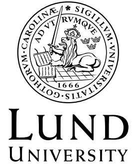

SCHOOL OF
ECONOMICS AND
MANAGEMENT

Master's Programme in Innovation and Global Sustainable Development

Impact investments for the social economy

Reframing the impact investing phenomenon by evaluating impact investment strategies from a social ecological economics perspective

by

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EKHS35
Master's Thesis (15 credits ECTS)
June 2021
Supervisor: Jennifer Hinton
Examiner: Séan Kenny
Word Count: 17 011

Abstract

Social economy organisations are attributed a major role in solving societal and environmental problems and in implementing social innovations in Europe. These organisations are private entities running economic activities whose main purpose is to provide goods and services to their members or the community at large, with profits coming second. Nevertheless, these organisations are not sufficiently supported, especially from the capital market side. Not all impact investors, which in principle should be investors with the goal of creating social and environmental benefit, are strategically aligned with the social economy entities. An identified reason could be the structurally embedded relationship-to-profit of impact investors which refers to their legal distinction in for-profit or not-for-profit. Consequently, the objective of this research is to critically evaluate the strategic decisions of impact investors paying attention to their relationship-to-profit and using indicators that assess their compatibility with social economy entities. This is done to fulfil the aim of distinguishing impact investors according to their supportiveness towards the social economy. A framework is developed that captures the influence of the relationship-to-profit on the strategic decisions of impact investors. This framework is then used as an instrument to test predictions from the theory implementing a case study approach including four diverse impact investment organisations. The results from qualitative coding and survey answers indicate that not-for-profit impact investors choose with almost no exception the strategy that is aligned with the social economy across all dimensions. On the other hand, for-profit investors compromise on the possible social benefit achieved by mainly investing in for-profit entities and not being transparent about their profit utilisation among other less socially beneficial choices. These findings stress the importance of bringing in the relationship-to-profit as an important indicator when evaluating social and sustainability impacts.

Keywords: Social economy, impact investing, relationship-to-profit, social ecological economics

Acknowledgements

Since this is my last thesis and the last milestone in my life as a student, I would like to make the acknowledgements a little bit more extensive. First of all, I would like to thank Jennifer Hinton, who inspired and accompanied this thesis. Her leadership and dedication to the development of an economic system that serves people and planet is of a kind that I would like to see in each one of us. The way she guided me through the thesis process also showed her strong commitment to values that are professional and human at the same time. Thank you. Then, it is time to say thank you to my support system of family, friends and partner who have continuously contributed to my belief in the achievement of goals leaving unconstructive self-criticism far behind. Thank you. Finally, I want to thank Lund University and all my professors for making it possible to enjoy this formation opportunity in Sweden.

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1 Introduction

The launch of the Social Economy Action Plan by the European Commission in December 2021 has been a big step towards acknowledging that the social economy contributes substantially to building a more sustainable economy. The launch also reflects the shift in our societal focus toward social and environmental issues (Zabaniotou, 2020). After the Covid-19 Pandemic, health, environmental crisis, inclusive labour market, and other topics have been moving to the centre of public discussions and social economy entities are at the forefront of solving these issues (European Commission, 2021).

According to the EU definition, social economy entities forming the social economy are organisations that prioritise social and environmental purpose over profit, reinvest most of their profits and surplus to carry out activities in the interest of its members, users, or society at large and follow democratic or participatory governance (European Commission, 2021). This definition overlaps broadly with the definition of a not-for-profit business, which has a legally binding social benefit purpose, reinvests all its profits to support social causes and is collectively owned since there exist no private financial rights through equity ownership (Hinton, 2020a).

The Action Plan's purpose is not only to strengthen the recognition of social economy organisations but enhance their social innovativeness and support their transformative power (European Commission, 2021). This is in line with the social ecological economics perspective and more specifically the relationship-to-profit theory, which identifies the profit maximisation goal of businesses as the main driver of the exploitation of people and planet, keeping harmful dynamics in place. Thus, the theory advocates for a transformation to a not-for-profit economy composed of the described not-for-profit businesses as a way to achieve a truly sustainable economy.

1.1 Research Problem

An important area of this public support initiative is the access to finance for social economy entities (European Commission, 2021). Although the investment sector has also seen a move towards social and environmental issues as research from Credit Suisse (2020) shows, the social economy and thus social economy entities are still lacking capital (European Commission, 2021).

Impact investing describes an investment approach that aims at a financial return and some kind of intentional non-financial return which can be social or environmental (Höchstädter & Scheck, 2015). The substantial growth of impact investing and the seeming match of ambitions with the social economy entities stands in contrast to the large capital demand of the social

economy (Hand et al., 2020). This can partially be explained by the fact that impact investing is still only a niche in comparison to the entire capital market with 0.715 trillion USD in comparison to over 100 trillion USD of assets that were globally under management by financial institutions in 2020 (Hand et al., 2020; PwC, 2020). Nevertheless, it also shows that there exist multiple understandings of what it means to invest socially or with impact, which drives impact investors to invest elsewhere instead of in the social economy as part of their sustainability strategy.

Fortunately, there have been analyses of impact investing at a definitional, terminological, and strategic level. These analyses confirm that the term impact investing is kept very broad allowing for a lot of strategic freedom (Höchstädter & Scheck, 2015). Although investments in social economy entities enter the strategic range of impact investors, they differ in return on investment and exit opportunities in contrast to traditional investment expectations that are still prevalent (Hand et al., 2020). What has been overlooked is that the investor's legally-binding purpose, investment and ownership structure, what has been conceptualised by Hinton (2021c) as the *relationship-to-profit*, influences the investor's strategy and expectations. As such, these structural aspects can be decisive to identifying impact investors that are willing to support social economy entities leaving traditional return and exit expectations behind.

To concisely summarise the problem, the diversity of sustainability strategies and the ignorance of the legally-binding structural aspects of businesses in the impact investment sector contribute to the unfulfilled financial needs of the social economy.

1.2 Aim and Scope

In order to specifically support the social economy, it is necessary to distinguish and identify impact investors whose strategy supports social economy entities and whose structural aspects are in line with the not-for-profit economy. Consequently, the aim of this research is to identify financial institutions with business models that support and are in line with the not-for-profit economy and conceptualise this category in order for it to be clearly distinguishable from other forms of impact investing. With this added clarity, public entities have a higher chance to succeed in supporting the social economy by incentivising the right investors and with them concrete and innovative solutions to the key challenges society is facing.

The research brings a social ecological economics perspective into the impact investing debate by using the relationship-to-profit theory to categorise impact investors. The overarching research question is:

What is the most effective business model of financial institutions that position investments in service to the social economy and the transformation to a not-for profit economy?

This can be broken down into the following sub-questions:

a. How does the relationship-to-profit of the financial organisation affect whether the organisation achieves the goal of social benefit?

b. Where do trade-offs or inefficiencies stand in the way of these organisations to address harmful dynamics of the profit-maximising economy?

The results are derived from a case study approach and qualitative coding of company publications such as annual reports, impact reports and financial statements. In addition, answers from a developed survey complement the data sourcing. The main insights are that not-for-profit impact investors decide with almost no exception in favour of the more socially beneficial strategy across all dimensions. For-profit impact investors, on the other hand, also target financially excluded groups, having a social benefit purpose but the way of delivering the financial service maintains a for-profit economy in place by mainly targeting for-profit investees and comes with a risk of concentrating wealth amongst a few private investors instead of the above-mentioned transformation towards a socially inclusive and sustainable economy.

What distinguishes this thesis from other studies is that this study uses the relationship-to-profit theory to reframe the phenomenon of impact investing, which can yield new insights into how impact investing can be more effective for sustainability transitions from a social ecological economics standpoint. It also offers a new evaluation approach for impact investors by developing indicators that are important for the alignment with the social economy. Furthermore, the study develops a tool for comparing impact investors between each other in order to make an informed decision of where to allocate financial resources in service of a strongly sustainable transformation of the economy.

The argument is elaborated as follows. First, the literature is reviewed to differentiate the social ecological economics or strong sustainability perspective from other sustainability viewpoints. Within the strong sustainability perspective, the focus goes to the not-for-profit business structure as a possible solution for achieving a strongly sustainable economy. The relationship-to-profit theory emphasizes the importance of structural aspects of the incorporation of organisations that makes them revolve primarily around private profit generation or social benefit creation by reinvesting the entire profits into the social benefit cause. The theory is applied to the context of impact investing by developing an analytical framework to explore the influence of an impact investor's relationship-to-profit on their strategy and decision-making. The claims of the theory are tested by looking at four cases. Next, the implications of the validated or rejected hypotheses are summarised and the contribution to the impact investing sector and the relationship-to-profit theory is outlined. Lastly, future research avenues are suggested.

2 Theory

2.1 Previous Research

From an ecological economics perspective, the purpose of the economy is to help people meet their needs within the limits of the planet's biosphere. This infers that the economy should be composed of social economy entities that carry out activities in the interest of society prioritising social and environmental benefit over profit. However, the reality is that the described organisations do not get the funding they need as mentioned in the Social Economy Action Plan. This implies that there are other interpretations of how a sustainable economy should look, which hinders capital from flowing into the social economy. Therefore, the starting point of the literature review is an overview of the diversity of sustainability definitions with different levels of ambition, which explains a part of the problem. As a second driver of the problem, the profit-driven nature of businesses can be identified. Although there exists theory of how the relationship-to-profit of businesses drives harmful dynamics on a systems level, it is unclear how it changes the strategy and thus goal achievement of individual businesses concretely. By providing, a framework which can allow one to analyse whether and how differences in strategy correlate with differences in the relationship-to-profit, a more tangible illustration of the importance of not-for-profit businesses is given. The framework is created specifically for the investment sector since capital is a primary resource needed to support the not-for-profit economy.

2.1.1 Taking a social ecological economics perspective

Sustainability is a concept reaching back at least 300 years, when it mainly referred to single sectors like forestry (Michelsen et al., 2016). Economic growth had largely been assumed to be a purely beneficial phenomenon and disconnected from environmental concerns, until a series of environmental catastrophes occurred in the 1960s (ibid). This led to the appearance of several reports discussing the impact of the economic system on the environment.

One report triggered an especially strong polarisation of opinions regarding economic growth and its connection to the ecological system. In response to the report "Limits to Growth" by Meadows et al. (1972) two branches of sustainability appeared. The report was based on a study by scientists from MIT (Massachusetts Institute of Technology), who used systems thinking and computer simulation to develop different Earth scenarios. Their analysis revealed the incompatibility of continuous resource-intensive growth and Earth's equilibrium resulting in fatal consequences for the standard of living as well as population decline due to health effects and food shortages (Meadows et al., 1972; Parrique, 2019).

The first standpoint arising from the discussion around this and several other papers from that time considering ecological aspects is the standpoint of “weak sustainability” (von Hauff, 2016). This perspective, supported by for instance Joseph Stiglitz or Robert Solow, claims that there is complete substitutability of natural capital by other types of capital such as human-made capital like technology. Stiglitz (1974) argues that the report “Limits to growth” fails to consider three aspects, which are “technical change, the substitution of man-made factors of production (capital) for natural resources and returns to scale” (p.123). Following this logic, the importance lies in maintaining the same level of capital regardless of the type of capital that contributes to the total stock of capital (von Hauff, 2016). This neoclassical perspective still forms part of the dominant discourse today. The most widely used sustainable development definition based on the Brundtland report (1987) can be paraphrased as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Chaminade, Lundvall & Haneef, 2018), In this definition, the supporters of weak sustainability would understand ”needs” as the level of consumption. From the neoclassical perspective, economic growth and thus, increased consumption is equated with prosperity (von Hauff, 2016). Moreover, the conviction exists that under the profit-maximisation paradigm ”the projects for environmental and climate protection or for the conservation of nature are obligated [...] to prove they are superior to or provide a greater benefit than other investments over the long term”(von Hauff, 2016, p.102).

The reliance on the free market economy to steer in the direction of a safe space for humanity with the aid of technological innovation, the substitution of capital and profit-maximising decisions has not shown to be effective until now. In the twenty-first century, people face a scarcity of critical resources, the erosion of the planet's capability to absorb waste, and the degradation of ecosystem services leading to climate change and biodiversity loss (Steffen et al., 2011). Additionally, inequality is rising (Milanovic, 2013). Lorek and Spangenberg (2014) describe it as a lock-in situation, in which the short-term measures utilised to fight the symptoms of climate change increase the problems in the medium and long-term. Von Hauff (2016) raises the issue that even though technology is going to advance, there is no security to assuming that technology is going to be in a position of equivalently and fully replacing nature. Within innovation studies, the critique became loud that environmental innovations suffer from technology bias although many problems related to the sustainable use of nature and land are not mainly technological questions (Rennings, 2000). Hence, environmental innovation is more about integrating social and institutional changes (Chaminade, Lundvall & Haneef, 2018).

Contrasting this definition of a sustainable future, the ”strong sustainability” approach developed in parallel to the weak sustainability definition as an integral aspect of ecological economics (Michelsen et al., 2016). Scholars in this field alter their focus away from mainly the economic system towards a nested model, which understands economic and social wellbeing as embedded in the capacity of the planet to provide goods and services to sustain life (Spash, 2017). One way of understanding the capacity of the planet is the ”planetary boundaries”, which are scientifically identified limits to human operations to keep the Earth System in the stable global environment of the Holocene (Rockström et al., 2009). The proponents of strong sustainability argue that there are limits to the substitutability of human-made capital for nature, which implies limits to economic growth (von Hauff, 2016). Nevertheless, as Chaminade et al. (2018) point out, there are two ways of interpreting the nested model, which influence the actions that are taken to ensure sustainable development severely.

