a pair of shoes is distributed to people in need. Thus, even though this model is more commercially oriented, revenue is not created *with* the social mission, but rather *for* the social mission. Furthermore, the customers and beneficiaries are different groups, where the customers are individuals with a high ability to pay, and the beneficiaries are people in need of shoes. This creates a more complex business model, as additional activities are needed to ensure impact and the customers and beneficiaries are not the same target group. This model involves the possibility of prioritising one of the objectives over the other, thus is not consistent with the dual objectives of an impact investor. Hence, a stronger focus on the financial objective of the social venture can lead to a neglect of the , or the other way around.

As we find that impact investors aim to achieving the dual objectives simultaneously through investments in social ventures, our main recommendation for social ventures is to try and adapt their business model accordingly. As an example, *TOMs Shoes* could adapt their model to have characteristics more similar to those of *Unicus*, by employing their beneficiaries directly in the production of shoes, thus including their beneficiaries on the production side. This would ensure that an increase in revenue directly increased the impact as more beneficiaries could be given employment and thus a stable salary. Another example entails creating a new value proposition where the beneficiaries are the same group as the consumers, in similarity to *No Isolation.*

However, we acknowledge that adapting the business model might not be possible in some cases due to characteristics of the social mission. Thus, it is important to note that our findings also indicate that the portfolio of impact investors includes different investments with a different approach to the dual objectives. In most cases, impact investors argue that they perform investments where they seek to align financial and performance; however, we find that for some investments in their portfolio, impact investors give the objective larger emphasis. Thus, it could be possible for a venture to acquire funding from impact investors, even though the business model lacks alignment between the social impact and profits. An example of this could be that the venture addresses a social mission that the impact investor is strongly passionate about. Thus, it can be important for social ventures to acquire sufficient knowledge of the individual impact investor, to understand in what cases they are willing to prioritise the objective.

Impact investors

As impact investing is a new field, our study can provide important insight on how impact investors can develop their investment strategy to better ensure an achievement of their dual objectives. Our findings reveal an emphasis on the financial objective in the investment decision, thus this highlights the importance of developing a more formalised impact assessment to ensure that the investments generate a high impact and ensure that legitimacy of to the concept.

We find that one way Norwegian impact investors approach their dual objectives is by investing in business models where the performance is aligned with the financial performance. We argue that certain characteristics in the business model of a potential investee can be central in achieving the dual objectives. Thus impact investors should give high importance to the business model in an investment decision. Hence, an important implication for impact investors is our real life examples of business models which the characteristic of alignment of the dual objectives.

Moreover, we provide an overview and clarification of the field that can be utilised by new agents seeking to engage in impact investments. We further contribute with practical insights on how an impact investment is performed and what type of business models are preferred to ensure both and financial value performance.

Policymakers

Our initial study on impact investors, provides several implications for policymakers. Firstly, we present an overview on the current state of the Norwegian impact investing scene, as it eases the navigation into this new field. Secondly, we provide valuable insight and clarification of the field concerning the term 'impact investing' and how this field is related to other concepts. Furthermore, our working definition, developed on the basis of a critical review of the literature, can be of importance when formulating policies.

Our study finds that Norwegian impact investors have an affinity for certain types of social venture, indicating that impact investors can play a role in financing these ventures. As social ventures, increasingly have been emphasised by the Norwegian government as an important tool for effectively addressing challenges, policymakers should incentivise the growth of the Norwegian impact investing field. Measures to ensure this can include initiatives such as ecosystem development and incentives like easing taxes and legal requirements for impact investors.

We find that several Norwegian impact investors invest in ventures addressing issues in developing countries. As The Development Bank of Norway, Norfund has a mandate to act as a catalyst for channelling private capital into developing economies, we argue that Norfund should have a particular focus of mobilising capital from impact investors. Furthermore, we argue that Norfund, with its mandate and experience from investing with dual objectives, can thus play an important role in promoting the impact investing activity in Norway. This approach has been highly promoted by the development bank in Finland and the UK.

6.4 Future research and limitations

Our study is one of a few studies seeking to understand the novel phenomenon of impact investing, and the first addressing a Norwegian sample and employing a business model perspective to understand the investor preferences for the social venture. Thus, there are several limitations to our study and future research is needed to address aspects of impact investing that remain to be explored.

Firstly, our thesis faces limitations related to the sample size of in-depth interviews, which consists of seven main informants. The Norwegian investor market is small and we thus included different investor types. Our sample was further limited to include only investors directly invested in ventures. Additional in-depth interviews, within the same investor type, could have strengthened our research, and potentially given us a different result. This, combined with the fact that we only interviewed Norwegian impact investors, implies that our findings have a lower degree of generalisability. Future research could study different impact investor groups but also include traditional investors in the sample to understand differences and similarities in the investment decision and preferences.

