Hybrid Organizing under Institutional Complexity: Insights from Impact Investing and Social Entrepreneurship

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St.Gallen, May 19, 2015

The President

Prof. Dr. Thomas Bieger
Preface

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Thank you.

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Zurich, January 2015
Christoph Birkholz
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List of abbreviations

AG  Aktiengesellschaft
AVPN  Asian Venture Philanthropy Network
BACO  Best Alternative Charitable Option
cf.  compare
bn  billion
BoP  Base of the Pyramid
CD  Compact Disc
CEO  Chief Executive Officer
CFO  Chief Financial Officer
CSR  Corporate Social Responsibility
DVD  Digital Versatile Disc
EBITDA  Earnings Before Interest, Taxes, Depreciation and Amortization
e.g.  example given
ESCO  Energy Service or Savings Companies
ESG  Environmental, Social and Governance (considerations in investing)
EVPA  European Venture Philanthropy Association
f.  and the following page
G8  The Group of Eight
GBP  pound sterling
GIIN  Global Impact Investing Network
HR  Human Resources
IA50  Impact Assets 50
IC  Investment Committee
i.e.  id est (/ that is)
incl.  including
int.  interview
IRR  Internal Rate of Return
IT  Information Technology
KPI  Key Performance Indicator
LED  Light-Emitting Diode
Ltd.  Limited
MFI  Micro Finance Institution
NGO  Non-Governmental Organization
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>PhD</td>
<td>Doctor of Philosophy</td>
</tr>
<tr>
<td>PR</td>
<td>Preliminary Review</td>
</tr>
<tr>
<td>Prof.</td>
<td>Professor</td>
</tr>
<tr>
<td>RO</td>
<td>Reverse Osmosis</td>
</tr>
<tr>
<td>SAP</td>
<td>Strategy-As-Practice</td>
</tr>
<tr>
<td>SIF</td>
<td>Social Investments Fund</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>U.S.</td>
<td>United States (of America)</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>USD</td>
<td>U.S. dollar</td>
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<tr>
<td>VC</td>
<td>Venture Capital</td>
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<tr>
<td>VP</td>
<td>Venture Philanthropy</td>
</tr>
<tr>
<td>WISE</td>
<td>Work Integration Social Enterprise</td>
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</table>
Abstract

Hybrid organizations are exposed to different, sometimes competing institutional logics prescribing legitimate behavior. In cases of competing logics, complying with the prescriptions of one logic may violate the other. These contexts of institutional complexity are increasingly prevalent in our modern economy. For example, business leaders not only need to demonstrate commercial success but also comply with highly institutionalized social and environmental claims. Organizations thus need to cope with diverging institutional logics from different institutionalized fields such as commerce, social welfare, public administration and development cooperation. Many hybrid organizations struggle to gain legitimacy or prevent internal conflict, while others benefit from institutional complexity generating innovation and accessing resources from multiple constituencies. This dissertation aims to better understand how hybrids are organized, i.e. how do hybrid organizations structure themselves, how do they make strategy, and how do they access resources.

Impact investing and social entrepreneurship are areas of institutional complexity. Their organizations and individuals are exposed to financial or commercial logics as well as philanthropic or welfare logics. Social entrepreneurs prioritize value creation for society over value appropriation for their organizations. In a similar vein impact investors seek generating financial returns while intentionally creating positive value for society. Impact investing and social entrepreneurship serve as appropriate contexts for the study of hybrid organizing and they entail organizing challenges that can be addressed with institutional theory.

In my dissertation, I report from four studies that shed light on hybrid organizing in impact investing and social enterprises. For each context, my research colleagues and I conducted an exploratory case study (paper I and III) as well as a conceptual article (paper II and IV).

We contribute to theory by offering novel propositions and clarifying frameworks on hybrid strategizing, resource-acquisition processes, and organizational structure.

In conclusion, my objective and hope is that my dissertation inspires more research on hybrid organizing, impact investing and social entrepreneurship, and that investors, entrepreneurs, managers and policy-makers find new insights for the set-up, management and evaluation of hybrid organizations.
Zusammenfassung


1 Introduction

1.1 Background

“Impact investment is emerging as a new unifying force [...] in dealing with social issues, driving innovation and prevention to improve lives. It harnesses the forces of entrepreneurship, innovation and capital and the power of markets to do good. One might with justification say that it brings the invisible heart of markets to guide their invisible hand.”

