SCHOOL OF
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Proof Can Wait: Inside the Logic of Sustainable Venture Capital

by

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Abstract

This thesis explores how sustainability-oriented venture capital firms (sVCs) evaluate sustainability-oriented early-stage startups. While sustainability has gained prominence in financial discourse, its role in early-stage venture evaluation remains diffuse. Startups with strong sustainability missions often face investor hesitation; not due to lack of relevance, but due to limited standardization and the difficulty of assessing long-term impact under uncertainty.

Based on qualitative interviews with Swedish sVC professionals and analyzed using the Gioia methodology, the study builds an inductive understanding of how sustainability is interpreted, prioritized, and acted upon in real investment contexts. The goal is not to test theory, but to surface how evaluation decisions are made when traditional metrics are incomplete or unavailable.

The findings reveal a distinctive investment logic shaped by four interdependent dimensions: founder evaluation, sustainability orientation, decision infrastructure, and risk navigation. Founders are assessed less for polish than for conviction, adaptability, and alignment with long-term impact goals. Sustainability, meanwhile, is not treated as a fixed threshold but as a directional filter; embedded in business models, expressed through values, or used to frame market relevance. Decision infrastructure, from SDG mapping to internal learning systems, supports translation of principles into practice. Risk is not avoided but reinterpreted, with investors building conviction through narrative clarity, trust, and staged engagement.

By identifying these mechanisms, the study contributes to research on sustainable finance, hybrid logics, and early-stage investment. It challenges the idea that sustainability must be measurable at entry and instead frames it as a construct that is iteratively legitimized through founder dynamics, strategic alignment, and institutional learning. Practically, the thesis offers insight into how sVCs allocate capital amid ambiguity, and how investment logic evolves to support ventures that aim not only to scale, but to contribute meaningfully to systemic change.

Keywords: sustainable venture capital, sustainable startups, green finance, ESG evaluation, early-stage investing

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1. Introduction

Discussions on sustainability often begin (and end) with environmental or political arguments. What tends to be overlooked is its economic dimension. In 1994, John Elkington introduced the Triple Bottom Line (TBL) framework, urging companies to redefine success by including people and planet alongside profit. The idea was transformative. Still, decades later, sustainability remains widely perceived as a compliance obligation, not a strategic lever in investment decisions.

While its broader benefits are well documented, many investors continue to miss how sustainability strengthens business fundamentals, enhancing resilience, mitigating risks, and driving long-term financial returns. This tendency is often rooted in the dominant short-term orientation of investment decision-making, which can obscure the strategic relevance of sustainability practices over time (Ortiz-de-Mandojana and Bansal, 2016). The recent retreat of capital markets from ESG commitments exposes a more profound contradiction: interest in sustainability may rise, but its integration into core valuation practices remains limited. This prompts a central question: is sustainability being viewed as a credible driver of long-term value, or simply as an administrative checkbox?

1.1 The role of start-ups in sustainable entrepreneurship

Early-stage decisions define the DNA of any business. They shape the strategy, the product or service, and the company's impact on its surrounding environment. Much of a firm’s long-term sustainability footprint is determined in its formative stages (Herstatt & Verworn, 2001).

This gives startups a unique opportunity to link sustainability with financial performance. As agile, adaptive entities, they function as “living labs”, capable of embedding sustainability practices such as resource efficiency, circular design, and ethical sourcing into their business models from the outset (Bocken et al., 2014). These practices can be tested, refined, and scaled,

generating concrete evidence of how environmental responsibility can drive cost efficiency, new revenue, and differentiation in competitive markets.

Sustainable entrepreneurs aim to balance the triple bottom line: achieving economic viability, social equity, and environmental integrity through their ventures (Elkington, 1997; Kuckertz and Wagner, 2010). This view aims to protect ecosystems and communities while generating tangible returns for individuals and society (Shepherd & Patzelt, 2011). For this study, sustainable startups are defined as early-stage ventures committed to delivering measurable social and environmental benefits alongside financial outcomes.

1.2 The role of sustainable venture capital

Attracting capital remains a challenge for sustainability-oriented startups. Venture capital plays a pivotal role in financing innovation and entrepreneurship and can be a powerful force in scaling sustainable business models (Bürer & Wüstenhagen, 2008). In this study, venture capital is defined as specialized firms that provide equity funding and strategic support to early-stage, high-growth companies, often in exchange for a governance role and equity share (Gompers & Lerner, 2001).

However, conventional VC tends to favor ventures with rapid scalability and short-term financial returns. Startups grounded in sustainability may not align with these expectations; their growth curves, risk profiles, or time horizons may look different. The absence of standardized ESG metrics, inconsistent use of frameworks such as the SDGs, limited historical benchmarks, and challenges in forecasting financial impact only add to investor hesitation (Bocken, 2015).

Sustainable venture capitalists work to identify companies that can deliver both economic returns and meaningful social or environmental value. Berry and Junkus (2013) found that investors increasingly favor firms with holistic performance, not just financial strength. In this context, the investment thesis plays a central role; it defines the logic and goals behind an investment strategy. For impact-oriented VCs, the thesis includes expected returns and how the investment

will generate triple-bottom-line value (Bocken, 2015). It becomes a lens to build a balanced, sustainability-aligned portfolio.

This raises a crucial issue: How do such investors evaluate sustainability itself? If sustainability is to be legitimized as a driver of enterprise value, robust frameworks must support its financial assessment.

1.3 Current Understanding and Outstanding Questions

The body of research on sustainable finance has grown, but many gaps persist. While studies suggest that sustainability improves long-term business performance (Porter & Van der Linde, 1995), it often remains secondary in evaluation practice. Some research indicates that ESG-oriented firms outperform their peers (Revelli & Viviani 2015); others suggest that sustainability comes with trade-offs that complicate the investment rationale (Farley and Smith, 2020).

Measuring sustainability's financial contribution remains difficult. Investors cite this uncertainty as a key source of risk bias, especially toward early-stage, sustainability-driven ventures (Wöhler & Haase, 2022). These biases are reinforced by institutional inertia, asymmetric information, and the lack of consistent valuation methodologies, all of which distort capital flows away from sustainability.

Despite this, little is known about how sustainability-oriented venture capitalists interpret and incorporate sustainability into financial evaluation. Research has yet to explain how they address the analytical and behavioral barriers to investing in such startups (Wöhler & Haase, 2022). This thesis seeks to examine these gaps by exploring how sustainability is understood, valued, and operationalized in early-stage investment decisions.

1.4 Research Gap

Despite growing attention to sustainability in financial discourse, a disconnect remains between rhetoric and practice. While sustainability is often cited as a driver of long-term value (Martins de Souza et al., 2024), early-stage ventures with sustainability-driven missions continue to face scepticism from investors, limiting their access to capital and slowing their path to scale (Jung, Ko & Kim, 2025).

This paradox suggests that existing theoretical models have yet to fully account for how sustainability is evaluated (not as a concept, but as a financial input) within venture capital decision-making. Most research has focused on mature firms or public markets, leaving early-stage contexts relatively underexamined.

In particular, little is known about how sustainability is assessed in relation to other core investment criteria such as founder potential, risk logic, or go-to-market strategy, and how these factors interact under conditions of ambiguity. As sustainable venture capital (sVC) grows in visibility and influence, unpacking the composite logic behind these decisions becomes increasingly relevant.

This thesis responds to that need by examining how sustainability is understood, valued, and operationalized in early-stage investing, and how it is weighed alongside other considerations across the evaluation process.

1.5 Research Question & Aim

This study is guided by the following research question: How do sustainability-oriented venture capital firms (sVCs) evaluate early-stage sustainable startups?

Rather than isolating sustainability as a standalone criterion, this research investigates how it is interpreted and integrated alongside other key factors such as founder potential, market timing, risk orientation, and internal evaluation processes. The focus is on how these elements intersect

in practice: how sustainability is framed, filtered, or weighted in relation to more traditional venture capital considerations.

By addressing this question, the study contributes to both theory and practice. Theoretically, it deepens our understanding of how sVCs navigate uncertainty by balancing impact and financial logic in context-dependent ways. Empirically, it sheds light on how evaluation frameworks are constructed, revealing how sustainability is not treated as a fixed threshold, but as a directional force, shaped by conviction, context, and the evolving tools investors use to make sense of early-stage ventures.

2. Theoretical Framework

This study draws on multiple theoretical lenses to understand how sustainability-oriented venture capitalists (sVCs) conceptualize and evaluate sustainability in early-stage ventures. By integrating insights from finance, entrepreneurship, and sustainability science, the aim is to examine how sustainability is interpreted; as an economic asset, an investment filter, or a source of strategic differentiation. In doing so, the research explores the frameworks through which sVCs assess the viability of sustainability-driven startups and how sustainability features in their investment rationale.

2.1 Sustainability

Sustainability is most commonly understood as the capacity to meet present socio-economic needs without compromising the ability of future generations to meet theirs (Rockström et al., 2009). While initial definitions emphasized ecological preservation, more recent thinking expands sustainability to include social equity and economic resilience, all within a system that is interdependent and continuously evolving (Hajian & Kashani, 2021). In this broader view, sustainability requires adaptive policy design, multi-stakeholder collaboration, and iterative innovation, recognizing that environmental and societal health are inseparable from long-term economic stability.

Within this framework, two approaches are particularly relevant to this research: the Triple Bottom Line (TBL) and Environmental, Social, and Governance (ESG) criteria. As formulated by Elkington (2018), TBL redefines business success through the integrated dimensions of people, planet, and profit; positioning financial performance not in opposition to social or environmental concerns but as interdependent with them. ESG, in contrast, is used more explicitly within investment contexts, serving as a risk-based lens to evaluate a company's environmental footprint, social practices, and governance structures (PRI, 2025). While TBL is anchored in value creation across domains, ESG primarily concerns risk exposure and resilience.

Despite these differences, both frameworks converge on a common idea: sustainability is not an external constraint but an internal condition for long-term performance: economic, social, and ecological.

2.1.1 Sustainability in Startups

Building on the conceptual foundations outlined above, sustainability in the startup context refers to the deliberate integration of social and environmental objectives into the business model from the earliest stages of venture formation (Schaltegger & Wagner, 2011). Rather than treating sustainability as a peripheral or philanthropic concern, sustainability-driven startups embed these priorities at the core of their strategic logic. This approach reflects a growing recognition that large-scale environmental and societal challenges also generate entrepreneurial opportunities (Dean & McMullen, 2007).

Sustainability-oriented entrepreneurs actively pursue or develop market solutions to address ecological and social issues. These solutions are not designed as add-ons but as central to the value proposition. Startups that follow this path are not simply responding to external pressures; they are using sustainability as a source of differentiation. They confront systemic inefficiencies such as environmental externalities or gaps in stakeholder alignment by offering products and services that link market demand with improved ecological and social outcomes (Dean & McMullen, 2007; Schaltegger & Wagner, 2011).

This market-oriented model, which combines long-term environmental, social, and financial goals, sets sustainability-oriented startups apart from conventional early-stage ventures, whose focus often remains on short-term returns and rapid scaling. The distinction lies in the mission and how risk, value, and impact are conceptualized from the outset.

2.2 Venture Capital

Venture capital firms operate at the intersection of capital allocation and strategic intervention. Their role extends beyond the provision of early-stage equity financing; it encompasses active

participation in governance, talent acquisition, and the operational scaffolding required to turn nascent ventures into scalable enterprises (Gompers & Lerner, 2004). In embracing high levels of risk and the inherent illiquidity of early investments, VCs are not merely financing growth, they are underwriting the uncertainty that defines innovation.

In return, they pursue outsized returns, typically seeking a tenfold multiple on invested capital within a five- to ten-year horizon, realized through exits such as acquisitions or public offerings. Their model blends financial ambition with direct involvement, positioning venture capitalists not just as funders, but as architects of scale; partners whose influence often shapes the trajectory of the ventures they support.

2.2.1 Evaluation Criteria: Team, Product, Market

Venture capital decision-making is inherently layered, blending structured financial analysis with qualitative judgement. At its core, the evaluation process rests on three interdependent pillars: the founding team, the product or solution, and the market opportunity (Kaplan et al., 2009). Understanding how these dimensions are weighed offers a window into how emerging logics, particularly those shaped by sustainability, may reinforce, reinterpret, or challenge established investment heuristics.

Among these pillars, the team is widely regarded as the most decisive factor in early-stage assessments. Early-stage startups often lack revenue, fully developed products, or reliable user data. In such cases, the investment decision becomes a wager on the founders' capacity to execute under pressure, respond to uncertainty, and attract the people and partners necessary to build momentum. Gompers et al. (2021) found that over 90% of venture capital professionals consider team-related attributes such as integrity, resilience, coachability, and domain expertise, more important than financial indicators at this stage. The rationale is simple: strong teams can pivot and rebuild when needed; weak teams often falter even in favorable conditions.

Product and solution evaluation focuses on the quality, distinctiveness, and technical feasibility of what is being built. While products are often incomplete or in prototype form, investors look for coherence between the problem and the proposed solution, early validation signals, and a credible narrative about how the product might achieve market fit. In many cases, conviction

rests not on current performance, but on how convincingly the team articulates the product's potential to generate meaningful differentiation.