The authors explain how the narrow perspective of strong sustainability (referred to as strong sustainability type I) accepts the embeddedness of the economy in Earth's biosphere, which is why the type I approach tries to reduce the environmental impact of the current production and consumption system. It hence acknowledges the complementarity of natural capital, which means that there is essential natural capital needed for the production of goods which should be secured (von Hauff, 2016). This makes it different from the substitution conviction by proponents of the weak sustainability approach. Yet, no major social and institutional changes are envisioned from this standpoint, which means that it only tries to lower the impact of the current production and consumption system. This is the category where environmental policies of big institutions like the OECD, the World Bank or the European Commission enter (Stoknes & Rockström, 2018). Their overarching approach is often referred to as "green growth", which is defined by the OECD in the following way:

> ”green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. To do this it must catalyse investment and innovation which will underpin sustained growth and give rise to new economic opportunities." (OECD, 2011).

According to this approach, a decoupling of GDP growth from environmental pressures is envisioned by structural change towards a more service-based economy and more and more efficient technology, which will reduce the environmental impact (Parrique, 2019). Yet, several studies find no empirical evidence that the decoupling of continuous economic growth from environmental impacts on a global level is being achieved nor that it could happen fast enough to prevent global warming over two degrees Celsius (Hickel & Kallis, 2019; Haberl et al., 2020; Parrique, 2019). Despite the lack of evidence, this belief is part of the currently institutionalised rationality, which affects how sustainability is incorporated by economic actors.

Having considered the hard limits of decoupling, the broader perspective (strong sustainability type II) rethinks our economic and social model aiming at social and institutional innovations that profoundly transform our current models (Chaminade et al. 2018). Spash (2017) coins the term "social ecological economics" for this sustainability standpoint, which is the term and standpoint taken over in this thesis. Ideas that enter this category are for example the steady-state economy proposed by Herman E. Daly (von Hauff, 2016). He was one of many economists like Malthus, Marx, Mill, Schumpeter, and Keynes, that thought of the stationary state as something desirable (Michelsen et al., 2016). Continuing this line of thought, there have been more publications on the subject of how to organise a post-growth economy in recent years (von Hauff, 2016). Hinton (2021) uses the term "post-growth" as an umbrella term for literature or initiatives that take a critical approach towards a growth-based economy justified by previously mentioned considerations of strong sustainability including the view of a nested model, limitations of decoupling and the essentiality of natural capital. In addition, the author summarises other aspects of the post-growth approach to sustainability. The definition of sustainable development by the Brundtland Commission using the term "needs" is understood differently by the post-growth literature than by weak sustainability proponents since needs are viewed as finite and universal with many ways to fulfil them including material and non-material ways (Hinton, 2021c). This leads to an alternative view on measuring wellbeing, which is rather based on biophysical and social indicators than money flows (O'Neill, 2012).

Moreover, ecological and social justice is at the centre of the post-growth perspective. It is taken into consideration that the starting point is an unequal one, which necessarily results in some people needing to consume more while others need to consume less if everyone's needs are to be met within the ecological limits of the planet (Hickel, 2017). The ultimate goal, from a post-growth perspective, is hence to fulfil everyone's needs equally through transformative social and institutional innovation which allows for the lowest environmental impact. The perspective advocates for moving away from a growth-based economy that can evidently not keep humanity in its safe operating space.

This examination of sustainability definitions has demonstrated the range of interpretations of the term that are currently present and how this affects the idea of a sustainable future. Departing from the most ambitious of all views, the social ecological economics perspective, an important overlooked aspect, which is needed for the transformation described by post-growth scholars, is overlooked, namely how businesses and markets relate to profit.

2.1.2 The relationship-to-profit theory as a post-growth approach to business

Having talked about the plurality of understandings of sustainability, this section dives into an overlooked aspect within the post-growth literature, namely relationship-to-profit. Hinton (2021) has identified a gap in the post-growth literature, which is the inadequate analysis of businesses and their institutional embedding in the context of post-growth considerations, although businesses are at the heart of the global economy (Hinton, 2021c).

One reason for the gap is the common assumption by post-growth scholars that businesses are generally profit-driven, which is seen as an obstacle to incorporating a strong sustainability approach (Hinton, 2021c). Profit is defined as the accounting profit, which is the financial surplus of the difference between a business's revenues and costs (Hinton, 2021c). The conflict is created because the pursuit of a higher profit through increasing the price, reducing the costs or selling more items is "directly related to social and ecological inputs as well as potentially harmful impacts on people and planet" (Hinton, 2021a, p.4). Examples are the trade-offs between the income for the employees versus the income for the owners or the expenditure on pollution-preventing technology versus keeping a higher profit.

These decisions are influenced by the prioritization of exchange-value in our profit-driven market-based economy. Thus money that can be exchanged for something is more valuable than the use-value of a wild ecosystem or workers' health for instance (Hinton, 2021a). Use-value refers to value from the direct use of something for instance the fresh air from the wild ecosystem or nutrition from food (Pirgmaier, 2021). It is important to emphasize that the generation of profit does not come with social and ecological "side effects" but is directly derived from nature, workers, consumers, other value chain actors, local communities, and society at large (Hinton, 2021a). Whether it is exploitation or not depends on the willingness and ability of people to pay extra for the profit generation and to an extent on the usage of the profit, which can be either for private financial gain or social and ecological benefit (Hinton, 2021a). Hence, only willing contributions and efficiency gains are fair, non-exploitative sources of profit. Regarding nature, human need satisfaction is always going to have an impact.

Nevertheless, exploitation begins when the resilience of nature is degraded preventing its regeneration (Hinton, 2021a).

Since exploitative strategies are more profitable than the limited non-exploitative strategies, profit-driven businesses only follow the rationale of the capitalist economy, which makes it hard to alter the impact that businesses have. Hinton and Cornell (2020), therefore, criticise the majority of suggestions by the sustainable business literature that is similar to the triple bottom line approach and only add social and environmental goals to the purpose of profit-making. This will not stop companies from using profitable strategies such as the expansion of production and consumption through for instance advertisement or planned obsolescence. Planned obsolescence refers to products that are designed to become obsolete by seeming to look outdated or breaking (Guiltinan, 2008), for instance, the fair clothing brand will still be trying to sell new collections four times per year. The important change that needs to be done according to Hinton and Cornell (2020) is to position profits as a means to achieving social and ecological wellbeing. Whereas currently, profit is seen as an end in itself that will bring about human well-being.

The question arises of how businesses with profit as a means can be conceptualised. Hinton (2020) offers a conceptualisation of the relationship-to-profit that brings clarity regarding the differences between for-profit and not-for-profit businesses.

Table 1 The key differences in relationship to profit adapted from (Hinton, 2020a)

Relationship-to-profit	**For-profit (FP)**	**Not-for-profit (NFP)**
Purpose	Financial gain for owners and possibly social benefit	Social benefit
Investment	Equity-, debt-, or donation-based with private financial rights	Debt- or donation-based with no private financial rights
Ownership	Private	Collective

As seen in the table, there are three key differences between FP and NFP businesses. Focussing on the description of NFP businesses since these are the new actors, it can be seen from the table that they have a social benefit purpose. The entire profit must be dedicated to the social objective as well, which is legally binding (Glaeser, 2006). The discussion of the purpose of a business is a recent one. However, the early discussion about shareholder value versus stakeholder value picks up the same issue, namely that in situations of trade-offs, for-profit businesses are prioritising the owner's financial concerns since they have a legal responsibility toward them (O'Toole & Vogel, 2011). Thus, changing the legal framework and consequently, the business purpose is an essential way to ensure the usage of profits as a means and not an end.

The second difference is the investment aspect. Tied to the purpose of the business, Hinton (2020a) explains that not-for-profits cannot be financed through private equity since this would mean they could pay an unlimited dividend to enrich the owners instead of using the money for the social purpose (Hinton, 2020a). Therefore, only donation-based or debt-based investments with a limitation or no return on investment are in-line with NFP-businesses. Nevertheless, debt-based investments can also be more, or less favourable for NFPs. Depending on the lender, the loan might be provided on an affordability basis supporting the cause of the business or purely on risk and return considerations (Hayday & Varga, 2020). Consequently, the main aspects of NFP financing are to have a clear limitation on return and an alignment of motivations between investors and NFP.

The last aspect is ownership. In most FP businesses owners who benefit from the business financially also get to control the business and hence decide for their own benefit. NFPs avoid that by not having ‘financial rights’, which is incorporated by the non-distribution constraint. Hence, the rights of managers of NFPs are confined to control rights. Independently of the control rights, the non-distribution constraint generally hinders owners to take money and assets out of the business (Hinton, 2020a). Hinton (2020a) conceptualises this form as collective ownership using Stein's (1976) definition expressing that all rights are vested in an undivided collective entity.

In the next step, Hinton (2020a) investigates the systemic changes that might occur with a change in relationship-to-profit on the level of entire markets. The author describes that the status-quo of profit-seeking generates five patterns. First, profit-seeking requires and drives increasing levels of production and consumption in order to deliver growing returns on investment to private owners. Second, this economic expansion endangers the planet's biosphere. Third, since owners accumulate returns and wages are suppressed in order to cut business costs, inequality is created. Fourth, the wealth accumulation aim encourages aggressive growth strategies to reduce competition, which leads to market concentration in the long run. Lastly, policy making is influenced by private owners in a direction which allows to maintain or increase their wealth inhibiting regulations and taxes that might otherwise reduce inequality and ecological damage.

The change from a purely profit-driven market to a hybrid approach of profit and purpose would at most slow down the reinforcement of the macroscale vicious cycles of economic growth namely consumerism, inequality, and political capture, as well as the associated environmental damage prevalent in a profit-driven world. Nonetheless, this approach cannot overcome the trade-offs between financial gain and social benefit. In contrast, a not-for-profit economy can according to the author considerably cut down on inequality and political capture, leading to a business, policy and investment orientation towards social and environmental benefit. Lastly, it would not systematically drive consumerism, because it would not “have the same built-in pressure to sell more items” (Hinton, 2020a, p. 254)

2.1.3 The effect of the relationship-to-profit on investment strategy

Although there are clear advantages of the systemic change to a not-for-profit economy, the wishful thinking of achieving a dual purpose by putting enough efforts into social benefit without compromising profit for private owners keeps the prevalent approach to sustainable business in place (Hinton & Cornell, 2020). This is also visible in the investment sector, where "the idea that financial actors can target sustainability and achieve competitive financial returns is gaining ground [...]"(Svendsen, 2022, p.39).

Sustainable investing is very broadly defined in terms of investment strategies. In a sense, this reflects the wide range of sustainability definitions that were illustrated earlier. Thus, sustainable investing is used as an umbrella term for investments considering environmental, social and governance (ESG) criteria (European Commission, 2022). To outline the wide range of sustainable investing, the ESG criteria can have only the function of pricing-in non-financial risks on one side of the spectrum (Henisz, Koller & Nuttall, 2019). On the other side of the spectrum, social and environmental impact can be at the core of the investment strategy rather than a side effect (Höchstädter & Scheck, 2015). This area is referred to as impact investing.

This thesis focuses on the latter since the idea is to find out what difference in social impact is created by a diverging relationship-to-profit of two otherwise like-minded investors, whose investment focus revolves around the creation of impact. Mission primacy can be understood as having the primary goal of delivering social and environmental good (Chua et al., 2011). It is, however, by no means a standard for impact investing. In this field of investing, definitional confusion is also prevalent, which runs the risk of jeopardizing the credibility of the concept (Findlay & Moran, 2019; Brandstetter & Lehner, 2015; Höchstädter & Scheck, 2015). First of all, impact investing is classified as an investment approach or framework of thought (Gregory, 2016; Svendsen, 2022). A widely used definition of impact investing was pinned down through a literature review by Höchstädter and Scheck (2015) and encompasses the characteristics of an investment that has a financial return and some kind of non-financial return that can be social or environmental. Moreover, the return on investment is mandatory in order to differentiate impact investing from philanthropy but can range from under market rate until market rate and the prioritisation can be either "interest-first" or "impact-first". Lastly, the impact must be intentional and measured even though no clear criteria are given that serve as a hurdle to define something as impact.

This broad definition stretches out the strategy options that impact investors have got. Höchstädter and Scheck (2015) offer an analysis of the strategic options that impact investors have across five dimensions. The dimensions used by the authors *are demography and geography, organisational processes*, *sector and impact objective*, *financial and organisational structure*, *and asset classes and financial instruments.* Before explaining what choices each category offers, it can be remarked that it was not considered that the relationship-to-profit is impacting these strategy dimensions. Following the logic of, Hinton (2021b) "the legally-binding structural dimensions of the firm are critical for shaping economic actors' behaviour" (p. 3). Since the relationship-to-profit is such a legally-binding aspect of a firm, its impact should be considered and integrated into an evaluation of impact investors' strategy.

2.2 Analytical Framework

The point of departure for my analytical framework is the integration of the legally-binding structural aspects of businesses and the strategy considerations of impact investors with the aim of showcasing the dynamics between them. This is in line with a recent expansion in the research area of strategy as practice (SAP), which moves beyond observing organisational-level activities and turning to the influence on and from the institutional level on strategy-making to get a more holistic understanding (Seidl & Whittington, 2014).

Making use of the five dimensions framework by Hinton (2021b), which orders the different business dimensions according to their permanence and influence on other dimensions, I will investigate how exactly the legally-binding and structural dimensions influence the strategy across the five strategic dimensions of impact investing offered by Höchstädter and Scheck (2015). Here, the impact *investor* itself is a business that is influenced by its structural dimension, whilst the structural dimensions of the *investee* organisation also have an impact. The size and scope dimension of Hinton's (2021b) framework was not paid attention to because it is an outcome of the strategy dimension and is influenced by the structural aspects of a business through strategy (Hinton, 2021b). Consequently, the understanding of the strategy dimension was seen as paramount. The result can be seen in the illustration below.