- Sir Ronald Cohen, Chairman, Social Impact Investment Taskforce established under the UK’s presidency of the G8 (September 2014)

Impact investing and social entrepreneurship are increasingly referred to as potential solutions to the most pressing societal challenges. While both markets and governments have failed to solve major issues such as poverty or climate change, scholars and practitioners have expressed high expectations on impact investing and social entrepreneurship as effective approaches combining financial sustainability and scalability with positive value spillovers for society and its natural environment (Santos, 2012; Zahra, Rawhouser, Bhawe, Neubaum and Hayton, 2008). However, there is not yet a consensus about what impact investing and social entrepreneurship actually are (Dacin, Dacin and Matear, 2010). Impact investing and social entrepreneurship are vague concepts and their main actors are often fragile organizations that do not meet the high expectations placed upon them (Dacin and Dacin, 2011).

Impact investing and social entrepreneurship are emerging fields between mainstream finance and commerce as well as philanthropy and social welfare (Battilana and Lee, 2014), thus being exposed to multiple institutional logics (Battilana and Dorado, 2010; Pache and Santos, 2010). These institutional logics exert competing pressures for conformance to the norms that they prescribe (DiMaggio and Powell, 1983). For instance, commerce and finance logics require organizations to maximize value appropriation for their legal owners, while welfare and philanthropy logics demand grant-giving, civil engagement and positive impact
towards a social or environmental good. Trying to comply with the norms and prescriptions of commerce and finance as well as philanthropy and welfare, impact investors and social entrepreneurs navigate through contexts of institutional complexity (Raynard and Greenwood, 2014).

Although impact investors and social enterprises may thrive and generate innovations, they may also fail to survive (Jay, 2013). Preventing the latter and achieving the former requires hybrid organizations, defined as organizations that are exposed to institutional complexity (see Table 1), to master competing institutional demands (Thornton, Ocasio and Lounsbury, 2012).

Table 1: Key definitions

<table>
<thead>
<tr>
<th><strong>Impact investing</strong></th>
<th>“Impact investing is an investment approach that intentionally seeks to create both financial return and positive social or environmental impact” (World Economic Forum, 2013:7).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social entrepreneurship</strong></td>
<td>“Social entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities” (Santos, 2012:337). Social entrepreneurs prioritize value creation over value appropriation.</td>
</tr>
<tr>
<td><strong>Social enterprise</strong></td>
<td>Social enterprise describes the primary organizational entity of social entrepreneurship. The term ‘social business hybrid’ is used interchangeably.</td>
</tr>
<tr>
<td><strong>Hybrid organizations</strong></td>
<td>Hybrid organizations are organizations that are exposed to competing institutional logics (Thornton et al., 2012), potentially, yet not necessarily benefiting from institutional complexity (Jay, 2013).</td>
</tr>
<tr>
<td><strong>Institutional complexity</strong></td>
<td>Institutional complexity describes the “presence of incompatible logics” (Raynard and Greenwood, 2014:3) such as requiring organizations to maximize value appropriation (i.e. finance logic) and at the same time to maximize value creation for society (i.e. philanthropy logic).</td>
</tr>
<tr>
<td><strong>Institutional logic</strong></td>
<td>Institutional logics are cultural templates that prescribe legitimate beliefs, ways of behavior and organizing within institutional fields (Friedland and Alford, 1991; Thornton and Ocasio, 2008).</td>
</tr>
<tr>
<td><strong>Institutional field</strong></td>
<td>Institutional fields encompass all relevant practices, beliefs and organizations that “in the aggregate constitute a recognized area of institutional life, [including] key suppliers, resources and product consumers, regulatory agencies and other organizations that produce similar services or products” (DiMaggio and Powell, 1983:148; Fligstein and McAdam, 2013; Scott and Meyer, 1983).</td>
</tr>
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</table>