Secondly, studying the investment decisions and the preferences of impact investors through semi-structured interviews has limitations, as we study behaviour in a hypothetical manner. Other researchers could use our findings and propositions and further explore the investment decision through participant observation and or test it empirically with experiments. Future research could also explore impact investors' preferences for social ventures and other investee types, by developing business model typologies from a sample of ventures that have received funding from impact investors. As we have found that impact investors aim to reconcile financial and objectives in an investment decision, business models preferred by these investors could provide insight to the field of institutional complexity.

Thirdly, we only address one aspect of impact investor's behaviour and their interaction with social ventures, namely the investment decision. Furthermore we limit to only studying the screening and evaluation stage, while, in reality, impact investors additionally need to manage their investments, and perform exits that are in line with their dual objectives. It is thus equally important to understand how impact investors manage and exit their investments of social ventures, to be able to evaluate whether impact investors can serve as an attractive capital source for social ventures. In other words, a next step to increase the understanding of impact investors and to evaluate whether impact investors serve as an attractive capital source is to study the management and exits of investments.

Finally, impact investing has emerged as a new phenomenon, where philanthropic objectives are combined with traditional financial decision making. Scholarly interest has not met the interest shown by practitioners and policy makers, and a lot of work lies ahead. This study represents an initial attempt to address one research gap to understand a new type of investment: the investment decision. We hope that the study can spur interest to further study impact investing, as a that aims to allocate more capital to the fundamental challenges the world is facing. We believe that to tackle these challenges, innovative and collaborative concepts developed by combining different disciplines and sectors are needed, and impact investing could become one of them.

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8. APPENDIX

Appendix 1: Interview guide investors

Before interview:

- Express gratefulness to the interviewee for agreeing to meeting us
- Present the purpose of the study
- Ask if we can use the name of the company in the the thesis, if not they can remain anonymous
- For practical reasons, I will ask for your consent to record the interview on tape to be able to transcribe the conversation. The recordings will be deleted after the transcription is complete.
- The interview can be conducted in either Norwegian or English based on the preference of the interviewee. If carried out in Norwegian, we will translate the certain quotes we would like to have in the paper to English.

Opening question:

- Can you tell us a bit about your background and your former experience with investing?

- How was your introduction to impact investing and when did you start working within the field?

- Could you give a brief overview of the company and your position? / How do you engage in the impact investing field?

1: Impact investing - concept

- How do you view the concept of impact investing?
    - Measurability?
    - Intentionality?
    - Additionality?
    - Investee?

- How do you place impact investing within the broader social finance field? (Social responsible investing/sustainable investing)

- What is your motivation and aim of your impact investments?

- What kind of investments do you engage in?
    - Type(instrument)? Size? Stage? Sector? Location? Time-horizon?

2: Investment process:

- Can you describe the investment process; from the first encounter with a possible investee through the final investment decision/deal.
    - Screening?
    - Due diligence?

- What criteria are important when evaluate a possible investee?
    - How do you prioritise these factors?

- How do you evaluate the potential social/environmental impact generated by an investment?
    - Is this is integrated part of the investment process? Or a separate track?
    - Do you use any frameworks in the evaluation?

- How do you view the balance of social and financial performance in your investment decision?

3: Characteristics of the investee:

- What organisational form/legal structure of the investee do you prefer?

- What kind of social mission do you target?
    - Scope
    - Scale
    - Measurability
    - Environmental/social

- What kind of preferences do you have regarding the product or service?
    - Sector?
    - Scalability?
    - Degree of innovation?

- What kind of preferences do you have regarding the beneficiaries and customers of the venture?
    - Geography
    - Degree of overlap?

- What kind of preferences concerning the type of revenue stream of the possible investee?
    - Donors? Public sources?
    - Revenue with the social mission? Revenue for the social mission?

Additional questions:

- Do you have anything to add? Are there any important elements that we have not touched upon?

Appendix 2: Interview guides entrepreneurs

Before interview:

- Express gratefulness to the interviewee for agreeing to meeting us
- Present the purpose of the study
- Confirm that they will be anonymous in the thesis
- For practical reasons, I will ask for your consent to record the interview on tape to be able to transcribe the conversation. The recordings will be deleted after the transcription is complete.
- The interview can be conducted in either Norwegian or English based on the preference of the interviewee. If carried out in Norwegian, we will translate the certain quotes we would like to have in the paper to English.

Opening questions:

- Can you tell us a bit about your background and your company.
- Can you briefly describe your business model?

1: Impact investing:

- How do you view the concept of impact investing?
- How do you place impact investing within the broader social finance field? (Social responsible investing/sustainable investing)

- What types of external financing does your company have?

- How many impact investors have you received funds from?
    - Size of investment, type

2: Investment process

- How did you come in contact with impact investor A?
- What do you perceive as their motivation for investing in your company?
- Can you describe the investment process?
- What criteria did you perceive where of importance for investor A?
    - Weight financial criteria and social
- What financial and social information did they request?
    - Did express that they wanted to evaluate your social performance?

3: Business model:

- What preferences do you perceive impact investor A have toward your business model?
    - Social mission
    - Product/service
    - Revenue stream
    - Beneficiaries/customers
- Have you changed your business model after the investment?

Additional questions:

- Do you have anything to add? Are there any important elements that we have not touched upon?