Adapted from Hinton (2021b):

Relationship-to-profit
Incorporation structure
Governance structure
Strategy
Size and scope

Adapted from Höchstädter & Scheck (2015):

Demography and Geography of impact investee
Organisational processes (way of delivering impact by investee: business operation/marketed product etc.)
Sector and Impact Objective (this again refers to the investors strategy)
Financial and Organisational structure of impact investee
Asset classes and fin. instruments used by investor

Figure 1 Strategic consequences of relationship-to-profit

First, an explanation is needed of each of the relevant business dimensions: relationship-to-profit, incorporation structure and governance structure and how they impact the strategy dimension. In a second step, the impact investing strategy options are analysed, and it is categorised which actions within each dimension are more likely to be in line with either a for-profit or not-for-profit orientation.

The relationship-to-profit "guides and constrains the dimensions of incorporation structure, governance, and strategy" (Hinton, 2021b, p.13). Consequently, the decision of using profits as a means or an end is built into the fabric of businesses' legal structure. It is part of the legal NFP distinction in all regions of the world, that no profit is privatised and that the business revolves around a core social benefit purpose (ICNL-The International Center for Not-for-Profit Law, 2022). Yet, the types of NFP incorporation structures vary by place (Hinton, 2021c). Cooperatives, community interest companies, government-owned corporations, associations, foundations social businesses and social enterprises, all can operate as NFP businesses (Hinton & Maclurcan, 2017). It is important to be careful especially with some incorporation structures such as cooperatives and all kinds of social enterprises since they can be for-profit or not-for-profit. There is also the option of organisations being for-profit but creating constraints on profit-distribution themselves or setting a social benefit purpose. However, institutional economists emphasize that legally-binding social rules come with a higher degree of obligation and will in any situation be more influential on a company's behaviour and hence strategy (for instance Powell & DiMaggio, 1991).The governance dimension refers to how decisions should be made in the organisation and is informed by the incorporation structure. The incorporation structure of cooperatives for instance requires democratic decision making and has a board involved in major decisions (Coompanion, 2022). Decision-making and the splitting up of responsibilities bridges over to strategy. Overall, the actors' motivation (business purpose inherent in legal framework) and practice (governance structure) serve as direction for their action and is core to understanding the strategy making (Whittington, 2006; Svendsen, 2022). Both these aspects are impacted by the organisation's relationship-to-profit, which is why the effect of relationship-to-profit on strategy decisions is at the core of interest.

The analysis of impact investor's strategy by Höchstädter and Scheck (2015) had the following results across the five different strategic dimensions: Looking at the first dimension **demography and geography**, impact investing is not targeting a specific group of the population. Hence, the investment can be beneficial for the broader population by supporting, for instance, an environmentally beneficial project or more specifically a marginalised and vulnerable group of the population. Also, in terms of geographies there is no strategic scope, but a wide span serving beneficiaries across the developed or developing world. From the framework, arises the question of whether these aspects are influenced by the relationship-to-profit of the investor. Gregory (2016) points out that impact investing entails elevated risks due to unproven business models, which are necessary to reach the poor and disadvantaged that were not well served by current business models. Consequently, this is a risk associated with the demography of the target group. Apart from that, the author mentions unstable markets and natural disasters as risks of reaching people from the poorest socio-economic group located in more critical locations, which is a geographical risk. Since the performance of an investment is usually evaluated by taking into account risk and return, which stand in a positive relationship to each other, meaning that higher risk requires higher return, the relationship-to-profit can have an impact here. For-profit investors are either less likely to invest into projects that use alternative methods to solve social problems or into projects that are situated in difficult conditions, or they will likely expect a higher financial return. Asking for a higher financial return or strategically excluding cases of especially critical geographies or groups of the population does not seem to follow the social impact purpose that impact investors are committed to. That is the result of competing social and commercial logics (Agrawal &

Hockerts, 2019). It is also the result of the focus on exchange-value as a form of return on investment, whilst the higher social return is not seen as an equal value to balance out higher risks. To illustrate this with an example, Swedish work integration social enterprises (WISE) can be named, which offer an innovative approach to reintegrating long-term excluded people into society and the labour market. Since these organisations are facing high political risk being dependent on political support and decision-making in each legislation, only a few investors invest in WISE, although it is a socially beneficial and financially viable investment.

Moving on to the next dimension, which is **organisational processes**, Höchstädter and Scheck (2015) did not find any limitation on how the organisations that impact investors invest in should deliver value. The authors describe that two practitioner texts mention explicitly that value creation can happen through the manner of marketed products or services as well as business operations. The relationship-to-profit also does not take a stand in terms of preferred organisational process, which makes sense since human needs fulfilment entailing products and services of various types is in the interest of post-growth theory (Hinton, 2021c). Nevertheless, the impact investor's portfolio could be scanned by looking out for products with an increased environmental impact through a tendency to planned obsolescence as the above-mentioned example of "fair" fashion illustrates.

The next dimension intends to specify the strategy options of impact investors in terms of **sectors and impact objectives**. The dominant notion is that the impact investor's strategy is not limited to certain sectors or objectives. Even so, there are some sectors and objectives that are more prevalent (Höchstädter & Scheck, 2015). Despite this, there is a way of differentiating the strategic involvement in a sector or objective, which is according to Rubin's (2009) *additive* and *corrective* objectives. According to the author, there are *additive* developmental venture capital funds that use their fund to support companies that produce or sell socially beneficial products and support their investees in employing progressive employee and environmental practices (Rubin, 2009). This should apply to all impact investments and categorise them as additive. The second categorisation is called *corrective* development venture capital, which has the objective to provide capital to demographics or geographies that are inadequately served by traditional investors (Rubin, 2009). This is the problem mentioned under the category "demography and geography" of investees. It is picked up again now since it can specifically be an impact objective of impact investors to fill the market gap that the traditional capital market leaves. Furthermore, the market gap can also exist not only associated with higher risks with specific demographics or geographies, but also the stage of development of a business or a structural aspect of the business. By way of example, Gregory (2016) recommends as one of his five ways to de-risk impact investment to focus on growth-stage enterprises and Ojong (2015) clearly confirms that by pointing out that social enterprises often use grants at the start-up stage. In addition, the author states that social economy organisations experience several barriers to accessing finance due to differences in governance structure or because they do not pursue a profit-maximising purpose. Relating these findings to an investor's relationship-to-profit, it can be assumed that the only investors that would be willing to target these higher-risk groups are those who value the social benefit associated with these investments and are not exclusively profit-oriented. Not-for-profit impact investors therefore could have a stronger corrective objective.

The structural aspect is picked up by the next dimension, which addresses the **financial and organisational structure** of the recipient of impact investment (Höchstädter & Scheck, 2015). According to the authors, this issue was the one with the least conceptual clarity. Hence, it reflects the observation by Hinton (2021c) that the aspects around the relationship-to-profit are often confused. It also confirms the need for this analytical framework which is partially motivated by the fact that the social economy with its NFP businesses is not receiving the capital it needs. The question that is unanswered is whether the impact investee is required to be a social economy organisation (Ojong, 2015), that exists primarily to create social rather than economic value. Höchstädter and Scheck (2015) find opinions that define impact investing without referring to the impact investees' structural characteristics. "The intent or capacity for social impact seems to be a sufficient criterion for many" (Höchstädter & Scheck, 2015, p.461). Just a few others demand the primacy of the investee's mission according to the authors. In which way does the relationship-to-profit of the investors affect the requirement of the investee to have a certain organisational or financial structure? Firstly, Ojong (2015) calls it a mismatch when the investor strives for profit as an end whilst the investee strives for profit as a means. This indicates that investors with a for-profit structure are less likely to invest in NFP businesses. In another statement, Ojong (2015) states that co-operative banks offer debt products that are tailored to the needs of social economy enterprises. From this statement, it can be interpreted that NFP structured investors serve NFP structured businesses better. The confirmation for this can be found in an EU publication by Maduro, Pasi and Misuraca (2018). They clarify by noting that "[f]inancial intermediaries that operate in the social impact investment ecosystem differ in legal statutes, size, governance structure and mission" (p.32). All in all, when thinking of the impact of the relationship-to-profit, it makes sense to assume that investors that prioritise the social purpose would also invest in organisations that do the same.

The last dimension treats the question of how money is invested in impact, namely **asset classes and financial instruments**. Generally, there are many opinions that see no limitation to asset classes (Höchstädter & Scheck, 2015). This then involves traditional and innovative instruments such as debt, equity, guarantees, deposits and social impact bonds. Bringing the conceptual framework in, the relationship-to-profit has a clear requirement of the type of asset classes that can be used. Only debt-based or donation-based investments with limited financial returns are in line with not-for-profit businesses. This affects the strategy on two levels. First, it influences the instruments that the impact investor is using to invest in the receiver organisation. A profit-driven investor might prefer to use equity instruments since this is the financial instrument that gives private financial rights, which translates to unrestricted return. It is connected to the previous aspect of the organisational and financial structure of the impact investee as well. If the impact investee is a NFP business, only the debt-/donation-based investment tools are possible to use, which might be less attractive for profit-driven investors. Second, it restricts how the impact investor itself is financed. When being not-for-profit, the impact investor can only be financed by debt or donation ensuring that no private financial gain interest is pursued, which then also influences the asset classes that the NFP investor is using in its own investment strategy. That is the default of the not-for-profit theory. However, Hinton (2021b) mentions that there might be a variety of approaches to business that fits a post-growth economy. For instance, Ojong (2015), who studied diverse financing cases of social economy organisations lists one case that uses quasi-equity as well. Quasi-equity instruments, such as

subordinated loans, are financial instruments that share characteristics of debt and equity and is often used by social enterprises, which are legally not allowed to issue share capital but want to avoid high indebtedness (Hayday & Varga, 2020). Therefore, the impact of the relationship-to-profit, legal form and governance structure in this category can be pinned down to clear limitations to profit distribution and no private financial rights that impact the business purpose.

This chapter has revealed that there is a variety of sustainability understandings which prevent the united achievement of a strongly sustainable economy. Moreover, it uncovered the importance of the relationship-to-profit, which is often missed as a key aspect of sustainable business practice. Both, the diversity of sustainability understandings and the ignorance of the structural aspects of businesses can be found in the impact investment sector, although this is an important sector for ensuring the capital flow into a NFP economy. The analytical framework at the end creates a connection between the relationship-to-profit and the strategy of impact investors in order to showcase the effect of the relationship-to-profit on the impact investor's social benefit. Following the ideas of the analytical framework, NFP impact investors are more likely to have a corrective objective, which means that they provide capital where the traditional financial market leaves a gap. The gap can exist due to the lack of a track record of an innovative business model targeting a marginalised group, due to an insecure geographic location or due to the development stage of the business. In addition, NFP investors are more likely to support NFP businesses than FP investors, to distribute no profit to private owners and to finance their projects with restricted return and mission primacy usually through debt-based financial instruments. These insights form the theoretical basis and analytical framework for this thesis.

3 Methods

Questioning the implications of the relationship-to-profit theory on an organisational level, specifically the effect of the relationship-to-profit on the organisation's strategy, the abductive research approach was chosen (Philipsen, 2018). This approach starts with the development of propositions in the form of a framework that was built deductively from the literature. Specifically, I hypothesize how the existing relationship-to-profit theory could affect the strategy of investment organisations. This stresses the exploratory and thus qualitative nature of this study (Creswell, 2014). The propositions are then juxtaposed by bringing in illustrative empirical cases. Through the exploration of the cases, the hypotheses can be validated or rejected, and the relationship-to-profit theory further specified. This means that in the end it is built back from the particular to the general (Creswell, 2014).

This method section follows the order of the qualitative research procedure, which answers the research question by selecting relevant research subjects, collecting relevant data, interpreting the data and adding conceptual or theoretical findings to the theory (Bryman, 2016).

3.1 Case study approach and case selection

When applying a new perspective (such as the relationship-to-profit theory) because the current perspective (in this case the perspective of profit-seeking as an end) seems to be outdated, Eisenhardt (1989) suggests a case approach. Since the aim of the research is to better understand how the relationship-to-profit affects the strategy-making of organisations, the used definition of case studies by Yin (2018) as illuminating a set of decisions, supports the choice of this approach. To this end, four research subjects were selected. The number of cases was influenced by the prioritisation of depth over breadth of the analysis. Accordingly, the focus is on fewer cases but using different data sources. In this case, survey data was added to company reports and website data. Alternatively, more cases could have been selected, restricting the research to one data source due to the time constraint. Furthermore, the level of difficulty of gathering data about a new perspective makes it additionally more time consuming and thus impacted this decision as well.

Starting with the selection of relevant research subjects, generic purposive sampling (Bryman, 2016) was used to select a number of impact investors to look at. The criteria that make the selection purposive are informed by the research question. Since the research questions aim at identifying the most effective business models of investors to achieve social benefit in line with the not-for-profit economy, organisational investors are of interest. Furthermore, the organisational investor's strategy should revolve around social benefit, making them an impact

investor. Finally, differences in the investor's relationship-to-profit help with identifying the impact of the relationship-to-profit on the achievement of social benefit.

Looking at the criteria in more detail, the focus on organisational investors naturally excluded business angels, crowdfunding platforms and any type of public-private partnership agreement. The selection could include social venture capital firms, (ethical) banks or microfinance institutions. The aim was to bring in variety in terms of organisational form in order to find out which is the most effective business model to deliver social benefit.