The third dimension (market potential) concerns the size, trajectory, and timing of the target segment. VCs tend to favor markets with enough scale or velocity to justify significant returns, particularly those where a new entrant might capture value by reshaping a niche or exploiting unmet demand. A key tension lies between "market pull" and "technology push": is the startup solving a clear, existing problem, or attempting to build a category from scratch? Considerations of timing, customer readiness, and competitive landscape all shape how this question is answered.

2.2.2 Decision-Making Under Uncertainty

While the core pillars of evaluation (team, product, and market) anchor early-stage investment decisions, they are frequently supplemented by additional considerations such as scalability, exit potential, and strategic coherence with the fund's existing portfolio. Increasingly, investors also weigh less tangible dimensions: cultural fit, leadership posture, and fundraising history, all of which offer clues about how a venture might evolve over a multi-year horizon.

Due diligence processes attempt to bring structure to this uncertainty. Investors may review technical documents, engage with potential customers, pressure-test assumptions, and build out financial scenarios. Yet the nature of early-stage ventures which is characterized by incomplete data, shifting variables, and contingent futures often resists definitive analysis. In practice, final decisions are shaped as much by heuristics and accumulated intuition as by formal models. Experienced investors draw on pattern recognition, gut feel, and contextual judgment developed across prior deals (Petty & Gruber, 2011). This tacit knowledge becomes part of the evaluative toolkit when hard metrics fall short.

2.2.3 Post-Investment Involvement

The role of the venture capitalist does not end with capital deployment. On the contrary, many VCs take on active roles post-investment serving as mentors, board members, strategic advisors, and talent enablers. Their contribution extends into key domains: helping ventures attract senior

leadership, refine go-to-market strategies, secure follow-on funding, or open doors to commercial partnerships.

Through this close engagement, the VC seeks not only to protect the investment but to actively shape the trajectory of the company. The investor becomes a kind of strategic co-pilot, offering operational insight and network capital to help the venture scale efficiently and avoid common pitfalls (Hellmann & Puri, 2002). This hands-on posture reflects the belief that capital alone is rarely sufficient; value emerges through collaboration.

2.2.4 Relevance to Sustainability-Driven Investing

Understanding these mechanisms is essential for examining how sustainability-oriented venture capital may depart from, or reconfigure, traditional logics. In values-aligned contexts, factors such as impact thesis, long-term resilience, or systemic contribution may carry greater analytical weight than short-term market traction or conventional exit paths.

2.3 Impact Investing

Impact investing expands the logic of capital deployment by placing measurable environmental or social outcomes on equal footing with financial returns (Hand & Gilbert, 2023). While instruments in this space vary, from equity to fixed-income vehicles, the defining feature is intentionality: investments are made with the explicit aim of generating positive impact alongside profit (Bugg-Levine & Emerson, 2011).

For early-stage ventures focused on systemic issues such as access to clean energy or reducing social inequality, this presents both opportunity and challenge. Quantifying impact at such an early phase is difficult, given limited operational history and high levels of uncertainty (Lingane & Olsen, 2004; Kuckertz & Wagner, 2010). In response, a range of frameworks has emerged to guide early-stage impact evaluation. Tools like Social Return on Investment (SROI) (Lingane & Olsen, 2004) and the Sustainability Quick-Check (Halberstadt & Johnson, 2014) attempt to estimate impact outcomes in the absence of robust performance data.

While imperfect, these methods help investors build narratives around future impact potential, providing a structured, if still subjective, basis for decision-making during formative stages. The challenge lies not only in measurement, but in maintaining clarity of purpose as ventures evolve from mission-driven prototypes into fully operational businesses.

2.4 Sustainable Venture Capital

Sustainable venture capital (sVC) refers to a class of early-stage investors that integrate financial return expectations with explicit environmental or social objectives. Positioned between traditional venture capital and impact investing, sVCs adopt core venture principles, such as staged funding, active ownership, and an emphasis on scalability, while requiring that portfolio companies contribute meaningfully to sustainability outcomes (Bocken, 2015; Addy et al., 2021).

Unlike conventional VCs, who prioritise rapid financial growth, or traditional impact investors, who may accept lower returns for greater mission alignment, sVCs aim to achieve both. These investors often focus on ventures aligned with the United Nations Sustainable Development Goals (SDGs), such as clean energy access, inclusive healthcare, or circular economy innovation (Hand & Gilbert, 2023). This dual focus means that sVCs assess not only the commercial viability of a startup, but also its capacity to deliver measurable, mission-aligned impact (Hockerts & Wüstenhagen, 2010; Brest & Born, 2013).

In doing so, sustainable venture capital introduces a hybrid investment logic; one that seeks to reconcile market-based growth with a structured, outcomes-driven approach to sustainability.

2.4.1 Sustainability as a Business Driver

For sVCs, sustainability is not viewed as a regulatory obligation or reputational safeguard. It is framed as a strategic advantage; an engine of long-term resilience and differentiation (Bocken et al., 2014). Startups that incorporate environmental or social priorities into their core offering are seen as more adaptable to future risks, more attractive to values-driven customers, and more

likely to secure stakeholder trust (Elkington, 2018). In this framing, sustainability shifts from cost centre to value driver.

Still, translating this view into investment practice is not straightforward. sVCs must evaluate intangible dimensions, such as mission alignment or ecosystem resilience, within contexts that often lack historical data and exhibit strong asymmetries of information (Hall et al., 2010). To address this, some funds develop internal evaluation tools based on life-cycle assessment (LCA), ESG scoring, or proprietary criteria. Others adopt structured external frameworks, such as the SPI-Framework (Obst, 2015) or the Gamma Model (Nicholls et al., 2012), to estimate a startup's "impact potential" and guide portfolio composition.

2.4.2 Evaluation Logic in Sustainability-Oriented Venture Capital

In sustainability-oriented venture capital, the lens of evaluation extends well beyond conventional markers of financial viability. sVCs place distinct emphasis on a startup's alignment with clearly defined sustainability outcomes, often beginning with a mapping of the venture's core activities against frameworks such as the United Nations Sustainable Development Goals (SDGs). Here, ESG is not approached as a compliance threshold, but as a foundational lens through which purpose, resilience, and long-term value are interrogated (Hand & Gilbert, 2023).

At the heart of this assessment lies the question of intentionality: to what extent is sustainability embedded in the venture's core proposition, rather than appended as narrative flourish? Some sVCs explicitly seek ventures where the environmental or social dimension is not peripheral but essential to the product or service, what Bocken (2015) terms "mission-critical." Others look for a clear theory of change: a logically articulated path linking the venture's activity to meaningful, measurable outcomes. This is not simply about ambition, but about strategic coherence and credibility (Nicholls et al., 2012).

Given the absence of robust historical data or standardized impact metrics at early stages, evaluation in this context often adopts a hybrid logic. Traditional indicators such as market size, early traction, and competitive positioning are complemented by softer dimensions: founder mission alignment, potential for systemic change, and the integrity of sustainability claims. This

dual logic, grounded in both risk and conviction, signals a distinct investor posture, one that seeks to manage financial uncertainty while also navigating the indeterminacy of future impact (Hockerts & Wüstenhagen, 2010).

To mitigate the persistent asymmetry of information in these assessments, some sVCs employ structured internal tools or third-party frameworks to approximate a startup's "impact potential." These include proprietary ESG scoring models as well as established instruments like the SPI-Framework (Obst, 2015) and the Gamma Model (Nicholls et al., 2012), both of which offer repeatable, transparent methods for integrating sustainability into the investment process.

Crucially, sVCs also consider whether sustainability enhances rather than compromises the logic of the business model. A circular economy startup, for instance, may be evaluated not only for its waste reduction performance but also for its defensibility against future regulation, its cost efficiencies, or its appeal to a values-aligned customer base (Bocken et al., 2014). In this light, sustainability is not an externality to be managed, but a strategic indicator of resilience, competitiveness, and relevance in a changing world.

2.5 Theoretical Perspectives on sVC Evaluation

This section deepens the theoretical foundations of the study by examining how sustainability-oriented venture capitalists (sVCs) assess and support early-stage green ventures. Two frameworks are particularly relevant: Information Asymmetry and the Financial Growth Cycle. Together, they help explain the financing challenges faced by sustainability-driven startups and the rationale for specialised capital mechanisms such as sVC.

2.5.1 Information Asymmetry and the Financing Gap for Green Startups

Information Asymmetry theory, introduced by Akerlof (1970), holds that market inefficiencies emerge when one party possesses superior knowledge that the other cannot readily verify. In the venture capital context, startups often hold inside information about their technologies or

business potential that investors struggle to validate; a dynamic amplified in the case of sustainability-driven ventures.

Two key asymmetries stand out in this context:

a) Intangible Sustainability Metrics: Many environmental and social impacts unfold over extended time horizons and lack standardised measurement frameworks. This makes it difficult for external investors to assess claims of impact or verify long-term value creation (Wöhler & Haase, 2022).
b) Risk of Greenwashing: Investors may question the credibility of sustainability narratives, particularly when startups lack clear benchmarks or third-party validation. This perception gap creates scepticism and inhibits capital allocation (Kahneman and Tversky, 1979; Bocken, 2015).

Because of these asymmetries, conventional venture capitalists may undervalue or overlook startups with legitimate sustainability ambitions. In contrast, sustainability-oriented VCs aim to bridge this gap by applying tailored ESG frameworks, conducting deep-dive due diligence, and building trust with founders. In doing so, they help channel capital toward ventures with genuine sustainability potential (Bocken et al., 2014).

2.5.2 Financial Growth Cycle

While the theory of information asymmetry offers a lens through which to understand why sustainability-oriented startups face persistent funding barriers, the Financial Growth Cycle, as proposed by Berger and Udell (1998), provides insight into when these barriers become most acute. The model describes a typical funding trajectory, from internal resources and angel capital to formal venture investment and, eventually, public markets. Though originally designed to trace the startup's path through financial maturity, the framework also serves to map the institutional terrain that shapes the timing and structure of capital availability.

Startups anchored in sustainability frequently depend on outcomes that are diffuse, intangible, or only fully realized in the long term. This inherently complicates their risk profile, often delaying their progression through the traditional funding sequence. Even as such ventures mature, the

absence of standardized metrics for impact continues to obscure their value in the eyes of mainstream investors (Berger & Udell, 1998).

Sustainability-oriented venture capital firms (sVCs), however, tend to intervene earlier in this cycle; not by disregarding risk, but by reassessing it. They apply evaluation logics attuned to environmental and social performance, adjust return horizons, and integrate forms of value that fall outside conventional metrics. In doing so, sVCs are not simply participating in the existing cycle; they are reconfiguring it. Their approach redefines how early-stage value is understood, and in that process, they act not only as capital providers, but as institutional challengers reshaping the contours of what early-stage investment can (and should) account for (Bocken, 2015).

2.5.3 Theories in Tandem

Viewed in tandem, Information Asymmetry and the Financial Growth Cycle offer a complementary framework for understanding the financing challenges of sustainability-driven startups. On one side, the intangible, long-horizon nature of sustainability outcomes amplifies the inherent opacities already present in early-stage investing. On the other, the Growth Cycle illustrates how small firms typically evolve through a sequence of financing sources; yet for green startups, the early stages of that path are even more constrained.

Sustainable venture capital emerges as a targeted response to this compounded gap. By applying tailored metrics and alternative valuation methods, sVCs reduce informational opacity while accommodating the longer timeframes required for environmental and social value creation. In doing so, they operationalise a form of capital deployment that aligns with the triple bottom line without compromising core principles of venture finance.

2.6 Conceptual Model

By building on prior research (e.g., Bocken, 2015; Hellmann and Puri, 2002) and recognising the analytical constraints that affect impact assessment in early-stage settings (Lingane and Olsen,

2004; Obst, 2015), this study aims to surface the mechanisms, trade-offs, and frameworks that shape sVC investment behaviour; from strategic alignment and impact potential to risk perception and evaluation logic.

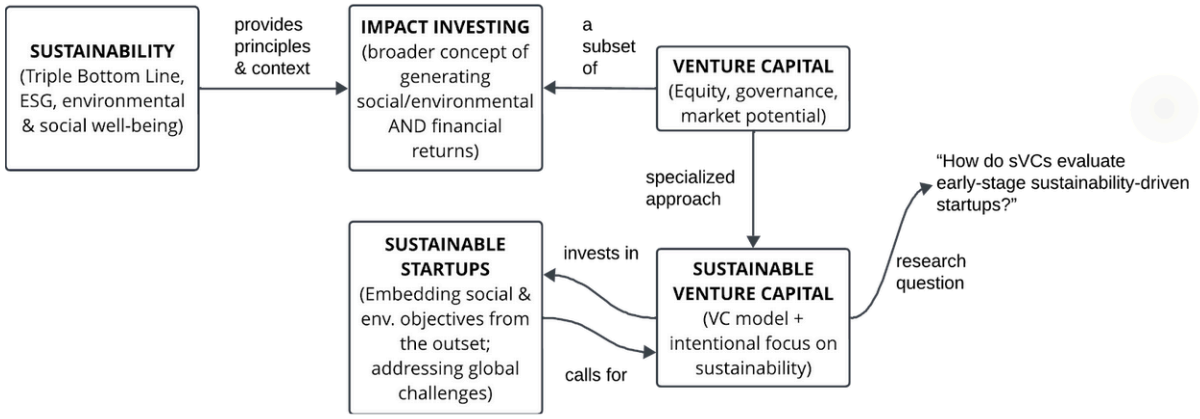

Figure 1. Conceptual Model of Sustainable Venture Capital and Its Role in Supporting Startups. (Created by the authors, 2025)

In summary, the theoretical concepts presented in this chapter, from sustainability as a strategic lens to the hybrid logics and heuristics shaping early-stage evaluation, served as the analytical foundation for the study's empirical investigation. These frameworks directly informed the design of the semi-structured interview guide, ensuring coherence between theoretical constructs and the lived experience of sustainability-oriented investors. Notably, themes such as information asymmetry, founder evaluation, and sustainability framing shaped both the structure and phrasing of the interview questions. The following chapter outlines how these interviews were conducted and analyzed using the Gioia methodology, allowing for a grounded examination of how these theoretical ideas take form in practice.