With my dissertation, I aim to contribute to theory building about hybrid organizing and institutional complexity by developing frameworks for key organizational activities such as strategizing, people management and performance measurement in hybrid organizations. Furthermore, I apply institutional theory and the notion of hybrid organizing to better understand how impact investing organizations and social enterprises are managed. In the remainder of this subchapter, I provide an overview of impact investing and social entrepreneurship including definitions and market data.
“Impact investing is an investment approach that intentionally seeks to create both financial return and positive social or environmental impact” (World Economic Forum, 2013:7 see Table 1). Having surveyed 124 impact investing organizations, Saltuk, Idrissi, Bouri, Mudaliar and Schiff (2014) estimate a sector size of USD 46bn in assets under management in 2014 with around USD 12bn capital deployed. Growth projections range from USD 400bn to USD 1 trillion in assets under management by 2020 (O’Donohoe, Leijonhufvud, Saltuk, Bugg-Levine and Brandenburg, 2010). Precise market data does not exist, because sector boundaries are ambiguous. These market figures, for example, do neither include the global microfinance market, having provided USD 81bn in small loans in 2012 (Convergences, 2014), nor investments by Development Finance Institutions in private sector organizations, estimated at approximately USD 44bn in 2012 (OECD, 2014) – both being in line with the stated definition of impact investing. Investors who seek generating a financial return and a positive impact on society can encompass any person or organization investing capital in any asset class, be it stocks, bonds, commodities, private and public equities. However, for a reasonable scope, this dissertation focuses on impact investing organizations that intermediate between financial asset owners and startup and growth companies, i.e. a venture capital-type impact investing approach. The World Economic Forum (2013) estimates about 250 such impact investing organizations across the globe, most of which are members of growing industry associations like the Global Impact Investing Network (GIIN), the European Venture Philanthropy Association (EVPA), or the Asian Venture Philanthropy Network (AVPN).

Similar to impact investing, social entrepreneurship suffers from a lack of clear definitions and organizing templates (Dacin et al., 2010). Santos offers his definition as follows: “Social entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities” (2012:337). Rather than capturing value for (the owners of) their organization, social entrepreneurs prioritize value creation by generating positive value spillovers to society. For example, the microfinance pioneer, Grameen Bank in Bangladesh, provides access to bank loans to citizens who did not have access to financial services before. While developing a financially sustainable model, Grameen Bank created positive spillovers to society that the organization did not capture: For the first time, their clients were able to secure bank finance to invest in entrepreneurial activities thus earning revenues for themselves (Yunus, Moingeon and Lehmann-Ortega, 2010). Other more recent examples of social enterprises are the Khan
Academy offering online education to 10 million people per month or the One Acre Fund helping 200’000 small-scale farmers in Eastern Africa (Social Impact Investment Taskforce, 2014). In their Global Entrepreneurship Monitor, Terjesen, Lepoutre, Justo and Bosma (2011) estimate an average of 2.8% of the global population pursuing social entrepreneurial activities. Accordingly, Santos asserts that “[social entrepreneurship] has become an important economic phenomenon at a global scale” (2012:337). This assessment is in line with Battilana and Lee’s (2014) search for articles on social entrepreneurship in print journalism: Based on a Factiva query, they found 37 articles in the year 1997 growing to 14’264 articles in 2012. The spike in public attention also manifests itself in the creation of chairs at leading business schools and in increasing numbers of academic publications, underlining the field’s growing relevance in research, education and practice.

Given Santos’ definition, impact investors themselves are social entrepreneurship organizations. However, a primary activity of impact investors is to supply financial resources to social enterprises. Impact investors are thus a particular subgroup of social entrepreneurship as well as a resource provider to social enterprises. In this dissertation, I focus on their role as resource providers rather than referring to impact investors as social enterprises. Nevertheless, the organizing frameworks developed for social enterprises also apply to impact investing organizations and the insights from the studies on impact investing may also inform other social entrepreneurship organizations.

1.2 Theoretical foundations

1.2.1 Institutional complexity and hybrid organizing

Impact investing and social enterprises are hybrid organizations that are exposed to institutional complexity, i.e. contexts in which incompatible logics of different institutional fields compete to assert pressures on organizations and individuals (Battilana and Lee, 2014; Raynard and Greenwood, 2014). Institutional fields encompass all relevant practices, beliefs and organizations that “in the aggregate constitute a recognized area of institutional life, [including] key suppliers, resources and product consumers, regulatory agencies and other organizations that produce similar services or products” (DiMaggio and Powell, 1983:148; Scott and Meyer,
1983; see Table 1:2). Institutional fields carry logics that prescribe legitimate forms of organizing (Fligstein and McAdam, 2013). Increasingly, organizations do not find themselves exposed to the logics of one field alone, but rather to a multitude of often competing institutional logics from overlapping fields (Besharov and Smith, 2014; Pache and Santos, 2010). In such contexts, complying with the rules of one logic may violate the rules of another. Hybrid organizations thus face a high risk of losing legitimacy as they express compliance to institutional referents from one field while not adhering to the prescriptions of the other. Furthermore, hybrid organizations provide a fertile ground for conflict amongst organizational members who were educated or socialized in different institutional fields with competing logics. In the latter case, organizational members may have fundamentally diverging underlying beliefs of why the organization exists, which goals it should legitimately pursue and how it should operate. However, hybrid organizations may also benefit from their complex institutional environments by drawing resources from different institutional constituencies, developing innovative organizing models and positioning themselves at the center of an emerging institutional field (Jay, 2013).