Next, it is important to ensure that the social and environmental impact is part of the investor's strategy. This is because the goal of all four organisations should be the same in order to be able to isolate the effect of differences in the relationship-to-profit on the otherwise equal strategic aim of social benefit. This was ensured by reading up on the actors' web pages, where they describe their ambitions.

Another criterion was to bring in variety in terms of relationship-to-profit. Informed by the relationship-to-profit theory, an informed guess about each of the cases' relationship-to-profit was made before deep-diving into the cases. However, to ensure the guess is true an in-depth analysis of the webpage, legal form and financial statements was needed, sometimes this required an exchange of messages with people from the organisation.

The explained criteria for selecting cases were formed a priori since they are essential to address the research question and hence could be identified beforehand (Bryman, 2016). Bryman (2016) suggests after the selection of criteria stimulated by the research question, identifying appropriate cases and then sampling from the cases by applying the fixed criteria. For some of the criteria, diversity was needed which is why different organisational approaches to impact investing and organisations with differences in relationship-to-profit were selected. For other criteria, it was very important that all investors were aligned. This is the case for the social benefit focus of the investor strategy. Furthermore, the scope of the research limited the number of selected cases, which made snowball sampling irrelevant. In addition, the selection was fixed meaning that "the sample was more or less established at the outset of the research" (Bryman, 2016, p.410). Thus, it was categorised as general purposive sampling in contrast to theoretical sampling, since the sampling was not done sequentially in order to discover categories for a grounded theory approach as theoretical sampling does (Glaser & Strauss, 1967). Instead, the categories in this research were clearly given from the analytical framework, which allowed the fixed a priori manner of sampling.

The four selected cases are presented below. The companies were made anonymous since this study evaluates the effectiveness of their social benefit strategy, which affects them as players in the market when, for instance, competing for public support or investors. Cases from different European countries were selected due to the embeddedness of the research in the current developments of European public policy programmes supporting the social economy. The initiative involves the selection of financial intermediaries, that is granted EU support in order for them to finance social economy entities. Hence, the selected cases are possible organisations that the European Commission would need to evaluate and assess according to being a fit for the policy ambitions. Similarly, this research assesses the compatibility of the organisations with the social economy.

The first selected case is Company A, which is a Swedish national umbrella fund for a consortium of eight regional funds dedicated to providing microfinance services. The organisation is an economic association that has committed to following the seven principles of being a cooperative. The organisation clearly indicates in the financial statement that the entire profit is reinvested, which is what they have done since its foundation in 2010. Due to this not-for-profit aligned behaviour, the case was categorised as a not-for-profit case. However, after an exchange with the CEO, it became clear that the non-distribution constraint is not fixed in their statutes, which the organisation became aware of only recently. According to the relationship-to-profit theory, this would categorise this case immediately as a FP case since the theory is based on the legally-binding structural aspects of the relationship-to-profit. Nevertheless, Company A has stated to adjust its statutes and otherwise completely behaves like a NFP, which is why the case was still considered a not-for-profit case with reservations. Despite the legal incoherence, Company A's purpose is clearly revolving around social benefit. Specifically, Company A "invests primarily in activities in social economy and local development, so-called "social enterprises" that contribute to the Sustainable Development Goals […]" (Company A, 2022). Their main product is offering credit guarantees that make it possible for the social enterprises to take on a loan at Company A's partner cooperative banks and reach the financial resources they would otherwise not get through the traditional financial market.

The next case is Company B which is a joint venture of a Group Bank AG (the anonymised name for the umbrella organisation) and the bank's foundation being active in Central and Eastern Europe. The organisation is a social enterprise that according to its webpage has stipulated in its Articles of Association, that it does not distribute dividends but reinvests all generated profits into new social projects (Company B, 2022). Nevertheless, the organisation is owned 60% by a Gmbh, which is a for-profit organisation. Following the indication of the relationship-to-profit theory, a for-profit organisation cannot legally own a not-for-profit organisation (Hinton, 2020a). Apart from that, the communication with the organisation weakened the webpage statement by explaining that the organisation has a non-legally binding distribution cap in order to fulfil the EU definition of a social enterprise. Consequently, this case is categorised as a for-profit social enterprise case. The social benefit focus is clear due to the focus of the organisation on investing in social business models that are financially sustainable and the development of innovative social finance instruments (Company B, 2022). They do something very similar to Company A, namely providing subordinated loans that is seen as quasi-equity to social enterprises. These become bankable after receiving the subordinated loan and can ultimately receive a conventional loan from Group Bank AG. The case is interesting to see how the affiliation to a for-profit bank is influencing the investor's strategy.

The next case is Company C, a for-profit social venture capital investor that was partially founded by Ashoka Germany and thus, 60% is owned by the not-for-profit Ashoka Deutschland Ggmbh. However, the rest is owned by the other private founders. Their aim is to close the gap between early-stage social enterprises and investors offering special hybrid financing models in service to support the social innovators and their social benefit businesses. Located in Germany, the organisation has a pan-European approach that has supported organisations from seven European countries.

The last case is Company D, which is a cooperative bank operating in Italy and Spain. With the savings that the bank raises, it supports mainly projects, companies and organizations that produce social and environmental value in the areas of cooperation, innovation, culture and civic society and environment (Company D, 2022). This means in their evaluation of investment opportunities they add a socio-environmental assessment of loan applicants aside from the traditional economic investigation (Company D, 2022). Although cooperative cases are difficult to evaluate, Company D was labelled a not-for-profit having a clear social benefit purpose of bringing "transparency, participation, sobriety, efficiency and attention to the non-economic consequences of economic actions"(Company D, 2022) to the banking sector and not distributing dividends to shareholders. Members of the cooperative own shares, which can get more valuable over time, but this arrangement resembles rather a savings account and does not have the characteristics of financial rights.

To summarise, four cases were selected of which two are behaving like NFP organisations, whilst the other two are rather influenced by the FP rationale. Moreover, the cases cover different approaches to impact investing from venture capital to banking.

3.2 Data collection

Having selected relevant research subjects, the next step according to Bryman (2016) is to collect relevant data. "Data management in qualitative research begins with the conceptualization of the project" (Lewis-Beck, Bryman & Futing Liao, 2004). Consequently, the data collection is informed by the developed analytical framework in order to collect relevant data (Bryman, 2016). Therefore, a number of indicators were developed based on the framework before the data collection process.

Table 2 Indicators derived from the analytical framework

<table>
<tr><td>Name of the business:</td><td colspan="2">FP</td><td colspan="2">NFP</td></tr>
<tr><td>Relationship-to-Profit:</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>Profit-as-an-end vs. profit-as-a-means</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td rowspan="2">Corrective objective:
Exclusion reason of recipient</td><td>Demography/Innovative business model</td><td colspan="2">Geography</td><td>Dev. Stage</td></tr>
<tr><td></td><td colspan="2"></td><td></td></tr>
<tr><td rowspan="2">In terms of interest rate</td><td>Below market rate</td><td colspan="2">At market</td><td>Above market rate</td></tr>
<tr><td></td><td colspan="2"></td><td></td></tr>
</table>

% of portfolio in NFPs/ profit reinvesting businesses	
% of profits to private owners	
Ratio of limited return vs. unlimited return instruments	

The first element informs about the **relationship-to-profit** of the impact investor, which is needed since this is the independent variable that will according to the theory influence the rest of the categories. This has been touched upon already in the case selection phase but keeps being highly relevant for the data collection phase since the relationship-to-profit can be clarified more.

To complement the relationship-to-profit categorisation, a qualitative indicator was brought in to help identify how much the investor communicates about **profit as an end** or only talks about it **as a means** to achieve social benefit. Socially-driven organisations are under the influence and rationale of the aggregate market. After all, the organisations are embedded in the market and want to achieve a goal, which means that they must partially play by the current rules or are at least affected by them (Lawrence, Suddaby & Leca, 2009). The selected organisations do that to different extents, which should not be overlooked when searching for investors that position themselves towards social benefit and the transformation to a post-growth economy. Therefore, their communication about how they approach and use profit is an indicator of how compatible the investors are with a not-for-profit economy. A remark is needed here since Hinton & Cornell (2020) say that the categorisation "profit-as-a-means or profit-as-an-end" can be determined by looking at two key indicators: whether profit is communicated as a business objective or not and whether private financial rights are in place or not. Since this study will make the latter a separate indicator, the interpretation of profit-as-an-end or profit-as-a-means only refers to whether profit is communicated as a business objective. This indicator, uncovering the attitude towards profit, could even be more decisive for the actor's behaviour than the structural aspects of the relationship-to-profit since there can be deviations between the legal relationship-to-profit and the actor's behaviour due to the current confusion about the topic.

The next indicator refers to the **corrective objective** mentioned in the strategic dimension one and three of the analytical framework. This indicator demonstrates that the investor takes a social return on investment into consideration going beyond traditional risk and financial return evaluations and is oriented according to mission primacy. The exclusion from the traditional capital market can happen based on three factors, demography of the target group and innovative business model, geography, and development stage. The investors with a corrective objective that targets recipients despite risky characteristics across one or more of the three dimensions clearly follow an impact-first alignment in contrast to an interest-first alignment, which is needed for achieving a strongly sustainable economy. Another indicator to identify a corrective objective is by looking at the interest that the investor asks for providing capital. If the investor asks for return rates that are at market rate or above market rate, it is more likely

that traditional investors that do not have a social benefit aim would also invest in the selected project. However, projects that can only repay less than market returns are inadequately served by traditional investors, which explains the corrective role that the impact investor takes on when serving those cases with capital.

The second strategic dimension is organisational processes. No indicator was developed for this dimension because it does not make sense to compare different products and services against each other. It can be argued that some services and products are designed more in line with a circular approach than others (Widmer, 2021). Nevertheless, going through each investment in the portfolio of selected impact investors and comparing the elements against each other is outside of the scope of the thesis.

The fourth strategic dimension was translated into the indicator which looks at **the percentage of the portfolio that consists of NFP-businesses**, hence profit-reinvesting businesses. Since this research is looking for the ideal investor to invest in the NFP economy, this is an obvious criterion. The relationship-to-profit of the investment recipient, its connected legal form and governance structure were also criteria to exclude investees from traditional investor's portfolios and could thus also be a subcategory of the "corrective objective" indicator. Due to its importance for this research, it is nevertheless made a separate category. The percentage of supported NFP businesses in comparison to supported FP businesses is also relevant for the transformational impact of the investor on the economy. Strengthening the less used NFP way of doing business in comparison to the widespread FP way of doing business, can lead to the institutionalisation and diffusion of NFP businesses, which contributes to the transition towards a more sustainable economy (Fuenfschilling, 2019).

The fifth strategic dimension explored the way of investing in businesses. Since the used asset class tightly connects to the profit orientation of the impact investor, the first indicator concretely looks at what the impact investor does with its profits. **The percentage that goes to private owners** is tracked due to the reinforcement of the inequality dynamics that exist in our economy caused by private profit distribution. The investors classified as NFP are expected to distribute zero percent of their profit, whilst there might be variations in the group of FP investors. These could have implemented limitation mechanisms or use limited return instruments like quasi-equity. This indicator is also important to complement or verify the qualitative indicator of using profit as a means or an end since ultimately it is important what is done with the profit independently of how it is spoken about it.

The other indicator in the fifth dimension is **the ratio of unlimited return instruments used versus limited return instruments** used. In other words, this correlates to the ratio of equity versus debt instruments. As there are instruments that are somewhere in-between equity and debt instruments, the category uses the broader categorisation, focussing on the return restriction aspect rather than referring to specific financial instruments. Consequently, the indicator looks at the ratio of utilised financial instruments with unlimited versus limited returns.

3.3 Source Material

Considering the indicators, a relevant source that was identified is published documents by impact investors including annual reports, financial statements, impact reports and portfolio descriptions. These sources can reliably deliver many of the indicators above, being a primary source. An advantage of this source is that the reporting documents have a direct link to the structural aspects of the investment business contributing to the measurement validity of the data (Bryman, 2016). As an illustration, NFP investors will note down in their financial statement under the proposal of profit distribution that profits are transferred to the account for the upcoming year.

Additionally, the numerical sources are cleared up from possible motivations and ambitions of the people in the impact investment organisation. Whilst the motivation of the people can be social and environmental benefit, it is important to look at the dynamics that the organisation's actions foster on a systems-level independent of ambitions. Private financial gain leads to the inequality feedback loop and even though the investors were not aware of the importance of the relationship-to-profit, this research aims to identify investment organisations that are compatible with a NFP economy and strong sustainable development on all levels of the business. Consequently, the company documents ensure an analysis on a deeper level contributing to additional validity of the source.

Nevertheless, a survey was created to ensure the reliability of the findings and to get direct statements from employees working in the selected case organisations. The survey was composed of 18 questions that mostly asked yes or no questions to ensure an answer from the respondents. These yes or no questions were then complemented by specification questions requiring a text answer. The content of the questions was directly linked to the developed indicators and hence very straightforward to create. The survey was created with the "sunet survey" tool and sent out via email. Responses were given by the CEO, founder, experienced investment manager or impact office responsible from the four selected organisations and can be found in Appendix A.

The decision to use a survey, rather than interviews, was based on the fact that the topic is difficult to talk about. First of all, the structural aspects of a business are less visible, legal in nature and thus technically more complex (Hinton, 2021b). Secondly, as profit-driven businesses are the status-quo, actors are not completely aware of the impact of profit-seeking on their decision making. The reason for this is the embeddedness of actors in structural environments leading to natural conditioning (Lawrence, Suddaby & Leca, 2009). Profit or interest is a common measure of success and alternative measures to profit or interest that could guide strategic behaviour like the SROI (social return on investment) are far from standardised (Corvo et al., 2022). Thus, it is not internalised by actors yet. This makes it difficult to build a conversation around an influence and its impact, namely the relationship-to-profit, that people were not completely aware of.