3. Methodology

This research investigates how sustainability-oriented venture capitalists (sVCs) evaluate early-stage sustainable startups, placing particular emphasis on the interpretative and decision-making processes of investors operating under explicit ESG or triple bottom line (TBL) mandates. To explore this phenomenon, we adopted a qualitative research design; one particularly well-suited to examining how actors navigate complex, context-specific decisions that resist straightforward quantification (Bryman, 2016).

Qualitative methods are especially valuable when investigating emerging or under-theorised areas of entrepreneurial practice such as sustainability-oriented investing, because they enable access to "thick" descriptions of how meaning is constructed and enacted in real-world settings (Van Burg et al., 2020). By focusing on investor interpretation and behaviour, we uncovered the tacit reasoning, mental models, and evaluative criteria that guide early-stage capital deployment in ventures framed around sustainability.

To that end, we employed semi-structured interviews as the primary method of data collection. This approach combined the flexibility needed to elicit individual perspectives with a degree of consistency that allows for comparative analysis across cases (Kvale and Brinkmann, 2015). Given the exploratory nature of this study and the limited literature on how sVCs integrate sustainability and financial logic, semi-structured interviews offered a means to explore not only which evaluation criteria are used, but how and why they matter to decision-makers.

This design enabled us to investigate how sVC professionals perceive and define sustainability in investment terms, and how these definitions influence startup evaluation, negotiation priorities, and long-term value expectations. These insights were not only critical for verifying alignment with our sampling criteria, but also central to understanding how sustainability is operationalised during screening and deal structuring. We were attentive to both formalised tools (e.g., ESG scoring models, SDG alignment frameworks) and more subjective judgments (e.g., perceived authenticity, mission congruence).

From a decision-making perspective, we focused on the procedures and logics used by sVCs during due diligence, founder evaluation, market and product assessment, and overall investment fit analysis. Particular attention is paid to how sustainability is positioned in these processes; whether as a constraint, an opportunity, or a foundational component of value, and how it interacts with conventional VC concerns such as scalability, exit potential, and portfolio fit.

The below methodological framework is a summary of how we conducted the discussed semi-structured interview study.

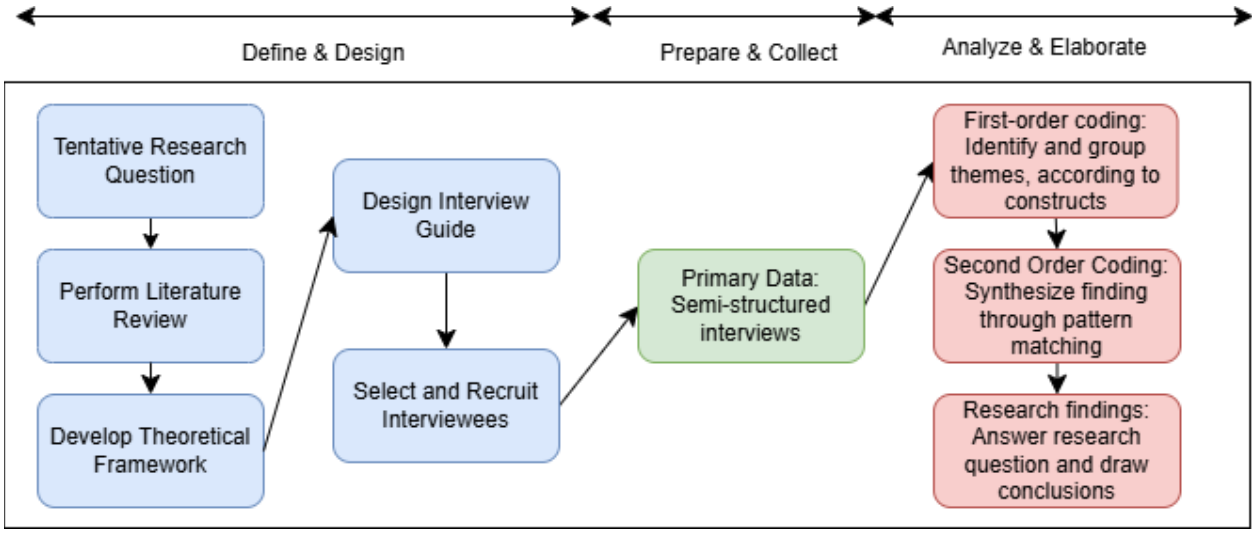

Figure 2. Methodological framework (adapted from Gioia, Corley & Hamilton 2013; Eisenhardt 1989)

3.1 Sampling Strategy

As established in Chapter 2, venture capital (VC) firms are defined as organisations that provide equity funding and strategic guidance to early-stage, high-growth ventures. Within this broader category, sustainable venture capital (sVC) refers to a distinct subset of firms that integrate financial return goals with explicit environmental or social impact mandates (Bocken, 2015; Hockerts and Wüstenhagen, 2010; Addy et al., 2021). These firms apply conventional VC practices such as evaluating scalability and growth potential, while also assessing startups based

on sustainability criteria, frequently informed by ESG frameworks or alignment with the United Nations Sustainable Development Goals (Hand & Gilbert, 2023).

To ensure alignment with this conceptual framework, our target population comprises:

- Investment professionals at sVC firms who are directly involved in evaluating deals and making investment decisions (e.g., Partners, Principals, Senior Investment Managers);
- Firms that publicly articulate sustainability or ESG commitments in their investment theses, communications, or documentation shared with limited partners;
- Firms focused on early-stage investing, particularly in pre-seed, seed or Series A rounds, where issues of sustainability measurement and financial uncertainty tend to be most acute.

Sustainable startups, in turn, are defined as ventures that explicitly aim to generate measurable environmental or social outcomes alongside financial returns (Dean & McMullen, 2007; Schaltegger & Wagner, 2011). Our sampling strategy prioritises sVC firms whose portfolios reflect this dual objective. This ensures theoretical consistency with the sVC model elaborated in Section 2.4 and supports our broader aim of understanding how sustainability is evaluated and priced in early-stage investing contexts.

3.1.1 Selection Criteria

To ensure that participants meaningfully reflect on the phenomenon under investigation, we applied the following selection criteria:

a) Active sVC Involvement

Participants had to be directly responsible for investment evaluation or decision-making within a sustainable venture capital (sVC) firm. This ensured that interviewees are engaged with financial due diligence and assessing sustainability criteria in practice.

b) Verified Sustainability Focus

Firms had to demonstrate a clear and consistent sustainability orientation. This was verified through at least one of the following:

- Public-facing materials, including investment theses, fund prospectuses, or websites, that explicitly articulate commitments to ESG, triple bottom line (TBL), or impact investing strategies;
- Inclusion in recognized directories of impact investors, such as those maintained by the Global Impact Investing Network (GIIN), Toniic, B Lab, or comparable registries.

c) Interview Availability

Participants had to be available for a 45–60-minute recorded interview and open to discussing how sustainability considerations are integrated into their firm's investment philosophy, decision-making processes, and evaluation approaches.

By applying these criteria, the study sought to engage with investors who are substantially involved in embedding sustainability within early-stage venture finance. This distinction was critical to avoid capturing superficial ESG branding (greenwashing) and instead focus on those actively grappling with the trade-offs, uncertainties, and frameworks central to our research objectives.

3.1.2 Sampling Size

This study adopted a theoretical (purposive) sampling approach (Eisenhardt & Graebner, 2007), selecting participants based on their conceptual alignment with the research focus rather than statistical representativeness. The objective was to generate analytically rich insights from individuals who are directly embedded in the decision-making structures of sustainable venture capital (sVC) firms.

Our initial sample target ranges from six to ten interviews. This range could have expanded or retracted depending on when theoretical saturation was achieved; that is, the point at which further data collection no longer yields novel themes or contributes new dimensions to existing categories (Guest et al., 2006). We defined saturation operationally as the stage where responses begin to converge, and no substantial new codes emerge during ongoing data analysis.

The sampling was geographically concentrated in Sweden. This regional focus allows for consistency in regulatory and institutional context while drawing from a mature impact investing ecosystem.

To construct our sampling pool, we drew from the following sources:

- Referrals through academic and professional networks in sustainable finance and entrepreneurship;
- Institutional directories, including the Swedish Venture Capital Association (SVCA), Invest Europe, the GIIN directory, and targeted searches using Crunchbase to identify firms with explicit sustainability mandates;
- Public disclosures, such as firm websites, annual reports, and portfolio summaries, which serve to verify both early-stage investment activity and sustainability alignment.

As the interview process unfolded, we refined our sample iteratively to enhance theoretical depth, intentionally seeking participants who may corroborate, refine, or complicate initial findings. This approach ensures that emerging themes are tested across a range of sVC perspectives and organizational contexts.

3.2 Data Collection Method

Given the study's focus on the interpretative dimensions of venture capital decision-making, we adopted semi-structured interviews as the primary data collection method. This format balances consistency (ensuring all participants address core research themes) and flexibility, allowing the interviewer to probe emerging insights and follow unanticipated but conceptually relevant threads (Bryman, 2016). Interviews lasted between 45 and 60 minutes and were conducted virtually. Follow-up emails were sent to interviewees, thanking them for their time, but also with clarifying questions. Some of our interviewees provided us with additional contacts from their network that led to follow-on interviews with these people after we analyzed the selection criteria.

Two important points with regards to the interview preparations are:

- Consent & Anonymity: Each participant received an introductory briefing outlining the aims of the research, the voluntary nature of participation, the guarantee of anonymity, and the request for permission to record the session.

- Recording and Transcription: Interviews were digitally recorded and transcribed verbatim through the use of AI software. Personal identifiers were replaced with coded pseudonyms to ensure anonymity throughout analysis and reporting.

3.2.1 Themes and Concepts

The structure of the interview guide is grounded in the theoretical frameworks presented in the Conceptual Model (Section 2.6) and the core constructs from Chapter 2. It is organized around four main themes, each corresponding to a critical phase of the venture capital investment process. These themes are designed to elicit insight into how sVC professionals evaluate, price, and monitor early-stage sustainability-driven ventures, particularly how sustainability factors are interpreted and woven into conventional investment logics.

The interview guide supports rigorous thematic coding and structured comparative analysis by mapping each question to a specific phase of the investment process and linking it directly to the theoretical underpinnings of this study. This framework also enables flexibility: while questions remain consistent across participants, the semi-structured format allows for deeper exploration of emerging topics during the interview.

1. Investment Criteria & Sustainability Metrics

Conceptual Link: This theme draws on conventional VC screening logic (Section 2.2.1) and its adaptation in sustainability-oriented contexts (Section 2.4.2). It also engages with the difficulties of assessing intangible assets such as environmental outcomes or mission alignment under conditions of information asymmetry (Section 2.5.1).

2. Risk Appetite and Investment Stage Positioning

Conceptual Link: Closely aligned with the Financial Growth Cycle (Section 2.5.2), this theme explores how sVCs interpret and manage early-stage risk when sustainability is central to the business model. It also examines whether return profiles, risk thresholds, or investment timelines shift compared to conventional VC.

3. Valuation and Deal Structuring

Conceptual Link: This theme addresses how sustainability influences valuation and term sheet design. It draws from discussions on valuation under uncertainty (Section 2.2.2), the use of sustainability milestones in staged financing (Section 2.5.2), and the challenge of pricing non-financial attributes in environments marked by asymmetrical information.

4. Constraints, Challenges, and Success Factors

Conceptual Link: This theme surfaces practical and structural constraints in sVC investment decision-making such as difficulties in data standardization, impact measurement, or market fit (Section 2.5.1). It also explores enabling conditions for successful financing outcomes and how these relate to startup design or founder capabilities (Section 2.2.1).

3.2.2 Interview Protocol and Procedure

To ensure consistency, depth, and alignment with our theoretical framework, interviews followed a structured protocol, allowing room for flexibility and emergent insight. The procedure included the following steps:

- Initial Contact: Prospective participants were emailed a brief overview of the project, including its focus on how sustainability is integrated into early-stage venture finance. Communications are tailored to reflect each firm's sustainability orientation.
- Consent and Agenda: Prior to the interview, participants received a briefing outlining the research purpose, confidentiality procedures, and a thematic overview of the topics to be covered, such as evaluation approaches, ESG metrics, and deal structuring, so they may prepare accordingly.
- Interview Flow: Each session began with contextual questions about the participant’s role and the firm’s sustainability mandate. The discussion followed the four thematic blocks outlined in Section 3.2.1, using open-ended questions and targeted prompts for clarity and depth.
- Adaptive Probing: Where novel themes emerge, follow-up questions were adapted in real-time to capture additional layers of interpretation and reasoning without departing from the conceptual structure.