For example, Battilana and Dorado (2010) show how microfinance institutions in Bolivia had to cope with competing institutional pressures from retail banking and development cooperation. While the former pressured banks to maximize profits, the latter demanded organizations to help the poor. One microfinance bank failed due to internal conflicts amongst organizational members who embodied competing beliefs of what a microfinance organization should pursue. Yet, a second bank thrived as they, amongst others, hired people who had not yet been educated or socialized in either of the two competing institutional logics.

Not only infant industries such as microfinance, but also mature industries can face institutional complexity. An institutional complexity lens has been applied to studies of the world’s leading professional service firms (Greenwood and Suddaby, 2006), a merger of international law firms (Smets, Morris and Greenwood, 2012) and a mature re-insurance trading organization (Smets, Jarzabkowski, Burke and Spee, forthcoming), amongst others. These studies have taught us how organizations and individuals respond to the existence of competing institutional pressures by avoiding, blending or manipulating logics thus changing existing institutional fields or creating entirely new ones (Lawrence and Suddaby, 2006).

Despite much scholarly research on institutional theory, several questions in the context of institutional complexity remain unanswered. While we know how
organizations respond to competing institutional demands (Pache and Santos, 2010), we only know little about how these strategic responses are actually crafted inside the organization. Smets and colleagues (2012) show how individuals evoke institutional change through their day-to-day activities, but the authors do not link these activities to strategic responses or strategizing in general. We do not know how young hybrid organizations in an emerging field make strategy amidst competing institutional prescriptions about which strategy is legitimate or how strategizing should be pursued.

Furthermore, scholars have developed useful frameworks that distinguish between different types of institutional complexity. Raynard and Greenwood (2014), for example, suggest that there are four types of institutional complexity, i.e. ‘Segregated, Restrained, Aligned and Volatile Complexity’, which differ to the extent that logics appear incompatible, there is no prioritization of logics and jurisdictional claims overlap. Besharov and Smith (2014) differentiate between diverse manifestations of institutional complexity within organizations. Organizations encompass members and structures that embody or entail blended or segregated logics. However, existing frameworks do not conceptualize different types of institutional complexity within a newly emerging field, whereby organizations may need to develop different organizational structures and practices depending on their field position (Fligstein and McAdam, 2013; Greenwood and Suddaby, 2006). For example, at the center of the emerging field, an impact investor that does not prioritize neither mainstream finance nor philanthropy logics may need to recruit organizational members who do not yet embody any of the two logics. However, as the impact investor may move away from the center of the emerging impact investing field towards, e.g. the mainstream finance field, it requires organizational members who embody and clearly prioritize mainstream finance logics. Existing literature does not provide answers to these puzzles. With my dissertation I aim to fill such theoretical gaps, amongst others.

Impact investing is an emerging institutional field at the interstices of mature fields. Most prominently, impact investing is primarily influenced by mainstream finance and philanthropy logics – the former prescribing impact investing organizations to maximize financial return, while the latter expects organizations to generate positive societal outcomes. This presence of competing institutional pressures provides an appropriate context for scholarly research on hybrid organizing under institutional complexity in emerging fields. Accordingly, Battilana and Lee (2014)
suggest investigating (organizational responses to) institutional complexity by studying impact investing and social enterprises.

1.2.2 Social entrepreneurship and impact investing literature

While the theoretical focus of this dissertation lies on advancing institutional theory and, in particular, hybrid organizing under institutional complexity, other theories are also applied throughout the four articles composing the dissertation. First and foremost, all articles draw from earlier research on social entrepreneurship and impact investing. Battilana and Lee (2014) provide a detailed overview of the most recent research on social entrepreneurship and the authors also link social entrepreneurship to institutional theory.