The survey can be helpful in this situation since it gives the respondent the opportunity to think about the connection between the relationship-to-profit and the strategic decisions affected by it, without the pressure to respond quickly. Silence is perceived by many people as

uncomfortable in a conversation and might "fluster" people (Warren, 2012, p.14). Hence, the survey is a way to bring in the opinion of people, who make the strategy of the investment organisations but adapted to the unintuitive nature of the topic.

3.4 Limitations

As in any research, there are things to keep in mind and certain difficulties with the data sources selected. In this case, the research can only make use of documents that are in the public domain since these are official documents deriving from private sources (Bryman, 2016). This especially affected the for-profit cases in this study since profit and loss accounts are usually treated as confidential.

Furthermore, the selected cases are situated across Europe, which means that the research depends on web-based translation tools, which may alter the sense of the document. A general norm, when using documents as a source, especially the non-numerical parts, is to be aware that "people who write documents are likely to have a particular point of view that they want to get across" (Bryman, 2016, p.553). However, this factor and the translation difficulty are weakened by the numerical nature of most of the indicators used.

The drawback of the survey is that it is impossible to ask follow-up questions to the responses given. Moreover, the complication that was described as the unawareness of the influence of current conditions might equally apply to the survey and people might not be able to connect certain strategic decision-making behaviour to the structural aspect of the relationship-to-profit. Yet, as this is the second source of data it can still adequately serve to triangulate and supplement the findings from the first source.

Another limitation is that due to the scope of this thesis only four case studies were selected limiting the representativity of the study, which would benefit from a higher number of cases. In spite of this, the case selection process intended to bring in as much diversity in terms of organisational form and approach to impact investing as possible to account for this limitation as much as possible.

Finally, this study looks at snapshots of companies whereas the relationship-to-profit theory emphasises the dynamics of a for-profit or not-for-profit economic system over time. This is why there is a natural limitation to the contribution of the chosen method to the longitudinal nature of the theory as a whole, which is kept in mind throughout the research process. Nevertheless, the analysis of the structural aspects of businesses has a contribution potential since these are the most permanent and influential dimensions of businesses (Hinton, 2021b). Hence, these dimensions are also relevant over time. Furthermore, considerations of how the market dynamics influence the cases and the cases might influence the market dynamics were included.

3.5 Data analysis

The most prevalent approach to qualitative analysis of documents is qualitative content analysis, which describes the searching-out for underlying themes in the material (Bryman, 2016). According to Hsieh and Shannon (2005), there are three distinct approaches with differences in the coding scheme, origins of codes, and threats to trustworthiness. The type that is constructed to further refine, extend or enrich theory by validating or extending a theory conceptually is directed content analysis (Hsieh & Shannon, 2005).

Directed content analysis fits the abductive research approach as mentioned by first deductively identifying key concepts as coding categories from prior research. Thereby, the existing theory can provide predictions of the variables of interest or the relationship between the variables (Hsieh & Shannon, 2005). Specifically, the relationship-to-profit theory helped predict the possible influence of the relationship-to-profit on strategy decisions across five dimensions. These predictions can be summarised in the following way:

- It is more probable that NFPs see profit as a means to achieve a social goal instead of as an end in itself whereas FP can likely see profit as an end.
- Not-for-profit investors are more likely to have a corrective objective, which provides capital to projects with a target group that is excluded from the traditional capital market due to higher risk and/or lower financial return profile whilst being strongly socially beneficial.
- Not-for-profits are also more likely to finance not-for-profit organisations than for-profit investors.
- They most likely do this through instruments that are limited in their return and do not entail financial rights (i.e., shares or equity).
- Finally, a higher percentage of the profit is probably used for social benefit than the percentage of profit used for social benefit of for-profit investors.

Since the categories are clear, coding can start immediately by filling in the table of indicators for each case with supporting information as a reference (see Appendix B). Company reports, as well as the survey, are used to fill in the indicators in the table. This leads then to the step of validation or rejection of the predictions to some extent.

4 Empirical Analysis

Moving on to the results, each case is first looked at individually and then compared with the other cases. In a second step, a ranking of the impact investors is offered according to their alignment with the not-for-profit economy or in other words the effectiveness of their social benefit strategy. Finally, the discussion picks up several aspects of the results that came up during the research and were considered noteworthy. The results are also discussed in terms of relevance to the literature.

4.1 Results

4.1.1 The case of Company A

To begin with the first case, Company A was conditionally categorized as a not-for-profit although it is not legally fixed. Using the supporting indicator of whether profit is seen as a means or an end, the categorisation could be confirmed. In an informational brochure for investors, the organisation states:

> "Most investors in Company A have chosen not to take interest on loans. Instead, they look at returns in the form of societal benefits. Some have agreed on a low interest rate. Together, investors' capital creates one recirculating fund where the same money can help many social companies - associations and cooperatives - for many years. An excellent deal for the whole society."(Company A, 2020)

The paragraph clearly illustrates that profit is not seen as an end in itself. The financial return on investment is even neglected by some investors of Company A and replaced by social benefit as the only return on investment. This is very much in line with the not-for-profit economy and remodels the understanding of return on investment.

Regarding the next indicator of having a corrective objective, Company A steps in where the market leaves a gap since the organisation offers a credit guarantee with a fixed interest rate below the market rate of 3,5%, which is the same rate for all the cases they support. However, the recipient must pass the due diligence process, which screens risk to some extent and hence, not all applicants are admitted. Yet, the recipient is also within a target group that is easily excluded from traditional capital providers' target group for several reasons. Company A invests in early-stage social enterprises, in businesses with innovative business models such as work-integration social enterprises with associated political risk and in specific organisational forms such as cooperatives, foundations, social enterprises or associations. According to Gregory (2016), these can all be exclusion criteria for traditional investors. In addition,

Company A supports microcredits with their guarantee product, which are often excluded from the traditional capital market due to high administrative costs for small scale lending (OECD & European Commission, 2021). Hence, the guarantee can for instance also secure leasing agreements for smaller assets. All in all, the corrective objective is given, which overall leads to a higher social benefit targeting the most excluded or risky groups.

According to the survey answer of Company A, 90% of their investments go to NFPs. Their portfolio is not publicly available. Even so, the survey also reveals that the investments that do not support NFPs go to cooperatives that distribute equally between the co-owners. This 10% is consequently not aligned with the not-for-profit economy in its purest form. Interestingly, Company A has remarked an obstacle due to the not-for-profit nature of their investees. According to Company A, it is very hard to use quasi-equity products that are often paid from the profit for these organisations that have "tough restrictions" against paying from profits (Company A, 2022). Here the other extreme of profit misperception comes through, which is when social organisations see profit in itself as something to avoid instead of as a means to their social benefit purpose. However, Company A should be in the position to offer alternative investment schemes that avoid the payment from profit.

Moving on to the next indicator, zero percent of Company A's profit was distributed in the current year 2021 nor in the past years. This means that 100% of their profit flows into their social benefit mission. That is also reflected in the financial instruments the organisation is using. All financial instruments are limited in their return. In 95% of the cases, Company A uses its guarantee instrument, which is a special debt-based instrument which is "not amortized but [is] ended in lump when the guaranteed object (loan, car, business premises, grant contract, etc) is completed/finished" (Company A, 2022). In the rest of the cases, subordinated shares or investing member capital is used, which is seen as equity but for which Company A gets a limited return and limited or no decision-making power. Apart from small deviations due to the different establishments of cooperatives, this NFP case supports the hypotheses derived from the theory which predicted that NFPs see profit as a means, have a corrective objective, mostly invest in NFPs, do not distribute profit and use limited return instruments. However, a comparison to the other cases is needed to be able to extract meaning.

4.1.2 The case of Company B

Continuing with the case of which the offer to clients follows a similar idea to Company A's service, the results of Company B are evaluated. As indicated in the case selection process, Company B is seen as a for-profit social enterprise. 60% are owned by a for-profit subsidiary of Group Bank AG and the other 40% by the bank's Foundation. To clarify this aspect, their view on profit as a means or an end is reviewed. From the annual report of Group Bank AG, it becomes apparent that the motivation of providing the service of social finance is the social goal of financial inclusion. This confirms the social benefit purpose.

At any rate, their delivery approach is risk-averse and treats profit-as-an end. By way of example, the criteria to select a recipient is that the recipient has reached its operating break-even point and is operating a proven business model (Group Bank AG, 2022). The interest rate the organisation is asking for their subordinated loan product is according to the survey answer

at market rate or above market rate with the explanation that the subordinated loan product replaces equity financing, which would be even more expensive. Finally, these findings are reflected by the survey respondent, who mentions a few things as obstacles to delivering social benefit. Among them, the bank license is named, which explains the more risk-averse attitude that comes with being bound to national regulations and thus limitations in terms of risk-taking or accepted capital ratios of the investee. The other obstacle to delivering social benefit mentioned in the survey is “shareholder and return expectation” (Company B survey answer, 2022). This illustrates that the social enterprise is under the influence of a profit-as-an-end rationale.

These mentioned aspects also affect the corrective objective of this organisation, which is less pronounced or distinctive from the traditional capital market. On the one hand, low-income individuals and (early-stage) social enterprises are targeted, which ticks the box of a corrective objective in terms of demography and business model. On the other hand, the selection is strongly risk-averse, requiring the investees to have reached the break-even point, and asking for market rate or above market rate returns. It is much more probable that under these conditions the traditional market would also fulfil the capital need, which lowers their corrective objective, social impact and reach to the most vulnerable.

The next indicator is the ratio of FP versus NFP in the investment portfolio. The survey delivers the answer of a 70:30 ratio. Thus, many more for-profit businesses are supported. This has severe consequences since “[p]rofit-motivated investment drives three main reinforcing feedback loops that contribute to consumerism; the loops of production, advertising, and planned obsolescence” (Hinton, 2020a, p. 244). The percentage of the profit of Company B, which is reinvested versus the percentage that goes to the for-profit company owning Company B, which is a Gmbh fully owned by Group Bank AG, could not be found. This is because the financial statements are not published by Company B. However, since it is the shareholder structure of Group Bank AG that influences its social finance subsidiary, the pay-out ratio of Group Bank AG was looked at. The pay-out ratio was 35,8% in 2021 and 82,3% in the previous year due to Covid-19. It is usually between 30-40%, but the year 2020 demonstrates that there is no limitation to shareholder return. These numbers are directly linked to the wealth accumulation of some people and subsequently inequality (Hinton, 2020a).

Lastly, the financial instrument of the social banking service by Company B is looked at. Since the social banking service mainly offers subordinated loans, the return is restricted in all cases. This is directly linked to the previously mentioned banking license and risk-averse manner of investing. Yet, it is in line with the not-for-profit economy requirement. To summarise this case of a social enterprise affiliated with a for-profit bank, the effect of this relationship became visible in almost all indicators. The corrective objective is strongly limited, and social return is not seen as a counterbalancing factor to taking on more risk. Instead, the logic of profit-as-an-end keeps directing the strategy for instance in terms of return expectations. In addition, it is mostly invested in for-profit organisations. Only the debt-based approach to capital lending is limited in its return and hence more beneficial to the recipient of the capital.

4.1.3 The case of Company C

To compare the two for-profit cases with each other, the results of Company C are brought up next. The venture capital firm is a for-profit organisation. Despite the fact that 60% is owned by a not-for-profit organisation, the other 40% is owned by the founders which violates the non-profit ownership structure (Hinton, 2021c). Looking at how this organisation treats profit, the organisation describes the investors they work with as "patient funders who clearly prioritise impact and are willing to accept moderate returns in order to be catalytic" (Company C, 2020). This points to the organisation's consideration of profit as a means to catalyse impact. When describing the investor type Company C works with in more detail, the organisation names high net worth individuals, wealthy families, family offices, business angels, venture philanthropists and a few unconventional foundations as fitting the previous description. Consequently, the willingness to prioritise impact comes mostly from investor groups that have accumulated wealth and benefitted from the capitalist system in an earlier instance or still do.

Company C now targets these groups with a strong corrective objective, to wit the funding of social innovators and their businesses in the early stages of pre-Series A and Series A. These are within the first important funding rounds for start-ups. They do so independently of whether the social enterprise business is able to achieve a break-even point or not and provide capital below market rate. Hence, the corrective objective is given in terms of the development stage of the business, the innovativeness and unproven concept of funded businesses and the interest rate that is below the market rate.

The deviation from the not-for-profit approach becomes obvious in the way they finance the social innovation businesses. First of all, 50% of the funded businesses are for-profit, 40% are hybrid, meaning that there is a not-for-profit and a for-profit arm while Company C invests in the for-profit arm, and 10% of the investments go to pure NFPs. Thus, the majority of supported businesses are for-profit. To clarify, the hybrid model is usually applied to social businesses that were not able to reach a break-even point and hence split their operation into a NFP and a FP organisation.

Secondly, they use special developed hybrid financing models. These models support the social business by keeping the investor's return from revenue or profit participation capped and low at the beginning so that the enterprise can develop, but afterwards the investors "are entitled to catch up their claims" (Company C, 2022). This formulation is opaque and does not indicate how much the investors can claim. Even though these claims might be below market return, they still benefit the mostly wealthy investors, and it is not clear whether the investors also get decision-making power through equity participation. Nevertheless, these financing models come with embedded social impact incentive mechanisms, speaking for social benefit control mechanisms. Another product the organisation offers is a combination of philanthropy in the not-for-profit arm, which hands over capital to its for-profit subsidiary combined with impact investment into the for-profit arm. The final model is similar to the previous one but uses crowdfunding instead of philanthropy. These two models are fully aligned with the NFP economy since the for-profit entities are owned by NFP organisations. The survey answer asking about the financial instruments used was answered by saying that 60% of the time standard equity instruments are used adapted to impact investment standards in terms of return and social return on investment expectations and 40% of the time its mezzanine, which are in

between equity and debt involving some of the models described above and usually have the function of supporting the enterprise's equity position without control rights.