- Debrief and Follow-Up: After each interview, participants were thanked for their time and asked to confirm using anonymized quotes. They were also offered a summary of the findings upon completion of the study.

3.3 Data Analysis

The data analysis followed the Gioia Methodology (Gioia, Corley & Hamilton, 2013), a framework designed to support inductive theory-building grounded in qualitative data. This approach was selected for its ability to make sense of under-theorized phenomena, particularly those involving evolving practices, subjectivity, and multiple layers of meaning. Given the study's focus on how sustainability-oriented venture capitalists evaluate early-stage startups, the Gioia method provided a robust structure for capturing informant insights while allowing theoretical patterns to emerge from the ground up.

3.3.1 Coding Process

Analysis began with immersive reading of all interview transcripts to build familiarity with the language, tone, and framing used by participants. Following the three-tiered structure of the Gioia method, initial coding focused on first-order concepts; descriptive codes drawn directly from the interviewee's own words. These codes were kept intentionally close to the data, capturing how informants articulated ideas about sustainability, risk, founder qualities, and investment practices.

Once the initial set of first-order codes was generated, conceptually similar entries were grouped into second-order themes. This phase moved beyond surface descriptions, identifying patterns in how participants framed their decisions, evaluated ambiguity, or interpreted impact. While guided inductively, this synthesis was informed by relevant concepts from the literature such as information asymmetry, behavioral heuristics, and institutional framing, which became more visible at this interpretive level.

These second-order themes were then abstracted into five aggregate dimensions: Founder Evaluation and Organizational Fit, Investment Strategy and Philosophy, Operational Support and

Decision Infrastructure, Risk and Market Navigation, and Sustainability Orientation & Impact Logic. Each dimension captured a distinct aspect of the evaluation process, and their boundaries were refined through repeated comparison to ensure clarity and avoid conceptual overlap.

To move from thematic representation to analytical insight, we then examined the interrelations between dimensions. This involved tracing how evaluations in one area, such as founder alignment, influenced decision-making in others, such as sustainability framing or capital structuring. This interpretive layer was supported by cross-case comparisons and allowed for the development of a more dynamic model of sVC evaluation logic, as presented in Chapter 5.

We used coding matrices and data structure diagrams to map the connections between themes, making it possible to identify feedback loops, conditional relationships, and underlying tensions.

Throughout the process, we maintained a set of analytical memos to document coding decisions, theoretical reflections, and emergent insights. These memos helped ensure transparency and reflexivity, supporting both the methodological rigor and the internal coherence of the final model.

This process resulted in 171 first-order codes, 15 second-order themes, and five aggregate dimensions.

3.4 Trustworthiness and Methodological Limitations

To ensure methodological rigor within an inductive qualitative design, this study applied Lincoln and Guba's (1985) trustworthiness criteria.

Credibility was supported through interviews with senior decision-makers at five sustainability-oriented venture capital firms. The use of the Gioia methodology ensured close alignment between coding and participant language. Analysis was conducted iteratively, with the aid of analytical memos and theoretical reflection to support depth and consistency.

Transferability was addressed through detailed contextualization of the firms and their investment settings. While the goal was not statistical generalization, the findings offer insights

that may be relevant to similar contexts, such as other values-based or mission-aligned capital environments.

Dependability and confirmability were supported by a transparent, stepwise coding process. Data structures and analytical decisions were documented throughout, and participant quotes are included in the findings to support traceability and interpretive grounding.

One limitation is the small sample size. However, the seniority of respondents and thematic convergence across cases strengthen the reliability of the insights. Still, the findings reflect primarily Swedish perspectives and should be interpreted with this boundary in mind.

4. Findings

This chapter presents the core findings of the empirical research, grounded in semi-structured interviews with sustainability-oriented venture capital (sVC) professionals. Using the Gioia methodology as a guiding framework, the analysis is organized around five aggregate dimensions that emerged inductively from the data: Founder Evaluation and Organizational Fit, Investment Strategy and Philosophy, Operational Support and Decision Infrastructure, Risk and Market Navigation, and Sustainability Orientation and Impact Logic. Together, these dimensions reflect how sVCs evaluate early-stage ventures, shape investment logic, and build support structures to navigate uncertainty while staying aligned with impact-driven objectives.

Each dimension is unpacked through its corresponding second-order themes, supported by illustrative quotes from participating firms. The analysis moves beyond surface-level priorities to explore how investors make sense of complexity, manage competing signals, and operationalize sustainability within fast-moving venture contexts.

4.1 Organizational Fit

The first aggregate dimension explores how sustainability-oriented venture capital firms assess founder potential, particularly when early-stage startups emerge from academic or technical contexts. In these cases, founders often bring deep subject-matter expertise but limited exposure to entrepreneurial execution. Rather than prioritizing prior startup experience or polished salesmanship, sVCs focus on adaptability, coachability, and the capacity to evolve into effective venture leaders. Mission alignment and openness to feedback are viewed not as soft traits, but as core indicators of long-term viability.

4.2.1 Founder Capabilities and Challenges

A recurring theme across interviews was the difficulty research-driven founders face when transitioning from deep technical roles to commercial leadership. Investors pointed not only to gaps in skills, but to deeper misalignments in mindset and professional identity.

"Our founders are often academics who can only take it so far." (Firm A)

From Firm B, a similar insight emerged, framed not as a limitation, but as a turning point:

"The best founders are the ones who realize they can't do it alone and are willing to grow." (Firm B)

In this context, coachability stood out as a critical selection filter. Investors were not looking for fully formed executives, but for individuals with the humility and flexibility to evolve.

"What we need is someone coachable who can become that commercial leader." (Firm A)

Firm B echoed this, emphasizing relational maturity over polish:

"You don't need a polished business leader, but you do need someone who listens, adapts, and surrounds themselves with strength." (Firm B)

These findings suggest that founder evaluation in sVCs centers on transformational capacity to move from expert to entrepreneur, from depth to delivery. In sustainability venture capital, this often requires bridging two worlds: the deliberate pace of academic rigor and the momentum-driven reality of venture growth. Investment, in these cases, hinges less on presentability than on potential; on whether the founder can build that bridge and walk it.

4.2.2 Founder Evaluation

In sustainability-oriented venture capital, founder evaluation extends far beyond credentials or commercial expertise. Across interviews, sVCs described a distinctly human-centered approach. One that privileges integrity, conviction, and long-term alignment over immediate polish or performance. Founders are assessed not just for what they've built, but for what they represent, and how their presence signals the capacity to grow both an enterprise and a movement.

"Early-stage messiness is tolerated if mission alignment is strong." (Firm C)

"Direction times people, that's our formula." (Firm E)

This tolerance, however, has its limits. Investors consistently made a distinction between performative ambition and authentic drive:

> *"Some people are five out of five ambitious, some are ones pretending to be fives." (Firm E)*

The most compelling founders, in this framing, were not simply builders of businesses. They were seen as movement-makers:

> *"These founders build movements, not just startups." (Firm C)*

Such narratives were also future-oriented. Investors acknowledged that founder energy evolves over time, and that commitment must endure across life transitions:

> *"Founders settle down, get married, have kids, they move from a 5 to a 3." (Firm E)*

This wasn't a commentary on personal choices, but on focus, adaptability, and sustained intent. As one interviewee made clear:

> *"If they're a three, we don't waste time. We move on immediately." (Firm E)*

Self-awareness was another critical filter:

> *"We assess founder awareness, not just what's on paper." (Firm D)*

And while rigor mattered, sVCs cautioned against overlooking unconventional brilliance:

> *"Our biggest job is to make sure we don't miss the crazy genius." (Firm E)*

These insights point to a founder evaluation logic that is expansive yet precise. Investors are not simply searching for strong résumés or perfect decks; they are looking for people who carry a vision in a way that compels belief and withstands pressure. In the sVC context, the founder becomes a vessel of both purpose and execution. Someone through whom sustainability must not only be signaled, but scaled.

4.2 Investment Strategy and Philosophy

This dimension outlines how sVCs shape and apply their investment logic. It reflects the principles they use to balance return expectations with long-term goals, their approach to valuing ventures under uncertainty, and how they decide which startups deserve backing, especially when markets are still forming and outcomes are hard to predict.

4.2.1 Investment Logic

Across firms, some described a commitment to supporting ideas that fill systemic gaps or address under-served needs. Firm B echoed a long-horizon perspective, often backing early-stage patents and building ventures around research still years from market:

> *"We invest in patents basically… We start a company around it and the researchers… continue to do research."*

In other cases, investment decisions began not with a product, but with a person. Firm E described this as a trust-based thesis:

> *"We invest in people, not just business models… We want to invest in people who are running in the right direction… We don't care if they make mistakes, as long as they are good people trying to do the right thing."*

Firm C emphasized the importance of alignment between growth and contribution:

> *"Impact needs to be core to the business model… Net positive contribution, not creating new problems as it scales."*

Across these perspectives, investment was framed not just as capital deployment, but as a bet on people, principles.

4.2.2 Market and Capital Fit

Firms demonstrated a pragmatic approach to capital allocation, carefully weighing each opportunity against market realities and funding dynamics. For some, capital intensity and exit potential served as hard filters. For Firm B:

> *"Some projects need too much capital for us to be the right partner."*
>
> *"We always look at how much money is needed to reach the market."*
>
> *"If M&A values in that field are too low, we don't invest."*

This theme highlights a core tension in early-stage investing: the need to support visionary ideas while ensuring they are staged, resourced, and positioned to survive in competitive markets.

4.2.3 Financial Expectations

sVCs expressed a range of approaches to valuation, equity structuring, and return profiles often shaped by their broader mission and impact logic. Firm A described using flexible deal terms to reflect their value-add over time:

> *"Sometimes we invest less but take sweat equity in return."*
>
> *"We smooth equity over time, take more now, take less later."*
>
> *"We'd rather stay in if we're adding value than exit for financial gain."*

Firm C brought impact explicitly into the incentive structure, tying performance to sustainability outcomes without compromising competitiveness:

> *"Our carry is tied to impact performance… 20% linked to KPIs."*
>
> *"Impact is not a penalty. We price companies competitively."*

They also articulated a tight coupling between sustainability and profitability, asserting that:

> *"There's a 1:1 relationship between impact and return."*

This framing signals a conviction that long-term value creation and meaningful impact are not just compatible, but mutually reinforcing.

Firm E took a more risk-tolerant stance, embracing uncertainty as intrinsic to early-stage innovation:

> *"50% of our portfolio will go to dust. That's expected."*
>
> *"We don't believe in perfect techno-solutions; we believe in people with obsession."*
>
> *"Valuation doesn't matter much; what matters is the size of the potential exit."*

Collectively, the perspectives reveal a shared willingness to adapt traditional financial models to fit the nuances of sustainability-driven ventures.

4.3 Operational Support and Decision Infrastructure

This aggregate dimension captures how sustainability-oriented VCs structure internal processes and portfolio engagement to support impact goals.

Rather than relying on fixed filters, sVCs emphasize founder awareness, integrity, and adaptability. Decision processes are supported by evolving internal tools, often shaped by Limited Partners (LPs) expectations or peer practices. At the same time, sVCs take an active role post-investment helping startups shape governance, define sustainability strategies, and attract talent.

Together, these practices form the infrastructure through which sustainability ambitions move from principle to execution, aligning capital, intention, and capability from the inside out.

4.3.1 Due Dilligence Practice

In sustainability-oriented venture capital, due diligence extends beyond conventional analysis of financials and market potential. ESG filters are sometimes used on the investment process.

A recurring challenge noted by firms was the inflation, or vagueness, of sustainability claims in early-stage pitches. For some, this undermined founder credibility from the outset:

> *"People write such nonsense about sustainability…it destroys their credibility." (Firm A)*

> *"Startups claim they'll contribute to every SDG. No, you're not!" (Firm A)*

To address this, some firms developed internal protocols for matching sustainability claims to specific targets, particularly within the SDG framework. For Firm A:

> *"We try to match company claims to a specific SDG goal and target."*

> *"We ignore sustainability claims unless they are specific and plausible."*

External expertise was also used to validate early-stage assertions and build internal confidence:

> *"We brought in consultants to help assess and document sustainability profiles." (Firm A)*

For other firms, ESG considerations were treated as non-negotiable thresholds. Firm C, for example, applied a structured lens to identify both red flags and positive signals:

> *"We apply a Do No Significant Harm lens."*

> *"Strong governance potential is a green light."*

> *"Greenwashing risk is a real red flag."*

Firm D emphasized how growing expectations from LPs shaped their internal practices. Even without formal regulatory pressure:

> *"The market has changed. LPs expect more than just financial diligence now."*

> *"We've evolved our policies, even though we're not technically an EU SFDR fund."*

> *"We had to write down what we do…responsible investment policy and all."*

sVCs noted that due diligence, particularly at the seed stage, is more ongoing than static. As one put it:

"Startups change a lot early on. That's why we do ongoing assessments." (Firm D)

This approach includes evaluating how founders think about building teams and structures, not just impact outcomes:

"We check if the founders are aware of the impact they might have." (Firm D)

These insights reflect a shift in venture evaluation, from one-time screening to dynamic partnership. Rather than filtering for fully-formed sustainability models, sVCs increasingly look for clarity, responsiveness, and integrity in how founders articulate and evolve their impact logic.