Scholarly work specifically on impact investing is even scarcer than social entrepreneurship literature. Especially, in top academic journals we rarely find studies that are related to impact investing. Selecting the emergence of the European industry association, EVPA, Mair and Hehenberger’s (2013) article is one of the few exceptions in leading academic journals. The authors show how convening on large, public conferences and in smaller, private workshops helped to overcome opposition due to competing institutional logics during sector emergence. Earlier mentioned publication on microfinance by Battilana and Dorado (2012) in the Academy of Management Journal constitutes a second prominent example of leading scholarly research in that domain. Finally, Scarlata and Alemany (2010) published their study on the differences of Philanthropic Venture Capital (equivalent to venture capital-type impact investing) and traditional venture capital in the Journal of Business Ethics. While their article provides insights on the decision criteria of impact investors, it does not touch upon the challenges of impact investing organizations being exposed to competing logics of mainstream finance and philanthropy.

1.2.3 Strategy-as-Practice theory

In addition to institutional complexity and hybrid organizing, I draw from Strategy-as-Practice (SAP) theory in paper I. As is described in more detail within the respecting chapter, the paper responds to recent calls of combining SAP and institutional theory (Smets et al., forthcoming; Vaara and Whittington, 2012). SAP
provides a useful lens in order to explore the day-to-day activities happening within organizations. Interested in how young hybrid organizations actually craft strategies, I applied SAP theory in order to develop a model of hybrid strategizing under institutional complexity. Based on the literature and the theoretical gaps outlined above, the following subsection illustrates the main questions guiding my research.

1.3 Research questions

Reporting from studies on impact investing organizations and social enterprises, this dissertation aims to advance our understanding of how hybrid organizations are organized and managed, which constitutes the overarching research question. In the four articles (see Table 2:8 for an overview), my co-authors and I take different perspectives to contribute to this overarching question. The first paper addresses the strategy-making of young hybrid organizations reporting from a case study of an international impact investing organization. The paper focuses on the research question of ‘How do young hybrid organizations strategize?’ In the second paper, Filipe Santos and I provide a conceptual framework addressing the question of ‘How impact investing organizations deal with and potentially benefit from institutional complexity?’ Changing the perspective from impact investors to social enterprises, the third paper reports from a case study on ‘How do social entrepreneurs seek start-up and growth finance from impact investors?’ And finally, paper IV addresses the research question of ‘How are leaders of social business hybrids able to address the challenges of potential mission drift and internal tensions through design structures, governance mechanisms and performance management systems?’ In the following paragraph, I briefly outline how these questions are approached methodologically, before presenting contributions to theory and practice as well as implications.
Table 2: Overview of papers

<table>
<thead>
<tr>
<th>Paper I</th>
<th>Paper II</th>
<th>Paper III</th>
<th>Paper IV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
<td>It is a big deal: Emergent strategy-making in young hybrid organizations</td>
<td>Impact Investing: Competing logics and hybrid organizing in an emerging field</td>
<td>Getting ready for impact investment: Exploring fundraising processes of early-stage social entrepreneurs in biodiversity, water treatment and energy efficiency in Colombia</td>
</tr>
<tr>
<td><strong>Research question</strong></td>
<td>How do young hybrid organizations strategize?</td>
<td>How impact investing organizations deal with and potentially benefit from institutional complexity?</td>
<td>How do social entrepreneurs seek start-up and growth finance from impact investors?</td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
<td>Single exploratory case study; 54 interviews (recorded / transcribed), participant-observations, documents, etc.</td>
<td>Conceptual paper (incl. illustrative examples from practice)</td>
<td>Multiple exploratory case study; three cases; real-time data (interviews and documents); ex-post data (interviews and documents)</td>
</tr>
<tr>
<td><strong>Context / Sample</strong></td>
<td>A leading international impact investing organization</td>
<td>Impact investing organizations</td>
<td>Early-stage social enterprises during fundraising (same country, same incubation program, same investors)</td>
</tr>
<tr>
<td><strong>Theoretical background</strong></td>
<td>Institutional theory, Strategy-as-Practice</td>
<td>Institutional theory</td>
<td>Venture capital theory; literature on social entrepreneurship and impact investing</td>
</tr>
</tbody>
</table>
1.4 Methodologies

Ontologically and epistemologically, I follow a pragmatic research approach, i.e. neither purely objective / positivistic nor purely subjective / constructivistic (cf. Chambers, 2014). The insights and conceptual frameworks in this dissertation have been developed through interpretation of exploratory data, deduction from theory, inspiration from practical examples and ideas that emerged through discussions between the authors and others.