What can be extracted from this is that Company C uses a very efficient model to support early-stage social businesses that attracts investors to do good with their money compromising on the financial return in order to derive a social return on investment. This supports the finding of the relationship-to-profit theory, which points to the necessary return expectation reduction to generate social return (Hinton, 2021c). What is not fully aligned with the not-for-profit economy is the major use of equity investments into mostly for-profit businesses leaving it unclear whether there are also financial and control rights involved and how strong the social benefit control mechanism is. Unfortunately, for-profit businesses such as Company C do not share their financial reports, which leaves the indicator of profit distribution to private owners unanswered. In terms of the theory predictions, this for-profit case deviates by treating profit as a means and by having a strong corrective objective. It fits the predictions in terms of mainly supporting for-profits and using equity instruments with an unclear way of dealing with trade-offs between social benefit and financial return. This can contribute to the inequality dynamic of the for-profit economy and compromise the social benefit effect of their investments.

4.1.4 The case of Company D

Looking at the final case of Company D, which combines features of previous cases by being a not-for-profit cooperative, but active in the banking sector, it will shed additional light on the effect of the relationship-to-profit on investor's strategy. The first indicator questions the treatment of profit by the bank. In their impact report, Company D emphasizes the difference between ethical finance, that according to the report has been practised for decades and sustainable finance which is currently being promoted by the EU. In this explanation, the organisation states that the basic objective of ethical finance is to

> "Provide economic resources to those who have entrepreneurial projects that respect the environment and human rights, [are] capable of promoting inclusion, and achieve social and environmental objectives. The realization of profits is pursued as an indicator of efficiency and a tool to increase the impacts."(Company D, 2021)

From this statement, the adaption of profit as a means to achieve impact is revealed. Company D argues that sustainable finance, on the other hand, follows the profit-maximisation doctrine only trying to limit negative impacts.

Evaluating Company D's corrective objective, it can again be referred to their impact report where it is clarified that the bank is not a charitable organisation but is committed to finance. However, the impact of a project is the main criterion, not its "bankability" (Company D, 2021, p.11). This is illustrated by the example of engagement in microfinance for which public or own guarantee funds are used. Hence at market rate and below market rate financial services are offered. In more general terms, Company D assesses investments according to financial criteria and social and environmental criteria for which they have certain "excluded sectors" which are not supported and certain "privileged sectors" that are prioritised due to the positive

impact. These are, for instance, renewable energy, "the welfare system" or organic agriculture. However, it is important to mention that the bank finances a broad range of projects, which do not all have a corrective effect. There are projects that could have been financed through traditional ways, too.

This leads to the next point, namely the percentage of the portfolio that is composed of NFPs. The survey answer states 30%. From the impact report, it can be gathered that if counting foundations/associations, social cooperatives and cooperatives of the year 2020 it would be between 40-55%. The interesting fact about this is that Company D at the beginning of its operation focussed only on social economy or third sector entities like social cooperatives, associations and foundations due to their exclusion from the traditional capital market. Over time they have added the service of mortgages for houses, then "personal loans", which is still in line with the NFP economy. However, now they have shifted the focus away from the legal form of the investee organisation to only focussing on the impact of the organisation. Consequently, the bank was more in line with the not-for-profit economy and stronger in its corrective objective in the past than the bank is now.

Talking about the last two indicators, in line with being a not-for-profit 0% of the profits are distributed and 90% of the investments are debt-based according to the survey answer. This leads to the conclusion that the not-for-profit nature of the business has followed the predictions in the indicator of how profit is treated, in the corrective objective, in the usage of financial instruments and profit distribution. The biggest deviation from the not-for-profit strategy hypotheses is the financing of FP business forming at least half of the portfolio and that Company D does not exclusively offer products under market rate.

4.1.5 Comparison and implications

Summarising the results and answering sub-question one and two, the strategy predictions based on the relationship-to-profit theory overlapped to a bigger extent with the not-for-profit entities. In the case of Company A, the predictions of NFP behaviour across all indicators were fulfilled. Company D deviated from the prediction that NFPs are more likely to invest in NFPs, since the ethical bank also funds FPs to a large extent. Nevertheless, Company D still funds more NFPs, when taking the number from the impact report, than the two FP cases. The second point that can be named is that Company D does not exclusively support projects that are excluded from the traditional banking sector. Yet, this is because the bank wants to provide conventional banking services to as many people as possible, to then use the savings for investments into the real economy under strong social and environmental criteria instead of speculations (Company D, 2021). This means it is in the nature of the business model to be an alternative to traditional banking and not only correct the gaps that the traditional capital market leaves. Overall, these cases indicate that the not-for-profit organisational form influences the strategy towards the higher social benefit choices that are aligned with the not-for-profit economy, which is a way of interrupting the negative dynamics fostering the exploitation of people and planet.

Moving on to the two for profit cases, the categorical predictions for FP cases were that these organisations are more likely to see profit as an end in itself, have no or less of a corrective objective, tend to finance more FP cases, distribute profits to private owners and use unlimited return instruments. When looking at Company B, most of these boxes were ticked, with the exception of having a target group that is excluded and using limited return instruments. In regard to the first point, it is intended to have a corrective objective. However, due to the way of delivering the financial service, specifically the high interest rate, the corrective objective is less pronounced. Company A, for instance, does also provide subordinated loans or quasi-equity in specific cases and still asks for an interest that is below the market rate and not at market rate or even above. The second point is the use of limited return instruments, which is also in line with the not-for-profit type of strategy. However, as mentioned before that is due to having a banking license and the responsibilities that come with it. Unfortunately, no clear statement about profit distribution can be given, but due to the survey comment mentioning shareholders it is assumed that not all of the profit is reliably reinvested.

A bigger deviation from the for-profit strategy was seen in the case of Company C. This organisation was aligned with the not-for-profit strategy in the way it treats profit, namely as a means. Apart from that, the organisation showed a consistent corrective effect both in terms of target group and interest rate. This finding is interesting since it entails that the for-profit organisations can still decide to strategically follow not-for-profit rationales, although being for-profit entities. Nevertheless, Company C followed the FP strategy predictions by investing to a much larger extent into FP businesses and by using mostly equity instruments. The concrete profit distribution could again not be retraced since for-profit organisations are not transparent about this subject, although they have a social benefit purpose.

Consequently, through the strategy of a FP impact investor, the for-profit economy is maintained by investing predominantly in FP businesses and there is the risk that through equity instruments capital is taken out of the circulation that would have been used for further social benefit and may contribute to inequality by enriching private investors. This was seen through the distant influence of Group Bank AG shareholders on Company B and the unclear claim of investors supporting Company C's projects.

4.1.6 Degree of the effectiveness of the diverse impact investing strategies

In order to answer the overarching research question about the classification of the most effective and least effective impact investors in terms of social benefit creation and alignment with the social economy, a tool is presented that takes all the developed indicators into consideration. Depending on the answer in each of the metrics, the tool shows the degree of alignment.

The outcome can be seen below in Figure 1 and can be interpreted by having the most aligned organisations further down and the least aligned investors further up in the issue tree. As an illustration, the classification of Company A is further explained. Company A starts on the not-for-profit branch (although an additional remark on the non-distribution constraint to the statutes should be made to have it completely clear). Then, the indicator of whether profit is

treated as a means, or an end is skipped for the not-for-profit branch since they have a legally binding social purpose. The same is done with the indicator that asks for the percentage of profit distribution so that the remaining indicator is whether the NFP invests more in NFPs or FPs. If the answer is NFP, the indicator of whether it is done with limited or unlimited return instruments (referred to as equity versus debt) is skipped since NFPs cannot be financed via equity. This broaches the final indicator, which is whether the organisation has a corrective objective. Company A ends up being at the lowest branch, which means the investor is fully aligned with the not-for-profit economy.

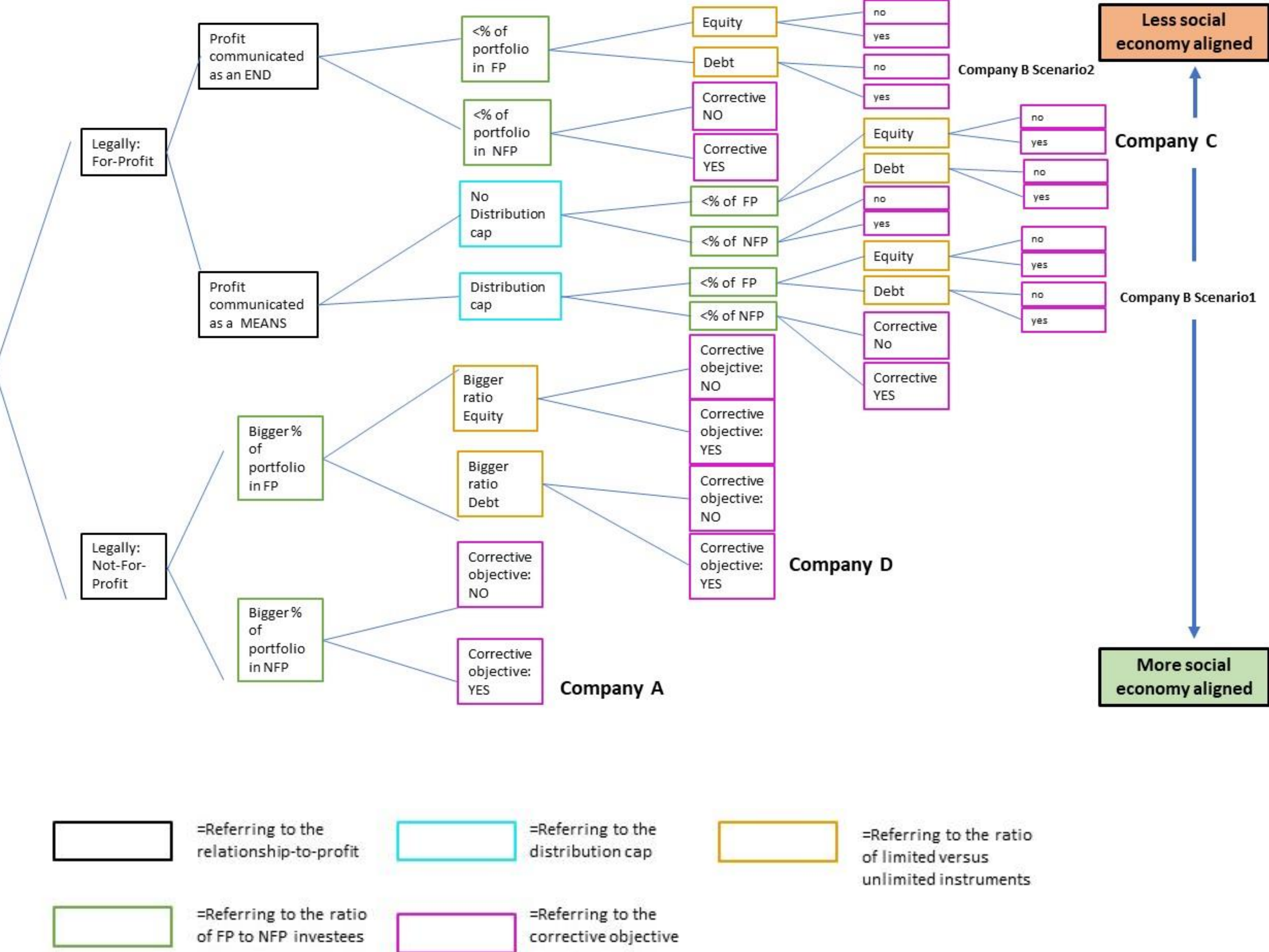

Figure 2 Social economy alignment evaluation tool

The reason for putting Company B in twice is to account for the case in which the organisation does have a distribution cap, which could not be checked. It was also done to illustrate how the positioning would change based on this change. This tool helps to evaluate impact investors from a not-for-profit perspective, which helps to be rigorously sticking to a social ecological economics perspective.

Table 3 Results summary

<table>
<tr><td>What is the most effective business model of financial institutions that position investments in service to the social economy and the transformation to a not-for-profit economy?</td><td>The most effective business model of impact investors is the one that decides for the socially more beneficial strategy option across all strategic dimensions and across the indicators of:

• Legally for-profit or not-for-profit
• The business objective of profit-as an end or a means
• Corrective target not given or given
• Corrective interest rate above/at or below market rate
• Investment focus on FP or NFP investees
• Profit distribution or distribution constraint
• Usage of unlimited or limited return instruments

The socially more beneficial option from the social ecological economics perspective is the latter option of each of the listed indicators and is represented graphically in Figure 2.</td></tr>
<tr><td>How does the relationship-to-profit of the financial organisation affect whether it achieves the goal of social benefit?</td><td>The not-for-profit organisational structure influences the strategic decision-making towards the more aligned strategy with the NFP economy and thus, the socially more beneficial decision, consistently across more strategic dimensions.