4.3.2 Sustainable-Oriented Venture Capital Internal Learning and Adaptation

Sustainability-oriented venture capital firms operate within a moving target. Impact expectations shift. Frameworks evolve. Language drifts. In this landscape, internal learning is not a side activity. Unlike VCs where evaluation models tend to be codified and consistent, sVCs must repeatedly revisit and reframe how sustainability is interpreted, assessed, and operationalized.

Across interviews, this learning process was described as intentional, but far from linear. For Firm D, it began by embedding sustainability in everyday conversation:

"We try to influence our investment team by integrating sustainability early." (Firm D)

"Our investment team is learning from me what to look at." (Firm D)

Still, the process wasn't without friction. Sustainability gained the most traction when it was clearly linked to core business outcomes:

"It's easier when sustainability connects clearly to the commercial side." (Firm D)

For Firm C, internal learning was shaped as much by external engagement as by internal alignment. Interactions with limited partners (LPs), ecosystem peers, and co-investors became catalysts for refining what the firm measured and valued:

"We've had to learn from our LPs and partners… what matters to them shapes what we monitor." (Firm C)

Firm E noted that much of the learning happens in dialogue with startups themselves—not just through diligence, but through ongoing collaboration:

> *"The more I work with them, the more they learn, and so do I." (Firm E)*

To support this learning, some firms turned to simple tools that could frame sustainability without jargon. SDG mapping, for instance, became a reflective entry point:

> *"When I map SDGs, founders often say, 'Oh, I hadn't thought about that.'" (Firm D)*

Taken together, these insights reveal that sVCs are not simply applying sustainability frameworks to others. They are actively building, and rebuilding, their own. Sustainability, in this view, is not a fixed standard to be enforced. It is a shared language, co-constructed in real time, through relationships, tools, and the evolving logic of the teams themselves.

4.4 Risk and Market Navigation

This aggregate dimension reveals how sustainability-oriented venture capital (sVC) firms perceive and engage with risk under conditions of market uncertainty and startup immaturity. Termed Risk and Market Navigation reflects a defining feature of sVC logic: the ability to justify early-stage investment despite limited validation, ambiguous commercial prospects, or unproven impact pathways. Rather than seeking confirmation, these firms often lean into experimentation, entering early, embracing ambiguity, and anchoring their conviction in the long-term vision of the founding team.

In contrast to conventional models that reward predictability, sVCs appear to reframe uncertainty as a feature, not a flaw. Interviewees described uncertainty as a necessary cost of identifying ventures capable of driving deep sustainability transitions. Particularly in pre-product or pre-traction scenarios, firms prioritized learning, adaptability, and founder potential over standard performance indicators.

4.4.1 Risk Handling and Experimentation

One of the most consistent second-order themes was the strategic embrace of early-stage risk. Investors frequently noted that they step in before conventional proof points emerge. Sometimes even before a clear market exists.

This posture, what one respondent called “super early”, reflects a deliberate positioning strategy.

> *“We go in super early. Even before there’s proof of traction. That’s the nature of our model.” (Firm A)*

Rather than requiring founders to demonstrate both commercial and sustainability readiness up front, some firms prefer to engage post-investment, supporting the maturation of the business and its impact model simultaneously:

> *“If the business is good, we’ll work on the sustainability later. We’re not rigid on that early on.” (Firm A)*

This tolerance for ambiguity also extended to financial structuring. Firm B adopted a slow-entry approach, maintaining informal engagement over time before committing capital:

> *“We follow projects for 6 to 12 months before we actually go in. That’s how we learn to trust the team.”*

Across these narratives, risk is not merely tolerated, but is actively managed or embedded into strategy. In a context where traditional indicators are often unavailable, conviction is built through relational depth, iterative engagement, and a forward-looking assessment of vision alignment.

This theme highlights a fundamental reality of sustainability venture capital: investing in the absence of guarantees. In doing so, sVCs decenter conventional pattern-matching in favor of building bespoke conviction around founders and ideas that challenge the status quo.

4.4.2 Scaling Vision and Execution

The second theme within Risk and Market Navigation captures how sVCs assess a startup's capacity to balance long-term sustainability ambition with near-term operational credibility. While the firms interviewed were notably open to early-stage ambiguity, their tolerance for risk did not extend to ventures lacking a credible trajectory toward scale. What they sought was not certainty, but coherence. In other words, a plan that could marry sustainability intent with pragmatic execution.

Startups whose value propositions required excessive upfront capital, or whose models faced structural barriers to scale, were often filtered out early, even if their mission aligned with the investor's thesis:

> *"We won't go into something that needs a hundred million to get moving, even if the impact is good." (Firm A)*

This orientation did not signal a rejection of boldness, but rather a demand for ambition grounded in executable steps. sVCs looked for founders capable of articulating a growth pathway that connected long-term vision with short-term traction. The framing was less about having all the answers, and more about demonstrating a capacity to evolve under pressure. As one investor explained:

> *"It's about who can tell a story that's ambitious but doable. We're looking for signals that they can actually build it." (Firm B)*

This theme points to a recurring tension in sustainability venture capital: the desire to support transformative ideas while requiring evidence, however early, of a builder's mindset. A compelling sustainability thesis alone was rarely enough. What tipped decisions was the presence of a "scaling narrative"; a storyline that offered both conviction and calibration.

These findings reaffirm that sVCs are not investing in static ideas, but rather they are investing in dynamic trajectories. Evaluation, in this context, is not simply about judging what a venture is, but who is behind it, how they intend to move forward, and whether they can translate high-level aspiration into systems-level change.

4.5 Sustainability Orientation & Impact Logic

This aggregate dimension explores how sustainability-oriented venture capital firms interpret, frame, and operationalize sustainability within their investment logic. While all participating firms position themselves as mission-driven or impact-oriented, the expression of that commitment varies considerably. Some emphasize efficiency and industrial optimization as the core of their sustainability thesis; others treat sustainability as a strategic lens for evaluating long-term business resilience. For a few, frameworks like the UN Sustainable Development Goals (SDGs) provide formal structure; others rely more on internal heuristics, founder intent, or contextual judgment to assess alignment and potential.

What unites these approaches is not uniformity, but flexibility. Sustainability is seldom used as a gatekeeping criterion. Instead, it is treated as a dynamic quality, something that can emerge through iteration, evolve with the business model, or be integrated into scaling strategies. Across firms, there is a clear shift away from rigid taxonomies and toward a logic that sees sustainability and venture capital not as oppositional forces, but as mutually reinforcing. The themes that follow illustrate how this integration unfolds in practice, shaping how sVCs evaluate, manage uncertainty, and chart paths toward scalable impact.

4.5.1 Efficiency as Impact

For some of the sVCs interviewed, sustainability does not require external validation, formal certification, or elaborate ESG metrics. Instead, it emerges as a byproduct of systems that function better. In this framing, impact is synonymous with operational intelligence: when companies deliver equal or improved outcomes using fewer resources, minimizing waste, or streamlining industrial processes, environmental alignment follows by design.

> *“The beauty is that efficiency usually means climate impact.” (Firm E)*

This shifts sustainability from ideological aspiration to technical consequence. Firms pointed to legacy sectors where even marginal improvements generate outsized benefits, economically and environmentally.

"Steel plants save $1 million/month and tons of emissions just by optimizing." (Firm E)

"When startups reduce waste in food supply chains, it's not just about cost-saving. It's about systemic efficiency." (Firm A)

The target, often, is not radical disruption but refined execution. Rather than betting on moonshot technologies, these investors favor reindustrialization: rebuilding what already exists, but smarter.

"We love reindustrialization! Just rebuild things that are done badly." (Firm E)

Others noted how entrenched inefficiencies, so normalized within traditional systems, only reveal their scale and absurdity when reframed through a startup lens.

"Many industries are dumb. Logistics loses 2% of packages daily in London." (Firm E)

"We're backing companies that take the excess and make it valuable again. That's climate tech too." (Firm C)

From this perspective, sustainability does not require elaborate narratives. It is embedded in design, in execution, and in the logic of doing things better.

"The climate pitch is often obvious: just not wasting energy and resources." (Firm E)

Collectively, these perspectives reframe impact not as a separate objective, but as a natural output of process improvement. For these sVCs, sustainability lives in margins, workflows, and overlooked inefficiencies. It's what happens when flawed systems are made whole, when footprint and performance move in the same direction.

4.5.2 Framing and Positioning of Sustainability

A recurring theme across interviews was the strategic reframing of sustainability language. While sVCs interviewed identify as mission-driven and aligned with sustainability principles, many expressed skepticism toward the current vocabulary surrounding the term. Investors described the language of sustainability as diluted, politicized, or too abstract to be analytically useful.

"Sustainability is often politicized and doesn't mean anything anymore." (Firm E)

Some described the terminology as conceptually crowded, making communication less effective rather than more precise.

"We have a bit of a language fruit salad with these labels." (Firm E)

Rather than dismiss sustainability outright, some firms preferred to rearticulate it, framing it not as a value statement, but as a question of long-term viability.

"Every company is a sustainability company, or not sustainable enough to last 100 years." (Firm E)

Others pushed back on the narrowness of mainstream definitions, which often reduce sustainability to environmental concerns alone.

"The word sustainable has been hijacked to mean only environmental sustainability." (Firm E)

Firm C emphasized the importance of making sustainability legible to founders, especially those unfamiliar with ESG or impact terminology. Their strategy involves translating impact into business logic and avoiding jargon that may alienate or confuse.

"We don't want to overload startups with too many terms… It's more about framing the impact they're already having in a way investors can understand." (Firm C)

Firm D echoed this view, highlighting the need to anchor sustainability in risk and opportunity, not ideals.

"When you talk too abstractly, it doesn't stick. We try to tie it to their actual risks or opportunities." (Firm D)

In some cases, firms reported omitting the term "sustainability" altogether, especially in branding or founder communications, preferring to express their priorities through actions and investment theses rather than labels.

"We avoid using words like sustainability or impact." (Firm E)

These perspectives reveal a desire to move beyond rhetorical signaling. By linking sustainability to business fundamentals the investors aim to make it actionable, not aspirational.

4.5.3 Impact Assessment Logic

In contrast to formal ESG screening or rigid sustainability thresholds, sVCs often apply a more flexible and contextual approach when assessing impact. Rather than demanding that sustainability be fully integrated from day one, some investors assess a startup's potential to evolve into a high-impact organization over time. This logic allows for greater inclusion of early-stage ventures that are mission-aligned but still developing their sustainability strategies.

As one investor put it:

> *"We don't reject startups just because they don't have sustainability integrated yet." (Firm D)*

Instead, sVCs often evaluate the trajectory of both commercial and sustainability performance in tandem:

> *"If both commercial and impact sides are weak, it's a no." (Firm D)*

But when both dimensions show strength or clear potential, investment decisions become far more compelling:

> *"If commercial is strong and impact is high, it's a great investment." (Firm D)*

This approach reflects a two-axis evaluation model, where both financial and sustainability dimensions are scored or weighted to guide decisions. It also highlights that some sVCs see their role as partners in helping ventures build sustainable models, rather than gatekeepers that demand readiness up front:

> *"We want to equip them before they grow too fast and make mistakes." (Firm D)*

This theme illustrates how impact assessment in sVCs often centers on potential and intent, not static compliance. Investors may accept short-term gaps if they are convinced that sustainability

will emerge as the venture matures, especially when founders are open to guidance and the commercial fundamentals are sound.

4.5.4 Sustainability Orientation

Among the firms interviewed, sustainability was not treated as a fixed requirement, but as a flexible and context-sensitive factor in venture evaluation. While all interviewees claimed to operate within the broader impact-oriented space, their orientation toward sustainability varied. Sometimes positioned as a core lens, sometimes as a supportive, secondary element. This variation reveals the plurality of meanings sustainability takes on, even within the same investment ecosystem.

At one end of the spectrum, some firms regarded sustainability as a welcome bonus, but not a primary filter. As one investor acknowledged:

> *"We wouldn't say we have many ideas that are purely sustainability ideas." (Firm A)*

Still, for these firms, sustainability could play a decisive role in close calls:

> *"It's rarely the core, but sometimes it tips the scale toward investing." (Firm A)*

Others noted that, given the nature of the innovations they support, positive environmental or social outcomes are often implicit:

> *"By nature, many of the patents have some kind of positive impact." (Firm B)*

At the other end, a smaller group of firms described sustainability as fully embedded into their investment logic. Rather than evaluating ventures on commercial terms first and sustainability second, they saw both as intertwined:

> *"Sustainability is not a separate track for us. It's the lens." (Firm C)*

> *"It's not separate… it's baked into everything." (Firm D)*

For these firms, sustainability was not about ESG checklists, but about building quality ventures that endure:

"We never called it ESG, but we always did it." (Firm D)

"It's the best way to build a long-lasting business." (Firm D)

One investor captured this ethos succinctly:

"It's common sense! Do you want to build a good business or not?" (Firm D)

These perspectives illustrate that sustainability orientation within sVCs is less about uniform criteria and more about strategic posture. Whether treated as a filter, a differentiator, or an embedded logic, the shared belief is that sustainability and sound venture building are not at odds, but increasingly, inseparable.