Meta-methodologically, the dissertation comprises two exploratory case studies that reveal novel insights and that form the basis to develop conceptual frameworks structuring existing theoretical and practical examples (see Figure 1:9, horizontally). To triangulate overarching findings on institutional complexity in hybrid organizations, my co-authors and I applied two perspectives: On the one hand we studied the strategizing and structuring of impact investing organizations and on the other hand we looked at the fundraising and organizing of social enterprises (see Figure 1, vertically).
Accordingly, the first and the third paper are exploratory case studies whereby I entered the field without a predefined theoretical concept, yet with prior knowledge of institutional theory, social entrepreneurship and impact investing literature. Exploring an international impact investing organization in paper I, I collected data mostly from interviews and participant-observations over a two-years time span. The second exploratory study (paper III) is based on a comparative case study design investigating three social enterprises in their pursuit to obtain funding from impact investors. In one case, we had real-time data access following their fundraising as the process unfolded, while the other two cases draw from ex-post interviews and document analysis. Most data was recorded, transcribed, then organized in an excel database and analyzed in several iterations between theory and data.

The second and fourth paper reports from conceptual research projects. Hence, the developed frameworks were derived from existing literature, further advanced by the thought-process and discussions of the authors, and enriched with examples from practice, including leading impact investing organizations, social
enterprises and multinational corporations. All four papers aim to inspire theory testing and further research on the phenomena and theories applied. They support researchers and practitioners through novel insights and structural clarity on organizing under institutional complexity.

1.5 Contribution to theory and practice

1.5.1 Contribution to theory

Institutional theorists and scholars researching impact investing and social entrepreneurship are the primary audiences of this dissertation. With regards to institutional theory, the dissertation offers new insights on how to manage hybrid organizations along key organizational dimensions such as governance, strategy and people management.

Paper I proposes that young hybrid organizations make strategy by enacting operational day-to-day practices rather than by an analytical top-down strategy process. The deal-making process of impact investors entails practices that shape strategy through three mediators. First, individual instances of deal-making decisions, i.e. approving or declining a particular deal, become cases of precedence for future deal-making decisions. Organizational members refer to past deal-making decisions in order to argue for or against a related deal, thus creating a pattern of comparable decisions that determine the strategy of an impact investing fund. Second, organizational members regularly deal with and reflect on existing portfolio companies thus familiarizing with these kinds of investments and facilitating similar deals in future. Third, organizational members consider operational decisions by their investment committee, i.e. to approve or decline a deal, as strategic decisions about the intended future course of the organization rather than as decisions on particular deals only. Signaling and internal collaboration strengthen the link between individual and multiple deals and organizational strategy.

In addition to novel insights on strategy-making of young hybrid organizations, paper I also provides a detailed account on venture capital-type impact investing. It is an in-depth case study of an organization that rarely accepts researchers to thoroughly investigate its internal decision-making processes: “It is notoriously difficult to secure VC [venture capital] participation in academic research”
(Zacharakis, McMullen, and Shepherd, 2007). My research was strongly supported by the case study organization allowing me to access confidential information, conduct (and record) over 50 interviews and spend two years researching alongside its managers.

The second paper provides a conceptual framework on different types of hybrid impact investing organizations depending on where they position themselves in the emerging impact investing field between mainstream finance and philanthropy. Some impact investors are closer positioned to mainstream finance or philanthropy, while others are equally distant from the mature fields thus positioning themselves at the center of the emerging field. For the latter case, we build on Raynard and Greenwood’s (2014) organizational configurations to cope with and benefit from Volatile Complexity. Being “by far the most challenging pattern of complexity for organizations to navigate,” (Raynard and Greenwood, 2014:26) Volatile Complexity describes contexts of competing institutional demands whereby logics appear incompatible, jurisdictional claims overlap, and there is not any prioritization of a single logic. We advance organizing configurations along three organizational dimensions, namely goal definition, people management and performance measurement. For example, we extend Raynard and Greenwood’s (2014) model by suggesting that federated impact investors are more likely to set an ‘anchor goal’, which clearly guides decision-making for its federated subunits while generative hybrid impact investors define an ‘umbrella goal’, which is less specific thus facilitating exploration and innovation. Furthermore, we suggest different types of complexity being present in the same field during its emergence with organizations deliberately or unconsciously choosing their position in the field. We apply the framework to impact investing demonstrating its practical usefulness in order to make sense of an emerging field and its main actors.