The for-profit structure allows for alignment with the NFP economy across some strategic dimensions, but inconsistently implements the socially more beneficial strategy due to risk-return considerations, the orientation towards for-profit investees, untransparent usage of profits and usage of equity instruments.</td></tr>
<tr><td>Where do trade-offs or inefficiencies stand in the way of these organisations to address harmful dynamics of the profit-maximising economy?</td><td>For-profit investors experience a trade-off between their corrective objective and their attachment to the for-profit manner of delivering financial services, which especially keeps the inequality dynamic in place.</td></tr>
</table>

4.2 Discussion

The results showed that NFP impact investors choose in all strategic dimensions with almost no exception for the higher social benefit option in alignment with the NFP economy. This validates the developed analytical framework and predictions made based on the relationship-to-profit theory. Otherwise, FP impact investors did not entirely follow the categorical predictions of a for-profit strategy. The cases demonstrated that FP investors can also communicate profit as a means instead of as an end and contribute to the financial inclusion of excluded groups. However, with the investments of FP investors, the for-profit economy is kept in place due to the targeting of for-profit organisations. Furthermore, there is no assurance that profits are not contributing to the wealth accumulation of individuals instead of being used for more social benefit. These findings go hand in hand with the remark in the not-for-profit theory which states that "such companies want to invest enough in social benefit to pursue a dual purpose, but not enough to negatively impact their profits"(Hinton, 2020a, p.253). This clearly speaks to the need for categorisation of impact investors according to their relationship-to-profit.

Additionally, the categorisation seems necessary since within the impact investment sector there exists confusion about where the profits of the economy are flowing. Regardless of the theoretical starting point of this research, the awareness of how the surplus of the economy is utilised seems important to have the option of deciding about it and having the surplus at society's disposal. During this research process, it took a vast amount of time to figure out the relationship-to-profit of the case study subjects. From Company D's employees, contradictory statements were collected, one of them stating that Company D does not have a distribution constraint and another stating that it does. Another example is Company A which thought of itself as a not-for-profit and only recently found out that there is a missing non-distribution constraint in the statutes. However, the effect of the relationship-to-profit on the strategy was clearly seen in this research, which reinforces the necessity to pay attention to the subject.

It can be counterargued that under the current market rationale where most of the organisations are unaware of the effect of the relationship to profit, it is more important to look at why the organisation makes profits and how the organisation treats profits instead of pinpointing the structural aspect behind of it. The emphasis of the relationship-to-profit theory is actually on *why*, *how*, and *for whom* profit is generated and used (Hinton, 2021c). Yet, for-profit organisations showed to be untransparent about their profit distribution, which makes an evaluation of the "for whom" impossible. Only NFPs were transparent about their profit usage. Moreover, for a quick and consequent achievement of a strong sustainable economy, it should not be relied on "voluntary objectives of enlightened owners and managers" (Hinton, 2021b, p.18), when a legally-binding approach is more influential on economic actors. Therefore, it is necessary to consider the structural aspects of businesses.

This finding is reinforced by the next aspect. It is noteworthy that the selected organisations that all had corrective objectives of filling in the gap left by the traditional capital market, had an NFP element in their organisational structure. Even the two for-profit cases showed an NFP connection. One case committed to being a social enterprise according to the European

definition and was owned 40% by a foundation and the other one was owned 60% by an NFP. This supports the logic of the relationship-to-profit theory, which advocates for a change in the structural aspects of businesses through which social and environmental benefit can be moved to the core of the business.

Another point to discuss is the economic stability of the organisations that were looked at. All mentioned organisations have received public support in some way. Either through European counter guarantees provided by the European Investment Fund, by public risk capital or through other ways. This demonstrates that under the current market conditions, it is difficult to have a corrective objective and still be economically viable. Company A, for instance, calls it a "premise built into what we do" that the organisation is not able to raise much private capital due to the very low to no financial return. Instead, the responsibility lies with the public sector to acknowledge the social value added of Company A being the most socially beneficial of the four cases and to support it. Currently, the organisation has the least number of employees of the four cases but keeps operating due to an ecosystem of supporting organisations. Nevertheless, this should not be seen as a weakness since the situation could change immediately if Company A operated in a predominantly not-for-profit market. The relationship-to-profit theory acknowledges this by stating that

> "[a]ll firms operate in a larger economic and societal context, and experience various sources of pressure, resistance, encouragement, and constraint from contextual factors. This means there are important differences when contrasting how for-profit businesses might act in a predominately for-profit market; how not-for-profit companies might act in a for-profit market; and how not-for-profit businesses might act in a predominately not-for-profit market."(Hinton, 2021b, p.18)

Consequently, the analysed cases can become more financially self-sufficient in the process of a transition, in which the NFP economy receives more attention and the context of the market changes. With the visibility and public funding, private funding can be crowded in, which is also part of the social economy action plan. When evaluating the effectiveness of an impact investor's business model as stated in the research question, the effectiveness was evaluated in terms of social benefit rather than economic viability, since the economic viability depends on the context of the market whether it is for-profit or transitioning towards not-for-profit.

The research showed that the transformation to a not-for-profit economy is a complicated process, in which the cooperative bank took a step back and started supporting FP organisations, in which the instruments to support early-stage social enterprises can become complex arrangements and in which none of the cases fully fit the NFP description. Nevertheless, all the cases contribute to a more sustainable economy and society by moving beyond the rationale of treating profit as the only goal. Furthermore, the relationship-to-profit theory offers guidance in the complicated process. It showcases the origins of problems of the current system and provides normative suggestions for the transformation to a strongly sustainable economy.

5 Conclusion

The aim of this research was to identify and separately categorise impact investors that place their investments in service of the social economy (being defined as the not-for-profit economy). To this end, an analytical framework was developed that explored the influence of the relationship-to-profit on five strategic dimensions of impact investing. For each of the relevant dimensions, specific indicators were developed to capture the social benefit of each strategic decision. Informed by the relationship-to-profit theory, it was predicted that not-for-profit investors in comparison to for-profit investors are more likely to see profit as a means to achieve social benefit, to finance target groups that are excluded from the traditional market and to do so by means of limited return instruments with an under market rate interest rate. Moreover, it was expected that NFP organisations are more likely to invest in other NFP organisations and not to distribute profits.

Through the analysis of four case studies, the hypotheses could be proved right when considering the sum of all strategy decisions. In that sense, NFP investors were more probable to stick to more socially beneficial decisions across all categories. However, when looking at the categories individually, the FP investors also all had a target group that was excluded from the traditional market, partially offered a below market rate interest rate, partially used limited return instruments and partially saw profit as a means instead of as an end. What they clearly did not fulfil was offering their financial service to more NFP than FP entities, which thus misses social economy entities, and their flow of profit was not clearly reinvested into the social mission.

The findings imply the need for an increased focus on aspects of the relationship-to-profit of investors because it clearly makes a difference in terms of total social benefit achieved. The developed indicators help in evaluating impact investors from a social ecological economics perspective and give a clear frame of what impact should entail when dedicated to a true sustainability transformation. This makes it one of the few specifications of “impact” in the impact investing sector. Finally, a tool was developed that can help authorities decide which investment institutions to prioritise in public support programmes like the Social Economy Action Plan.

The contribution to the theory is a very tangible illustration of the effect of an organisation’s relationship-to-profit on concrete decisions in a specific sector, namely the finance sector. This way the theory was downscaled from a systems-level to the organisational level following the paper on the five key dimensions of post-growth businesses. Conversely, this makes it perhaps easier for current financial organisations to understand how their decisions influence systems dynamics. Accordingly, it could initiate systems thinking of organisations by including the relationship-to-profit aspects into their considerations.

For future research, it would be desirable to repeat the study on a bigger scale involving many more impact investors. Another added value would be to bring in collaborating FP organisations that agree to be transparent about their profit distribution. This way the indicator can be filled in with concrete numbers giving it more meaning. Furthermore, the effect of the relationship-to-profit of businesses could be applied to strategic dimensions of other sectors to see how the sustainability transition is impacted there.

The goal of this and further research following the outlined direction is to provide support for the perspective that economic thinking should be redesigned around human needs and planetary boundaries. In this process, the social ecological economics perspective suggests using profit only as a tool to achieve a strongly sustainable economy which is needed. It is inefficient to place capital in favour of social benefit whilst at the same time supporting harmful dynamics on the systems level. Consequently, all sustainability efforts should prioritise the social and environmental impact instead of following a clashing dual-purpose of profit maximisation and impact.

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Appendix A: Survey responses

1.) Company A

Understanding Social Investors

Thank you for your collaboration! This survey will only take you 5-10 minutes. This is an important contribution to bringing clarity to the wide range of strategies of impact/ social investors.

1. Please fill in the name of your organisation:

Company A

2. Is there a legal constraint on your organisation's ability to distribute its profits to investors/owners (i.e., a non-distribution constraint)?

- ○ Yes
- ● No

3. If so, please specify the percentage of profit that can legally be distributed:

4. Has your organisation experienced trade-offs or obstacles in delivering *social benefit* due to obligations that come with private ownership or the restrictions of being a not-for-profit organisation?

- ○ Yes
- ● No

5. If so, please explain what types of obstacle you have encountered and how you have dealt with them:

6. Do you have a specific impact objective/ sector you focus on?

- ● Yes
- ○ No

7. If so, what is it?

Third sector, especially impact related to rural development, inclusive labor market, inclusive housing.

8. If your organisation invests in businesses, how would you characterise your target group in terms of the development stage of the business (i.e, start-up, growth stage,…)?

start up as well as development phase

9. If your organisation invests in businesses, is your investee constrained in its ability to legally distribute profit (i.e., not-for-profits; for-profits that can distribute 100% of profit; for-profits with a distribution cap)? Please specify:

Yes, we invest in social enterprises, partly defined by their obligation not to distribute the majority of their profits, but also in cooperatives who can distribute profits equally between its co-worker = co-owners.

10. Have you experienced trade-offs or obstacles in delivering social benefit because of your investee's obligations towards other private owners or the investee's restriction of being a not-for-profit?

- (●) Yes
- ( ) No

11. If so, what types of obstacle and how have you dealt with them?

Yes, financial tools, like subordinated shares and investing member, where interest depends on profits and profit distribution are more difficult to use when the SE, like a WISE, has tough rules against it.

12. Do you offer an interest rate that is equal to, above or below the market rate?

Below

13. What is the percentage of for-profit businesses (no profit-distribution constraint) versus *not-for-profit businesses* (profit-distribution constraint) in your organisation's portfolio (i.e., 60% are for-profit and *40% are non-profits*)?

Probably about 90% non-profit

14. In which ratio (estimation) does your organisation uses equity- versus *debt-based* instruments (i.e., 20:*1,* first equity, then debt)?

About 5% quasi-equity and 95% debt based (guarantees)

15. Does your equity instrument differ from other equity products in any way (for instance, in terms of dividend payment or decision-making)?

Yes, we use cooperative equity instruments like subordinated shares and investing member capital. This means we do not get any or only little decision-making power with some of the quasi-equity products

16. Does your debt instrument differ from other debt products in any way (for instance, in terms of interest rate or repayment conditions)?

Yes. Guarantees are not amortized but are ended in lump when the guaranteed object (loan, car business premises, grant contract, etc) is completed/finished.

17. Do you measure social return on investment?

- ○ Yes
- ● No

18. Why do you measure the social return on investment or why don't (i.e., decision making factor in investment decisions)?

We do not use that specific method but other impact measurement methods.

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2.) Company B

Understanding Social Investors

Thank you for your collaboration! This survey will only take you 5-10 minutes. This is an important contribution to bringing clarity to the wide range of strategies of impact/ social investors.

1. Please fill in the name of your organisation:

Company B

2. Is there a legal constraint on your organisation's ability to distribute its profits to investors/owners (i.e., a non-distribution constraint)?

- (●) Yes
- ( ) No

3. If so, please specify the percentage of profit that can legally be distributed:

We incorporated (legally non binding) clauses into our by-laws to fullfil the EU definition being a Social Enterprise.

4. Has your organisation experienced trade-offs or obstacles in delivering *social benefit* due to obligations that come with private ownership or the restrictions of being a not-for-profit organisation?

- (●) Yes
- ( ) No

5. If so, please explain what types of obstacle you have encountered and how you have dealt with them:

Having a bank license we are bound to national regulations and are limited in terms of taking risk and minimum capital ratios. Shareholders and return expectations as well have an influence on our business approach.

6. Do you have a specific impact objective/ sector you focus on?

- (●) Yes
- ( ) No

7. If so, what is it?

Social Sector and Social Enterprises, Starting entrepreneurs and Private Individuals with low income

8. If your organisation invests in businesses, how would you characterise your target group in terms of the development stage of the business (i.e, start-up, growth stage,...)?

From start-up (Starting entrepreneurs) up to experienced and settled organisations (Social Organisations).

9. If your organisation invests in businesses, is your investee constrained in its ability to legally distribute profit (i.e., not-for-profits; for-profits that can distribute 100% of profit; for-profits with a distribution cap)? Please specify:

Our social enterprise clients need to fullfil EU criteria (e.g. limited pay out of dividends).

10. Have you experienced trade-offs or obstacles in delivering social benefit because of your investee's obligations towards other private owners or the investee's restriction of being a not-for-profit?

- ○ Yes
- ● No

11. If so, what types of obstacle and how have you dealt with them?

12. Do you offer an interest rate that is equal to, above or below the market rate?

Equal to, Above

13. What is the percentage of for-profit businesses (no profit-distribution constraint) versus *not-for-profit businesses* (profit-distribution constraint) in your organisation's portfolio (i.e., 60% are for-profit and *40% are non-profits*)?

70% for profit, 30% not-for-profit

14. In which ratio (estimation) does your organisation uses equity- versus *debt-based* instruments (i.e., 20:*1,* first equity, then debt)?

1:99

15. Does your equity instrument differ from other equity products in any way (for instance, in terms of dividend payment or decision-making)?

No standard equity instrument offered

16. Does your debt instrument differ from other debt products in any way (for instance, in terms of interest rate or repayment conditions)?

We offer quasi-equity instrument to support debt financing by our bank, so no standard equity

17. Do you measure social return on investment?

- ○ Yes
- ◉ No

18. Why do you measure the social return on investment or why don't (i.e., decision making factor in investment decisions)?