4.5.5 Use of SDGs

For some sustainability-oriented venture capital firms, the United Nations Sustainable Development Goals (SDGs) offer more than global aspirations. They serve as a practical tool for framing impact in early-stage investments. Rather than treating the SDGs as a compliance checklist, these firms use them as a shared language and a directional map. They see value in the structure the framework offers, especially when engaging founders still refining their mission.

One investor put this plainly:

"I define sustainability quite narrowly: using the UN SDGs." (Firm A)

This "narrowness" is not about limitation but clarity. For this firm, focus is not just preferred, but it's essential. As the same interviewee explained:

"Founders should focus on one or two specific goals and targets." (Firm A)

The idea is to avoid mission sprawl. Rather than trying to tackle all seventeen goals, founders are encouraged to align with a few they can influence meaningfully.

One firm explained that they help the founders define their sustainability goals by helping them map the SDGs:

"When I map SDGs, founders often say, 'Oh, I hadn't thought about that.'" (Firm D)

What matters is not the scale of rhetoric but the substance of outcomes:

> *"You don't have to change the world, just do something real." (Firm A)*

This suggests that the SDGs function as a middle path: ambitious enough to inspire, grounded enough to guide. For sVCs, they provide a way to channel founder energy into focused, measurable contributions, building legitimacy through alignment and realism through scope.

5. Analysis

5.1 Overview of Analytical Model

This chapter builds upon the empirical findings presented in Chapter 4 by shifting the lens from descriptive mapping to interpretive synthesis. While the previous chapter introduced the five aggregate dimensions and their second-order themes, the focus here is on how these elements interact, and what they collectively reveal about the decision-making logic of sustainability-oriented venture capital (sVC) firms. At the center of this inquiry is the thesis's guiding research question: How do sustainability-oriented venture capital firms evaluate early-stage sustainable startups?

Rather than treating each dimension in isolation, this chapter explores how they function as parts of an iterative and interdependent evaluation system, shaped by ambiguity, relational judgment, and evolving internal conviction. The analysis shows that early-stage evaluation in sVCs does not follow a linear or standardized checklist. It unfolds through a series of interpretive moves, informed by internal frameworks, founder signals, and the fluid positioning of sustainability within each firm's investment philosophy.

A central tension that emerges is the varying role sustainability plays in that process. While all participating firms align with the mission of supporting sustainable innovation, their methods of assessing sustainability differ considerably.

The use of the Gioia methodology provides structure for this analysis. By progressing from informant-centric first-order codes to abstracted themes and dimensions, the approach enabled a grounded yet conceptually layered understanding of how investment judgments are made. Although the dimensions are presented as discrete categories, in practice they intersect and reinforce one another.

To surface these interrelations, the chapter draws on theoretical perspectives introduced in Chapter 2. These lenses help position the empirical findings within the broader scholarly discourse on sustainable finance and entrepreneurial evaluation.

The chapter concludes by presenting a conceptual model that visualizes the relationships between the five dimensions. This model consolidates the study's core analytical insights and sets the foundation for the thesis's theoretical contribution, which is developed further in the concluding chapter.

5.2 Interrelation Between Aggregate Dimensions

5.2.1 Founder Evaluation & Investment Strategy

One of the insights to emerge is the centrality of founder evaluation in shaping early-stage investment decisions within sustainability-oriented venture capital (sVC). Across the interviews, assessments rarely hinged on market validation or product readiness. Instead, the founder, or more specifically their capacity to evolve, align with mission, and lead through uncertainty, became the focal point of conviction.

This emphasis on the founder is not new to venture capital (Gompers et al., 2021), but in sVC contexts, it takes on a distinct function. When sustainability ambitions run high and commercial proof points remain sparse, investors turn to the founder as the most reliable proxy for future viability. Qualities such as coachability, conviction, and adaptive learning, especially among technically oriented or first-time entrepreneurs, were described as decisive.

This logic reflects Hockerts and Wüstenhagen's (2010) model of hybrid entrepreneurship, where societal and financial goals must be held in balance. In this setting, founder evaluation moves beyond capacity and into compatibility, with the sustainability thesis, the venture's growth trajectory, and the organizational demands still to come.

This approach also serves as a mechanism for navigating information asymmetry (Akerlof, 1970). In the absence of conventional signals, sVCs rely on soft indicators such as integrity,

learning agility, and mission alignment to construct early conviction. Firms described investing "super early," using founder orientation as the scaffolding for belief.

In this way, founder evaluation is not one element among many; it is the interpretive lens through which the entire opportunity is viewed. Especially when data is limited, sVCs assess not just what the venture is, but who is leading it, and whether that individual can carry its purpose forward.

5.2.2 Sustainability Orientation and Investment Strategy

A key interrelation to emerge from the findings lies in how sustainability-oriented venture capital firms interpret sustainability and how that interpretation actively shapes their investment strategy. Investors emphasized that sustainability is not treated as a separate variable or an afterthought. It functions as a lens: one that informs, filters, and sometimes defines the very logic of why an opportunity is worth pursuing.

For some firms, sustainability was used more selectively as a differentiator or a tie-breaking factor when financial considerations alone did not yield clarity. This reflects what Bocken (2015) calls a "hybrid investment logic", a blend of financial and impact thinking that resists binary framing. Unlike VCs focused narrowly on growth potential and exit timing, some sustainability-oriented investors extend their lens: Is this venture aligned with long-term systems change? Does it build resilience, or merely scale?

Some firms expressed this logic through language that suggested deep operational integration. Sustainability, as they put it, was "baked into everything" or simply "the best way to build a lasting business." Here, impact is not a compliance box. It is a design feature, and a signal of long-term strength. This echoes Elkington's (2018) Triple Bottom Line, not as philosophy, but as investment infrastructure.

Others used sustainability as a framing tool, particularly through the UN Sustainable Development Goals (SDGs). These firms weren't using SDGs to check boxes; they used them to clarify focus, guide communication, and ground early-stage evaluation in a shared vocabulary. This aligns with Hand and Gilbert's (2023) view of the SDGs as "directional" tools.

Importantly, the framing of sustainability varied, sometimes positioned as reindustrialization and efficiency (Firm E), sometimes as mission-driven transformation (Firm D). But both paths led to capital deployment. In this way, sustainability served both as a compass and a justification.

This dynamic also offered a way to reduce ambiguity. In contexts of informational asymmetry and valuation uncertainty, which are common barriers for sustainable startups (Akerlof, 1970; Berger & Udell, 1998), a credible sustainability thesis acted as a proxy for strategic coherence.

In short, sustainability is not applied uniformly across sustainability-oriented venture capital firms. For some, it operates more selectively, surfacing as a secondary consideration or a narrative layer that complements commercial logic. What unites the varied approaches is a shared recognition that in early-stage contexts, where conventional signals are scarce or ambiguous, sustainability can offer a useful frame for interpreting value. It may not define every investment thesis, but it increasingly informs how firms assess durability, integrity, and alignment.

5.2.3 Decision Infrastructure and Impact Logic

Another central relationship emerging from the data is the link between how sustainability-oriented VCs structure their internal decision-making and how they define and apply impact logic in practice. While a firm's orientation toward sustainability may shape its broader investment thesis, it is through operational systems such as diligence procedures, evaluation tools, and internal learning routines, that abstract values are translated into actual decisions.

As seen in Chapter 4, firms incorporate sustainability into their due diligence processes by aligning founder claims with SDG targets, assessing governance strength, or identifying risks of greenwashing. Others take a more fluid approach, relying on internal heuristics shaped by prior experience, team learning, and evolving expectations from limited partners. What emerges is not a uniform standard, but an adaptive infrastructure that is rigorous enough to support accountability, flexible enough to navigate early-stage ambiguity.

This dynamic reinforces Bocken's (2015) view of sustainable VC as a dual-mandate field, requiring both financial discipline and mission alignment. But instead of leaning on static ESG

checklists, these firms build context-specific systems tailored to each deal and stage. These frameworks allow for qualitative impact evaluation, especially when financial or operational data is limited or non-existent.

From a theoretical perspective, this aligns with institutional theory (DiMaggio & Powell, 1983), which suggests that organizational behavior is shaped by formal expectations, peer influence, and broader field-level norms. Investors described how rising pressure from LPs, along with new frameworks such as the EU's SFDR, led their firms to formalize ESG processes, even when not technically required. Tools like SDG mapping or internal ESG policies reflect how sVCs are adapting to these pressures while preserving decision-making autonomy.

This interrelation also addresses the persistent challenge of information asymmetry (Akerlof, 1970). In early-stage sustainability startups where validation is scarce and claims may be inflated, sVCs use both technical tools and interpretive filters to assess founder credibility. These range from external audits and SDG alignment checks to softer evaluations of intent, awareness, and the founder's capacity to engage in systems thinking.

Importantly, these practices are not only about startup screening; they also serve an internal learning function. As noted by Firm D, sustainability integration is as much about building internal team capability as it is about selecting the right deals. This speaks to the broader organizational learning required in hybrid ventures (Hockerts & Wüstenhagen, 2010), where values must be operationalized across teams, not just stated in thesis documents.

Post-investment, this logic continues. Firms emphasized active support in helping founders articulate their impact models more clearly over time. In all cases, sustainability was not seen as a fixed threshold to be met, but as something to be developed, requiring decision infrastructure that evolves with the venture.

These findings suggest that sustainability-oriented VCs do not treat impact as an external standard to be measured, but rather as a dynamic process to be shaped. Internal infrastructure enables that process by translating vision into evaluation, and evaluation into practice. In doing so, it makes sustainability evaluable in settings where conventional metrics fall short.

5.2.4 Risk Navigation and the Role of Vision

Early-stage investing is inherently uncertain. In the sustainability-oriented venture capital (sVC) context, that uncertainty is amplified, not just by a lack of financial metrics, but by underdeveloped markets, ambiguous impact definitions, and limited historical data. What sets sVCs apart is not their ability to avoid these risks, but how they choose to interpret and navigate them.

As the findings in Chapter 4 revealed, sVCs frequently enter before there is traction, product–market fit, or even a fully defined market. Investors described this posture as a feature, not a flaw. Rather than requiring evidence, they look for what one interviewee called “visionary coherence”: a combination of clarity, intent, and adaptability under ambiguity. Here, vision does not replace diligence; it becomes diligence. In this way, founder narrative and long-term orientation function as substitutes for missing data.

This approach reframes the challenge of information asymmetry (Akerlof, 1970). Where standard theory might predict inaction, sVCs instead build conviction relationally. Firms described following startups for months before committing capital, observing, building trust, and gauging alignment. This slow entry becomes a tool to manage asymmetry through interaction, not analytics.

It also reflects Berger and Udell’s (1998) Financial Growth Cycle, which describes the challenges of raising capital in the early stages. But unlike conventional VCs, sVCs accept these limitations and structure around them. They are not looking for polish; they are looking for trajectory. The absence of traditional proof points is not disqualifying if the founder can articulate a credible, scalable path that embeds impact from the start.

Scalability, however, must be realistic. Investors expressed skepticism toward ventures that required heavy infrastructure or outsized capital to become viable. As one interviewee noted, ambition was not the problem, but execution logic was. This echoes Gompers’ (1995) model of staged financing, in which capital is deployed in tranches. In sVC, those tranches often hinge not only on business metrics, but on narrative maturity, governance readiness, and impact clarity.

Importantly, risk navigation does not end at the term sheet. As Chapter 4 showed, sVCs remain actively involved post-investment, refining messaging, pacing growth, and shaping organizational development. Risk is then co-managed. This suggests a deeper interdependency between investment strategy and operational scaffolding.

Finally, founder vision plays a central role in how risk is not only accepted but reinterpreted. When proof is lacking, conviction is built through the founder's ability to make ambiguity actionable. Vision becomes the vessel through which uncertainty is translated into momentum.

In sum, sVCs do not eliminate early-stage risk; they contextualize it. Through founder engagement, staged involvement, and narrative judgment, they create conditions where risk is not minimized but navigated, with vision acting as both compass and anchor.

5.3 Final Model and Synthesis

The findings and analysis presented in this chapter reveal a distinct investment logic underpinning decision-making in sustainability-oriented venture capital (sVC) firms. Faced with early-stage ambiguity, they construct investment rationales through the interplay of four interdependent dimensions: founder evaluation, sustainability orientation, decision infrastructure, and risk navigation.

These dimensions do not function independently. Each informs, anchors, or moderates the others:

- Founder evaluation acts as a proxy for future outcomes, especially in the absence of clear commercial data. When performance cannot yet be measured, potential is read through the founder's intent, adaptability, and capacity to learn.
- Sustainability orientation may not determine initial entry, but it often shapes how alignment is judged and how success is redefined over time.
- Decision infrastructure transforms values into tools, governing how sustainability is assessed, discussed, and operationalized. Rather than enforcing rigid standards, it enables flexible judgment under uncertainty.

- Risk navigation, finally, rests on the ability to delay validation, placing trust in long-term direction over short-term indicators. Vision becomes a substitute for proof.

What emerges is not a static model, but an adaptive system. Evaluation is recursive: founders evolve, ideas pivot, and investment theses shift in response. A founder's early promise may open the door, but it is through governance, mentorship, and pattern recognition (Section 4.2.2) that conviction is sustained. Likewise, sustainability intent may begin as a narrative, but is sharpened over time through structured reflection and iterative assessment.

This reinforces the idea that sVC investment logic is not about meeting predefined thresholds; it is about aligning trajectories. Startups are not expected to be finished products. They are expected to grow in the right direction. In this sense, what counts as "investable" is not defined by static benchmarks, but by strategic and ethical coherence with the fund's vision.

Crucially, this flexibility is not arbitrary. It is grounded in what might be called institutionalized intuition: a combination of relational trust, evolving frameworks, and deep belief in the transformative potential of sustainable innovation. sVCs do not simply bet on companies, they bet on what those companies could become, if supported by the right capital, guidance, and time.

The conceptual model in Figure 5.1 illustrates this logic as a dynamic, iterative system that centers evaluation not around static criteria, but around relational, directional, and impact-aligned reasoning.

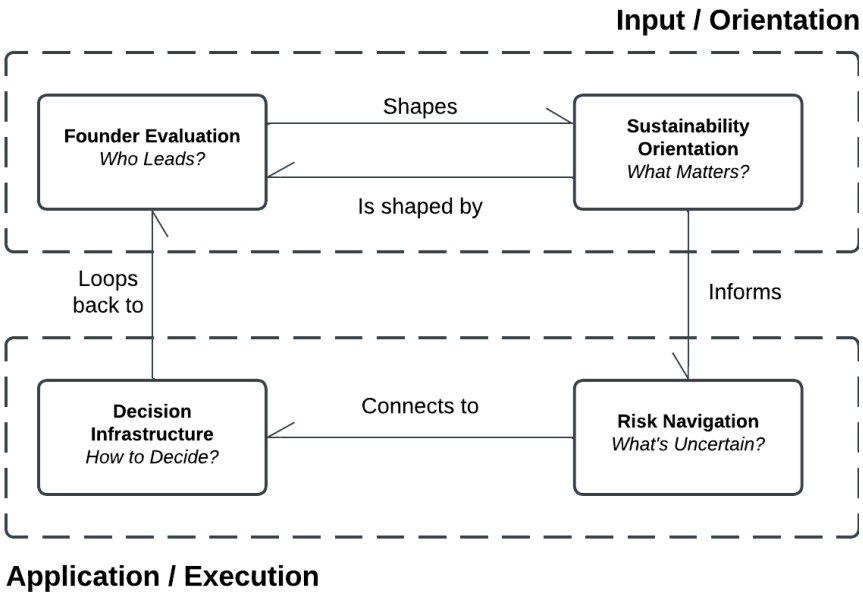

Figure 3. Dynamic Evaluation Model of Sustainability-Oriented Venture Capital (sVC)

Together, these elements constitute a distinct model of early-stage evaluation. One that privileges conviction over convention, orientation over validation, and future potential over present proof. It is within this architecture that sVCs choose where to place their trust, their capital, and ultimately, their belief in change.

5.4 Summary of Analysis

This chapter has interpreted the findings of the study through a theoretical lens, offering a deeper understanding of how sustainability-oriented venture capital (sVC) firms evaluate early-stage startups. Building on the Gioia-informed dimensions presented in Chapter 4, the analysis uncovered a distinct, relational investment logic shaped by four interdependent forces: founder evaluation, sustainability orientation, decision infrastructure, and risk navigation.

Rather than relying on standardized metrics or rigid ESG frameworks, sVCs construct investability through the dynamic interplay of these elements. Founders are not only judged for competence but for alignment with long-term impact trajectories. Sustainability is treated less as

a gatekeeper and more as a compass helping direct decisions, shape priorities, and define what progress looks like. Decision infrastructure, meanwhile, turns values into action, making impact evaluable even when indicators are incomplete. Risk is not simply minimized; it is reframed and navigated through trust, vision, and ongoing involvement.

Throughout the chapter, each dimension was explored in relation to the others. Founder profiles stand in for future impact when traditional validation is unavailable. Sustainability orientation informs strategy and investor posture. Internal structures enable accountability, learning, and consistency. Risk navigation supports conviction at stages where certainty is unavailable. The model that emerges is not a rejection of venture capital logic; it is a reconfiguration of it: one that places alignment, purpose, and belief at the center of early-stage evaluation.

Together, these insights respond directly to the guiding research question: How do sustainability-oriented venture capital firms evaluate early-stage sustainable startups? The answer is not found in a single framework, but in a system principled yet adaptive, strategic yet human, that seeks to reconcile ambition with ambiguity, and sustainability with scale.

The next chapter extends this analysis, reflecting on the implications of these findings for theory, entrepreneurial practice, and future research on the evolving role of capital in sustainability transitions.

6. Conclusion

This thesis set out to explore the question: How do sustainability-oriented venture capital firms (sVCs) evaluate early-stage sustainable startups?

Drawing on interviews with Swedish sVC firms and analyzed through the Gioia methodology, the study identified four interconnected dimensions that inform this evaluation logic: Founder Evaluation and Organizational Fit, Investment Strategy and Philosophy, Operational Support and Decision Infrastructure, and Sustainability Orientation and Impact Logic. These dimensions function less as fixed categories than as overlapping lenses through which investment decisions are interpreted and refined under uncertainty.

The findings suggest that sustainability is not applied as a rigid filter. Its role varies across firms; some embed it deeply as a source of operational advantage and long-term resilience, while others treat it more flexibly, as a reputational signal, a marker of founder intent, or a broader ethical orientation. In most cases, structured ESG frameworks play a limited role. Instead, investors rely on founder alignment, organizational potential, and internal heuristics developed through experience.

Rather than demanding that sustainability be fully formed at the point of entry, sVCs focus on whether it can grow in step with the venture. Evaluation centers on narrative coherence, adaptability, and strategic fit, building conviction through interaction rather than metrics.

This approach challenges the assumption that sustainability must be fully measurable or externally verified from the outset. For sVCs, sustainability operates as a lens for identifying promising directions, not as a checklist to be completed. Evaluation becomes a process of aligning vision, momentum, and values over time; an evolving logic shaped by belief as much as by data.

6.1 Contributions

This study contributes to the field of sustainable and impact-oriented venture capital by offering a grounded view of how sVCs evaluate early-stage sustainable startups in contexts defined by ambiguity, limited validation, and evolving expectations.

6.1.1 Advancing the Understanding of Evaluation Logic in Early-Stage Impact Investing

This study offers an evidence-based view of how sVCs construct investability in settings where market validation, ESG ratings, or standardized metrics are limited or absent. While much of the existing literature frames sustainable investing as metrics-heavy, the findings here suggest a different approach: one where relational proxies such as founder intent, narrative clarity, and alignment with long-term purpose, often stand in for formal data. Rather than seeing ESG as a prerequisite, sVCs treat sustainability as something that emerges through engagement, not something that must be proven at entry.

This perspective extends prior work on hybrid investment logic (Bocken et al., 2014), showing how fluidity, judgment, and narrative alignment can guide investment decisions when evidence is still unfolding.

6.1.2 Reframing the Role of Sustainability as a Flexible Input, Not a Gatekeeper

While sustainability is often portrayed as a compliance tool applied through ESG screens, SDG checklists, or taxonomy alignment, the firms interviewed in this study described it differently. For some, it was a strategic lens; for others, a narrative resource or directional guide. Only one treated it as a formal business driver with structured KPIs. Others approached it more intuitively, often shaped by founder conviction or stakeholder resonance. A few even voiced concern about the term's overuse or loss of meaning.

This challenges the notion that sustainability must be defined, measurable, and explicit to be investable. What mattered to these sVCs was not proof of current impact, but the credibility of future potential. This repositions sustainability not as a binary threshold, but as a moving frame, one that evolves alongside the founder, the company, and the market.

6.1.3 Highlighting Founder Evaluation as a Core Proxy for Impact and Risk

In the absence of traditional data, sVCs often turn to the founder, not just as an operator, but as the clearest signal of mission fidelity, resilience, and capacity to grow into complexity. Traits like humility, adaptability, and values alignment became key determinants of investment decisions. This contrasts with product- or policy-based models of sustainability evaluation, where emphasis is placed on measurable outputs.

Here, people were the metric. When environmental or financial signals were weak, sVCs read the founder's behavior, intent, and trajectory as the clearest available indicators of future value. This expands the insights of Gompers et al. (2021), underscoring that in sustainability investing, founder character is often the best proxy for long-term alignment.

6.1.4 Situating Evaluation within Institutional and Behavioral Contexts

The findings also show that sVC decision-making is shaped not only by firm-level philosophy, but by broader institutional and behavioral forces. Firms described adapting their frameworks in response to Limited Partner's expectations, peer practices, or internal learning. ESG policies were updated not because of regulatory mandates, but because norms were shifting, and being shaped from within as well as from above.

This reinforces the idea that sustainable investment logic is socially constructed, not technically prescribed. It also supports a more behavioral reading of early-stage finance: one where heuristics, relational learning, and cognitive shortcuts are necessary tools for navigating ambiguity. In mapping these dynamics, the study contributes to a more grounded understanding of how sustainability is absorbed, practiced, and institutionalized across the early-stage investment landscape.

6.2 Limitations

This study offers a close-up view of how sustainability-oriented venture capital (sVC) firms assess early-stage sustainability-oriented startups. Like all qualitative research, its design comes with limitations that shape how the findings should be read and where they apply.

First, the sample includes five Swedish sVC firms. While relatively small, each participant held a senior investment role, ensuring that the insights reflect decisions made at the strategic core of the firm. A broader sample might have added more variation, but the interviews yielded depth over breadth, which fits the interpretive goals of the study.

Second, most firms shared overlapping themes, particularly around founder evaluation, flexibility, and the use of informal sustainability heuristics. Still, one participant offered a notably different perspective on the role of sustainability in venture selection. Rather than weakening the findings, this divergence sharpened the analysis, highlighting that even within a niche like sVC, orientations and practices vary. That said, the core dynamics remained remarkably consistent across cases.

Finally, applying the Gioia methodology required interpretation at several points, from naming second-order themes to clustering dimensions. While care was taken to remain close to participant language and ensure coherence, the analysis reflects a particular lens, shaped by the researcher's positionality and reading of the data.

Together, these limitations define the boundaries of the research without undermining its contribution. They also point to meaningful opportunities for future work to test, adapt, or extend the model across different geographies, sectors, and types of sustainability-oriented capital.

6.3 Future Research

This study opens several paths for future inquiry into sustainability-oriented venture capital (sVC) and early-stage evaluation practices.

First, future research could broaden the geographic and institutional lens. While this thesis focused on Swedish sVC firms, sustainability investing unfolds differently across cultural, regulatory, and market contexts. Comparative studies including perspectives from North America, Asia, Latin America, or emerging economies could surface how local conditions influence the interpretation and prioritization of sustainability in venture decision-making.

Second, the temporal scope of evaluation deserves further attention. This research centers on the earliest stages. Yet, little is known about how sustainability logic evolves as ventures mature, scale, or approach exit. Longitudinal studies that follow investor-startup relationships over time could shed light on how early impact narratives are maintained, adapted, or abandoned, and how sustainability is tracked or renegotiated at later stages.

Third, bringing founder perspectives into the conversation would enrich the understanding of how sustainability is co-constructed. This study examined how investors interpret founder intent; future work could examine how founders navigate, perform, or challenge investor expectations. Such inquiry could also clarify how identity, storytelling, and perceived authenticity shape access to capital in mission-driven ecosystems.

Finally, the performance implications of sustainability orientation remain underexplored. Does early-stage sustainability framing correlate with long-term resilience, capital efficiency, or founder retention? Are ventures that align with sustainability goals more likely to weather market shocks or attract follow-on funding? Mixed-method or quantitative studies could test these hypotheses and extend the practical relevance of the model proposed here.

These directions offer opportunities to refine and challenge the conceptual framework developed in this thesis, while deepening the field's understanding of how capital, values, and entrepreneurial action intersect in the pursuit of sustainable innovation.