We measure the social impact. We don't measure the SROI due its complexity and downsides do to its partly subjective assessment and potential negative implications (e.g. good/ bad impact).

Nicol Mayr

MSc Innovation and Global Sustainable Development

Lund School of Economics and Management

3.) Company C

Understanding Social Investors

Thank you for your collaboration! This survey will only take you 5-10 minutes. This is an important contribution to bringing clarity to the wide range of strategies of impact/ social investors.

1. Please fill in the name of your organisation:

Company C

2. Is there a legal constraint on your organisation's ability to distribute its profits to investors/owners (i.e., a non-distribution constraint)?

- ○ Yes
- ◉ No

3. If so, please specify the percentage of profit that can legally be distributed:

n/a

4. Has your organisation experienced trade-offs or obstacles in delivering *social benefit* due to obligations that come with private ownership or the restrictions of being a not-for-profit organisation?

- ○ Yes
- ◉ No

5. If so, please explain what types of obstacle you have encountered and how you have dealt with them:

n/a

6. Do you have a specific impact objective/ sector you focus on?

- ◉ Yes
- ○ No

7. If so, what is it?

Enable financing for your, innovative impact ventures

8. If your organisation invests in businesses, how would you characterise your target group in terms of the development stage of the business (i.e, start-up, growth stage,...)?

Early-stage social enterprises pre-Series A, Series A (no seed)

9. If your organisation invests in businesses, is your investee constrained in its ability to legally distribute profit (i.e., not-for-profits; for-profits that can distribute 100% of profit; for-profits with a distribution cap)? Please specify:

Depends on the structure, some are NFPs, some are FPs, some have hybrid org structures

10. Have you experienced trade-offs or obstacles in delivering social benefit because of your investee's obligations towards other private owners or the investee's restriction of being a not-for-profit?

- Yes
- No

11. If so, what types of obstacle and how have you dealt with them?

12. Do you offer an interest rate that is equal to, above or below the market rate?

Below

13. What is the percentage of for-profit businesses (no profit-distribution constraint) versus *not-for-profit businesses* (profit-distribution constraint) in your organisation's portfolio (i.e., 60% are for-profit and *40% are non-profits*)?

50% for-profit, 40% hybrid (investing in for-profit arm), 10% non-profit

14. In which ratio (estimation) does your organisation uses equity- versus *debt-based* instruments (i.e., 20:*1,* first equity, then debt)?

equity 60% : Mezzanine 40% (no traditional secured debt)

15. Does your equity instrument differ from other equity products in any way (for instance, in terms of dividend payment or decision-making)?

Equity investments are rather plane vanilla, bur adapted to impact investing standards

16. Does your debt instrument differ from other debt products in any way (for instance, in terms of interest rate or repayment conditions)?

Mezzanine can be structured very flexible to individual needs of social enterprises

17. Do you measure social return on investment?

- (•) Yes
- ( ) No

18. Why do you measure the social return on investment or why don't (i.e., decision making factor in investment decisions)?

It is the core of impact investing to measure also the impact

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4.) Company D

Understanding Social Investors

Thank you for your collaboration! This survey will only take you 5-10 minutes. This is an important contribution to bringing clarity to the wide range of strategies of impact/ social investors.

1. Please fill in the name of your organisation:

Company D

2. Is there a legal constraint on your organisation's ability to distribute its profits to investors/owners (i.e., a non-distribution constraint)?

- ( ) Yes
- (•) No

3. If so, please specify the percentage of profit that can legally be distributed:

4. Has your organisation experienced trade-offs or obstacles in delivering *social benefit* due to obligations that come with private ownership or the restrictions of being a not-for-profit organisation?

- ( ) Yes
- (•) No

5. If so, please explain what types of obstacle you have encountered and how you have dealt with them:

6. Do you have a specific impact objective/ sector you focus on?

- (•) Yes
- ( ) No

7. If so, what is it?

Company D's Credit Policy defines PRIVILEGED SECTORS to be financed: welfare systems; energy efficiency and renewable energies; environment; organic agriculture; international cooperation; socio-cultural animation: education, culture, sport for all, youth centers, etc .; fair trade; social and responsible business; personal credit: primary financial needs (first home, means of transport, etc.)

8. If your organisation invests in businesses, how would you characterise your target group in terms of the development stage of the business (i.e, start-up, growth stage,...)?

Any

9. If your organisation invests in businesses, is your investee constrained in its ability to legally distribute profit (i.e., not-for-profits; for-profits that can distribute 100% of profit; for-profits with a distribution cap)? Please specify:

no

10. Have you experienced trade-offs or obstacles in delivering social benefit because of your investee's obligations towards other private owners or the investee's restriction of being a not-for-profit?

- (●) Yes
- ( ) No

11. If so, what types of obstacle and how have you dealt with them?

We may decide not to invest in undertakings controlled by organizations active in one of the sectors listed among our credit policy EXCLUSION CRITERIA: weapons; evident negative impact on the environment; risky energy sources and technologies; exploitation of child labor; intensive animal breeding; exclusion or marginalization of minorities; direct relationship with regimes not respecting human rights; commodification of sex; gambling.

12. Do you offer an interest rate that is equal to, above or below the market rate?

Equal to

13. What is the percentage of for-profit businesses (no profit-distribution constraint) versus *not-for-profit businesses* (profit-distribution constraint) in your organisation's portfolio (i.e., 60% are for-profit and *40% are non-profits*)?

30% non profit

14. In which ratio (estimation) does your organisation uses equity- versus *debt-based* instruments (i.e., 20:*1*, first equity, then debt)?

90% debt

15. Does your equity instrument differ from other equity products in any way (for instance, in terms of dividend payment or decision-making)?

no

16. Does your debt instrument differ from other debt products in any way (for instance, in terms of interest rate or repayment conditions)?

no

17. Do you measure social return on investment?

- (●) Yes
- ( ) No

18. Why do you measure the social return on investment or why don't (i.e., decision making factor in investment decisions)?

Ethical banking principle of transparency leads to disclose towards our members and savers details about the way we invest

Nicol Mayr

MSc Innovation and Global Sustainable Development

Lund School of Economics and Management

Appendix B: Coding Data

<table>
<tr><td>Name of the business: Company A</td><td>FP</td><td colspan="2">NFP</td></tr>
<tr><td>Relationship-to-Profit:</td><td></td><td colspan="2">X
Economic association, adhering to the seven principles of a cooperative, reinvesting 100% of profit since foundation, however no remark in statutes that would prohibit profit distribution.
Investing in Company A is possible through becoming an investing member, providing a conditional loan or offering grants/sponsorships
Profit reinvestment:
Förslag till vinstdisposition
Styrelsen föreslår att till förfogande stående vinstmedel (kronor):
balanserad vinst 78 155
årets vinst 48 542
126 697
disponeras så att
i ny räkning överföres 126 697
126 697</td></tr>
<tr><td>Corrective objective:
Exclusion reason of recipient</td><td>Demography/Innovative business model</td><td>Geography</td><td>Dev. Stage</td></tr>
<tr><td>In terms of interest rate</td><td>Finances innovative business models (work-integrating social enterprises) that target people that aren’t served by current businesses and with an associated political risk,</td><td></td><td>Finances early stage social enterprises</td></tr>
</table>

	Rural development and innovative inclusive housing projects Size of credit is seen as microcredit		
	Below market rate	At market	Above market rate
	X 0-3,5% fixed interest rate for all projects financed		
% of portfolio in NFPs/ profit reinvesting businesses	"90% Not-for-profits" "Yes, we invest in social enterprises, partly defined by their obligation not to distribute the majority of their profits, but also in cooperatives who can distribute profits equally between its co-worker = co-owners" Company A only invests in social enterprises that have a profit-distribution constraint/cap or in cooperatives that are only allowed to distribute profits equally in between the co-workers =co-owners Problem due to not-for-profit nature of recipient: "Yes, financial tools, like subordinated shares and investing member, where interest depends on profits and profit distribution are more difficult to use when the Social enterprise, like a WISE, has tough rules against it."		
% of profits to private owners	0%		
Ratio of limited return vs. unlimited return instruments	All are limited return instruments: "95% credit guarantees, 5% quasi-equity" "Yes, we use cooperative equity instruments like subordinated shares and investing member capital. This means we do not get any or only little decision-making power with some of the quasi-equity products" "Yes, Guarantees are not amortized but are ended in lump when the guaranteed object (loan, car business premises, grant contract, etc) is completed/finished."		
Profit-as-an-end vs. profit-as-a-means	Profit-as-a means: "Most investors in Company A have chosen not to take interest on loans. Instead, they look at returns in the form of societal benefits. Some have agreed on a low interest rate. Together, investors' capital creates one recirculating fund where the same money can help many social companies - associations and cooperatives - for many years. An excellent deal for the whole society." Not SROI-Other impact measurement methods are applied.		

<table>
<tr><td>Name of the business: Company B</td><td colspan="2">FP</td><td>NFP</td></tr>
<tr><td>Relationship-to-Profit:</td><td colspan="2"></td><td>“As stipulated in its Articles of Association, it does not distribute dividends but reinvests all generated profits into new social projects.” (Company B, 2022)
Answer from employee: Yes, there is a distribution constraint. We incorporated (legally non-binding) clauses into our by-laws to fulfil the EU definition being a Social Enterprise.
Owned 60% by Gmbh kind if making it a FP and 40% by foundation</td></tr>
<tr><td rowspan="4">Corrective objective:
Exclusion reason of recipient:
Not corrective:
Having a bank license we are bound to national regulations and are limited in terms of taking risk and minimum capital ratios. Shareholders and return expectations as well have an influence on our business approach.
Target:
Social enterprises, nonprofit or non-governmental organisations:
Proven business model
Reached operating break-even
Proven and measured social impact

Social housing and social infrastructure projects:
Plot of land identified
Cost assessment prepared
Business and repayment plan drafted</td><td>Demography/Innovative business model</td><td>Geography</td><td>Dev. Stage</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Below market rate</td><td>At market</td><td>Above market rate</td></tr>
<tr><td></td><td>X</td><td>X</td></tr>
</table>

In terms of interest rate			
% of portfolio in NFPs/ profit reinvesting businesses	70% for profit, 30% not-for-profit 400 start-ups, social enterprises and NGOs supported		
% of profits to private owners	**Don’t know**		
Ratio of limited return vs. unlimited return instruments	99% limited return “We offer quasi-equity instrument to support debt financing by our bank, so no standard equity”		
Profit-as-an-end vs. profit-as-a-means	Profit-as-an-end: Shareholder orientation due to bank affiliation and businesses have to have reached break-even.		

Name of the business: Company C	FP		NFP
Relationship-to-Profit:	X Limited liability company; no distribution constraint; Ownership 60% Ashoka Germany Ggmbh (Not-for-Profit), the remaining 40% three private individuals)		
Corrective objective: Exclusion reason of recipient	Demography/Innovative business model	Geography	Dev. Stage
	Social innovation		Early-stage social enterprises pre-Series A, Series A (no seed)
In terms of interest rate	Below market rate	At market	Above market rate
	X		
% of portfolio in NFPs/ profit reinvesting businesses	50% for-profit, 40% hybrid (investing in for-profit arm), 10% non-profit Help social enterprises with break-even and without break-even to get access to finance to roll out and scale up their social innovation.		
% of profits to private owners	Depending on the deals-don't know		
Ratio of limited return vs. unlimited return instruments	equity 60% : Mezzanine 40% (no traditional secured debt): Mezzanine is first capping the return, but then private owners "entitled to catch up on their claims" Equity investments are rather plane vanilla, bur adapted to impact investing standards		

	Mezzanine can be structured very flexible to individual needs of social enterprises Dabei decken wir das gesamte Universum an "Finanzierungsplaneten" ab – von Privatinvestoren, Philanthropen, Family Offices und Business Angels, bis hin zu Stiftungen, Impact Fonds, ethischen Banken und der öffentlichen Hand.
Profit-as-an-end vs. profit-as-a-means	"achieving more than an attractive return" /It is the core of impact investing to measure also the impact; They work with: A relatively small group of patient funders who clearly prioritise impact and are willing to accept moderate returns in order to be catalytic. To date, the vast majority of these investors are (Ultra) High Net Worth Individuals, wealthy families, family offices, business angels, venture philanthropists and a few unconventional foundations. At Company C, impact-first investors represent the bulk of our network of more than 1,300 investors across Europe and have provided most of the €30m in total raised by the more than 60 social enterprise clients that we supported in securing funding to date

Name of the business: Company D	FP		NFP
Relationship-to-Profit:			=Cooperative Bank not distributing profits to members, members hold a "share" of the bank that can increase in value over time but the shares do not represent financial ownership rights Other employee answered with: "no distribution constraint"- internal confusion about the topic is remarkable
Corrective objective: Exclusion reason of recipient: **Broad set-up: Decision-making is influenced by categorising in "privileged" sectors or "excluded sectors"**	Demography/Innovative business model	Geography	Dev. Stage
	Microcredit whether bankable or not		
	Below market rate	At market	Above market rate
In terms of interest rate	X	X	
% of portfolio in NFPs/ profit reinvesting businesses	30% NFP (This is understated due to the understanding of NFP- impact report say minimum of 40-55% of associations, foundation, (social) cooperatives in 2020.		

	The evolution of Company D is interesting here: At the beginning the focus was on beneficiaries with the not-for-profit legal setting, the “third sector”, expanded then to focussing rather on the general activity of the beneficiary
% of profits to private owners	0%
Ratio of limited return vs. unlimited return instruments	90% debt instruments
Profit-as-an-end vs. profit-as-a-means	Profit-as-a-means: The realization of profits is pursued as an indicator of efficiency and a tool to increase the impacts.