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Appendix A - Complete Gioia data structure table

Aggregate Dimension	Second Order Theme	First Order Codes	sVC Firm
Founder Evaluation and Organizational Fit	Founder Capabilities and Challenges	Our founders are often academics who can only give 5-10% of their time.	Firm A
		They love research too much to drive a company full-time.	Firm A
		What we need is someone coachable who can become a scientific advisor.	Firm A
		It's frustrating—after three years of research, they suddenly want to pivot.	Firm A
		Academics keep pushing for perfect research instead of commercialization.	Firm A
		Most researchers think their invention is the best in the universe.	Firm B
		We don't want to negotiate each valuation—we use a structured model.	Firm B
		Many researchers publish before protecting IP—that's a problem.	Firm B
		If they publish before patenting, we can't protect the invention.	Firm B
	Founder Evaluation	Early-stage messiness is tolerated if mission alignment is strong	Firm C
		The best ventures are impact-native and mission-locked	Firm C
		Founders need systems thinking and policy awareness	Firm C
		These founders build movements, not just startups	Firm C
		We like founders who are open and aware.	Firm D
		Red flags are when they don't think about risks.	Firm D
		We assess founder awareness, not just what's on paper.	Firm D
		A mission is always a plus—it's more than just what your product does.	Firm D
		We evaluate the person: are they running with mission, or just chasing cash?	Firm E
		Some people are five out of five ambitious, some are ones pretending to be fives	Firm E
		Our biggest job is to make sure we don't miss the crazy genius	Firm E
		If they're a three, we don't waste time — we move on immediately	Firm E
		Founders settle down — get married, have kids, they move from a 5 to a 3	Firm E
Investment Strategy and Philosophy	Financial Expectations	We're not great at valuation—we just want enough shares to be meaningfully involved.	Firm A
		Sometimes we invest less but take sweat equity in return.	Firm A
		We avoid overly high ownership so as not to hurt future rounds.	Firm A

		We smooth equity over time—take more now, take less later.	Firm A
		We'd rather stay in if we're adding value than exit for financial gain.	Firm A
		We don't use ROI as a KPI for our initial decisions.	Firm B
		We are an evergreen fund—publicly owned and not dividend-driven.	Firm B
		We need to sell shares later to sustain our operations.	Firm B
		Our carry is tied to impact performance — 20% linked to KPIs	Firm C
		Impact is not a penalty — we price companies competitively	Firm C
		We value startups based on what they can become	Firm C
		Valuation doesn't matter much — what matters is the size of the potential exit	Firm E
		We're worried about missing the billion-dollar company, not about losing money	Firm E
		50% of our portfolio will go to dust — that's expected	Firm E
		We don't believe in perfect techno-solutions — we believe in people with obsession	Firm E
		Technical superiority means nothing if the people aren't right	Firm E
	Investment Logic	We make decisions very much on a case-by-case basis.	Firm A
		We try to invest because it's a good business idea, and then try to make it as sustainable as possible.	Firm A
		We're supposed to invest where no one else will invest.	Firm A
		Our obligation is not to maximize return, but to help ideas get going.	Firm A
		We invest in patents basically.	Firm B
		We start a company around it and the researchers… continue to do research.	Firm B
		We invest in ideas that are 5 to 7 years from market.	Firm B
		It's hard to evaluate the business case because it's so uncertain.	Firm B
		We build the team, do the financial planning, and handle the company setup.	Firm B
		We look at whether the idea has big enough market potential.	Firm B
		It needs to be a scalable business—we don't invest in consultancy models.	Firm B
		There needs to be IP protection—patent or secret sauce.	Firm B
		We look at whether the researchers are willing to accept more future funding.	Firm B
		We start building the team—CEO, CTO—ourselves.	Firm B
		We're looking for venture-scale returns and venture-scale impact	Firm C

		1:1 relationship between impact and return	Firm C
		Impact needs to be core to the business model	Firm C
		As the company grows, its positive impact must grow alongside it	Firm C
		Net positive contribution — not creating new problems as it scales	Firm C
		Turned down promising deals because the risks outweighed the upside	Firm C
		Impact can tilt the balance — especially if deeply tied to revenue	Firm C
		We don't compromise on core venture fundamentals	Firm C
		We want to invest in people who are running in the right direction	Firm E
		They'll step on bugs, but fewer than the incumbents	Firm E
		We invest in people, not just business models	Firm E
		Direction times people — that's our formula	Firm E
		We don't care if they make mistakes, as long as they are good people trying to do the right thing	Firm E
		Startups are running full speed — they can't sweep bugs away first like Buddhist monks	Firm E
	Market and Capital Fit	We consider if it's reasonable for us to be part of the journey.	Firm B
		Some projects need too much capital for us to be the right partner.	Firm B
		We always look at how much money is needed to reach the market.	Firm B
		If M&A values in that field are too low, we don't invest.	Firm B
		We help researchers see that their journey can be divided into smaller steps.	Firm B
Operational Support and Decision Infrastructure	Due Diligence Practice	People write such nonsense about sustainability—it destroys their credibility.	Firm A
		Startups claim they'll contribute to every SDG—no, you're not.	Firm A
		We try to match company claims to a specific SDG goal and target.	Firm A
		We ignore sustainability claims unless they are specific and plausible.	Firm A
		We brought in consultants to help assess and document sustainability profiles.	Firm A
		We apply a Do No Significant Harm lens	Firm C
		Governance is an essential filter	Firm C
		Sustainability goals and ESG indicators are real decision drivers	Firm C
		Strong governance potential is a green light	Firm C
		Greenwashing risk is a real red flag	Firm C
		The market has changed—LPs expect more than just financial diligence now.	Firm D

		We've evolved our policies, even though we're not technically an EU SFDR fund.	Firm D
		We had to write down what we do—responsible investment policy and all.	Firm D
		Startups change a lot early on—that's why we do ongoing assessments.	Firm D
		Governance is probably the first thing we look at.	Firm D
		We check if the founders are aware of the impact they might have.	Firm D
		The due diligence process includes how they think about building their org chart.	Firm D
		We spend time assessing what kind of people they want to hire.	Firm D
		I do my own sustainability assessment—impact, adverse risks, ESG.	Firm D
	Internal Learning and Adaptation	Our investment team is learning from me what to look at.	Firm D
		We try to influence our investment team by integrating sustainability early.	Firm D
		It's easier when sustainability connects clearly to the commercial side.	Firm D
		When I map SDGs, founders often say, 'Oh, I hadn't thought about that.'	Firm D
	VC Involvement and Support	We're always on the board—usually the chairperson.	Firm A
		We basically do everything except the science.	Firm A
		We structure the deals, help with pitching, write grants, bring in consultants.	Firm A
		Other investors often come in because we're involved.	Firm A
		We build impact accountability into shareholder agreements	Firm C
		We structure for accountability, not control	Firm C
		We're usually on the board, so we have oversight.	Firm D
		We get more operational if we see a red flag.	Firm D
		We've built our platform support around talent—that's the common need.	Firm D
		I try not to make them do things—but I help them see why they'd want to.	Firm D
		We do a portfolio-wide assessment once a year and give feedback to founders.	Firm D
		I use examples from other startups to inspire our founders.	Firm D
		Peer-to-peer storytelling works better than top-down instruction.	Firm D
		I'm kind of their in-house sustainability advisor if they want me to be.	Firm D
		The more I work with them, the more they learn—and so do I.	Firm D
Risk and Market Navigation	Risk Handling and Experimentation	We sometimes invest with no evidence that the idea will work.	Firm A
		We go in super early—even before there's proof of concept.	Firm A

		If the business is good, we'll work on the sustainability later.	Firm A
		We try to de-risk for angels by matching their investments.	Firm A
		We follow projects for 6 to 12 months before we invest.	Firm B
		We start working with the project even before investment.	Firm B
		We use industry experts to validate sustainability or market claims.	Firm B
		Early-stage chaos must be reconciled with late-stage compliance	Firm C
	Scaling Vision and Execution	We want people who will rewrite the operating system of the world	Firm E
		We cold start 10 of our companies	Firm E
		We are the best absent-minded intern you've ever had — always there on WhatsApp	Firm E
		We don't just invest, we find co-founders, fire VPs, recruit new ones	Firm E
		We invest super early — kindergarten level, we want Nobel prize winners, not math teachers	Firm E
Sustainability Orientation & Impact Logic	Efficiancy as Impact	The beauty is that efficiency usually means climate impact	Firm E
		Steel plants save $1 million/month and tons of emissions just by optimizing	Firm E
		We love reindustrialization — just rebuild things that are done badly	Firm E
		Many industries are dumb — logistics loses 2% of packages daily in London	Firm E
		Climate pitch is often obvious — just not wasting energy and resources	Firm E
		"The beauty is that efficiency usually means climate impact."	Firm E
		"Steel plants save $1 million/month and tons of emissions just by optimizing."	Firm E
		"When startups can reduce waste in food supply chains, it's not just about cost-saving. It's about systemic efficiency."	Firm A
		"We love reindustrialization! Just rebuild things that are done badly."	Firm E
		"Many industries are dumb. Logistics loses 2% of packages daily in London."	Firm E
		"We're backing companies that take the excess and make it valuable again. That's climate tech too."	Firm C
		"The climate pitch is often obvious: just not wasting energy and resources."	Firm E
	Framing and Positioning of Sustainability	We have a bit of a language fruit salad with these labels	Firm E
		We avoid using words like sustainability or impact	Firm E
		Sustainability is often politicized and doesn't mean anything anymore	Firm E
		Every company is a sustainability company — or not sustainable enough to last 100 years	Firm E

		The word sustainable has been hijacked to mean only environmental sustainability	Firm E
		“Sustainability is often politicized and doesn’t mean anything anymore.”	Firm E
		“We have a bit of a language fruit salad with these labels.”	Firm E
		“Every company is a sustainability company, or not sustainable enough to last 100 years.”	Firm E
		“The word sustainable has been hijacked to mean only environmental sustainability.”	Firm E
		“We don’t want to overload startups with too many terms… It’s more about framing the impact they’re already having in a way investors can understand.”	Firm C
		“When you talk too abstractly, it doesn’t stick. We try to tie it to their actual risks or opportunities.”	Firm D
	Impact Assesment Logic	We don’t reject startups just because they don’t have sustainability integrated yet.	Firm D
		If both commercial and impact sides are weak—it’s a no.	Firm D
		If commercial is strong and impact is high—it’s a great investment.	Firm D
		We want to equip them before they grow too fast and make mistakes.	Firm D
	Sustainability Orientation	Sustainability is more of a nice-to-have.	Firm A
		We wouldn’t say we have many ideas that are purely sustainability ideas.	Firm A
		It’s rarely the core, but sometimes it tips the scale toward investing.	Firm A
		We’ve invested in salt-tolerant crops—wasn’t a big money-maker, but we did it because of the ‘doing good’ profile.	Firm A
		We do not value the sustainability aspect as a major thing.	Firm B
		Research often comes from trying to solve real-world problems.	Firm B
		By nature, many of the patents have some kind of positive impact.	Firm B
		Sustainability is a plus, especially for fundraising.	Firm B
		Efficiency creates both economic and environmental value.	Firm B
		We’ve found that impact investors still want the same ROI.	Firm B
		Sustainability is not a separate track for us — it’s the lens	Firm C
		We’ve always integrated it as part of building a responsible business.	Firm D
		It’s not separate—it’s baked into everything.	Firm D
		We never called it ESG—but we always did it.	Firm D
		Sustainability is not just a tick box.	Firm D

		It's the best way to build a long-lasting business.	Firm D
		It's common sense—do you want to build a good business or not?	Firm D
	Use of SDGs	I define sustainability quite narrowly—using the UN SDGs.	Firm A
		Founders should focus on one or two specific goals and targets.	Firm A
		Millions of companies making small contributions—that's how we solve things.	Firm A
		If you eliminate harm others are doing—that's also impact.	Firm A
		You don't have to change the world—just do something real.	Firm A

Appendix B - Interview Questions

The following interview questions were used in the semi-structured interviews conducted for this study. They are grouped by thematic category as outlined in Section 3.2.1 of the Methodology chapter.

Investment Criteria & Sustainability Metrics

1. What core criteria guide your evaluation of early-stage ventures, and how do sustainability considerations fit into that process?
2. Can you give examples of how specific sustainability goals or ESG indicators influence your decision to proceed or decline a deal?
3. To what extent do sustainability objectives compensate for or outweigh traditional risk factors like limited revenue or team inexperience?

Risk Appetite and Investment Stage Positioning

1. How do your risk and return expectations differ when investing in sustainability-driven startups versus more conventional ones?
2. At what stage does your firm typically engage, and what makes a sustainability-oriented venture ready for your involvement?
3. How do you approach uncertainty or ‘unproven’ sustainability claims during the risk assessment phase?

Valuation and Deal Structuring

1. How do you value a startup with strong sustainability goals but lacking traditional financial traction?
2. Do you apply different valuation models or assumptions when sustainability is part of the value proposition?
3. How do sustainability metrics or targets factor into term sheet negotiations?

4. Do impact goals influence how much equity you request or the structure of follow-on investment rounds?

Constraints, Challenges, and Success Factors

1. What are the main obstacles to incorporating sustainability into your due diligence process?
2. What kinds of ventures tend to perform best under your investment model—and what distinguishes them at the evaluation stage?
3. Do you believe that sustainability-aligned ventures require different types of founder skills or business models to succeed?

Appendix C - Use of AI Tools

This appendix outlines how AI-based tools were used in the development of this master's thesis.

1. Tools Employed

- Grammarly (language editing)
- Riverside (interview transcription)

2. Scope and Purpose of Use

Grammarly was used during the writing process to support clarity, grammar, and punctuation. Its role was strictly editorial providing stylistic refinements without influencing the substance, structure, or interpretation of the research.

Riverside was used as an automated transcription tool to convert interview recordings into draft transcripts. All transcripts were subsequently reviewed, corrected, and validated manually to ensure accuracy. The coding, theme development, and analysis of the data were carried out independently by the authors, following the principles of the Gioia Methodology.

At no point were AI tools used to generate original content, create theoretical arguments, conduct data analysis, or write any section of the findings or conclusions. All conceptual development, analytical work, and writing remain the product of the authors' own judgment, experience, and academic integrity.