In the third paper, Andrés Guerrero and I explore the fundraising process of three social enterprises in Colombia. We contribute to theory by offering two new insights to venture capital literature. First, impact investors provide non-financial support to portfolio companies not only after the investment decision is made (i.e. post-investment support) but also prior to the investment decision (i.e. pre-investment support). While post-investment interventions are a common concept in venture capital literature, there is not yet, to our knowledge, any scholarly research in peer-reviewed journals on the pre-investment support that investors offer in order to increase the investment-readiness of potential investee
organizations. Mature venture capital markets contain sufficient potential investee companies, so that investors need to evaluate rather than develop their investment targets. This is not the case in impact investing, where investors seek deals in risky geo-political areas with little (investible) commercial activity and without any history of venture capital-type investments. Second, impact investors have distinct requirements with regards to the positive impact generation that potential portfolio companies pursue. On the one hand, they may only invest in social enterprises that create positive value in an area that they consider important. This is contrary to Scarlata and Alemany’s (2010) notion that impact investors have the same decision criteria than venture capitalists when investing in for-profit social enterprises. On the other hand, impact investors are particularly interested in social entrepreneurs’ track record in the distinct area of positive value creation rather than primarily judging their general entrepreneurial experience.

The fourth and final paper provides a framework to better investigate, understand and advance hybrid social enterprises. In our framework, we distinguish between business models in which the clients of the hybrid social enterprise are / are not the beneficiaries of the positive social intervention as well as whether or not positive value spillovers are generated directly through the organization’s business model. We cluster four hybrid social enterprise archetypes along these two dimensions and offer insights on the governance, HR and performance management, respectively. Akin to paper II, our conceptual model may serve as a starting point for scholars to empirically test social entrepreneurial models thus advancing theory on social entrepreneurship and hybrid organizing.

1.5.2 Contribution to practice

To remain practically relevant, I applied the thoughts and findings of my research to my own social enterprise, published in practitioner reports, presented at impact investing conferences and frequently discussed with practitioners from impact investing and social entrepreneurship. Not surprisingly, my main practical audience is impact investing professionals. I offer recommendations of how to set-up, manage and evaluate impact investing organizations to impact investing managers, asset owners and entrepreneurs. In particular, the dissertation provides insights on the structure, strategizing, and investment process of venture capital-type impact investing organizations.
Impact investing executives who read the first paper are encouraged to take into account the strategic role of their operations and their operational-level managers, respectively. The model proposed in paper I includes factors that influence the strategizing of young impact investing organizations. For example, impact investing professionals should be sensitized to the potential precedence that any positive or negative investment decision may have on future deals. Individual deals, and in particular a series of comparable deals, can shape the way that the impact investing organization is perceived externally and by internal organizational members. Operational-level deal-making thus becomes a cornerstone of strategizing in impact investing organizations.

Practitioners striving to set-up impact investing funds can draw from the framework developed in paper II. They may consciously position their organization closer to mainstream finance or philanthropy in order to have a clear point of reference for resource acquisition. Specifically, impact investing executives who aim to fundraise and distribute large amounts of capital are advised to align their organization with the logics of mainstream finance. Fund managers who strive for a central position in the emerging impact investing field, i.e. emancipating themselves from mainstream finance and philanthropy, should initiate their organization with strong financial resources, e.g. from a major donor, corporate mother or long-term public mandate in order to survive during years of exploration until a new impact investing template is institutionalized.

Social entrepreneurs may find paper I and II informative as they can gain a better understanding of the structure and strategy process of impact investing organizations. In addition to that, the dissertation also offers direct recommendations to social entrepreneurs. Drawing from paper III, social entrepreneurs can evaluate and improve their alignment with investment requirements of impact investors. They may take greater caution when presenting their organizations to impact investors, especially with regards to their track record delivering on the respective social or environmental mission. Furthermore, even if they do not yet feel sufficiently mature to receive financing from impact investors, they may still approach investors and initiate a relationship through which they receive pre-investment support from impact investors. Social entrepreneurs and asset owners are advised to include pre-investment support capability into their evaluation of impact investing fund organizations. Social entrepreneurs, managers and owners of larger social enterprises can derive recommendations for governance, HR and performance management from paper IV. For example,
depending on their business model, they may establish distinct performance measures to monitor the client composition of the services they offer.

In terms of broader contributions to practice, managers running organizations that are exposed to competing institutional demands may generalize our findings from impact investing and social entrepreneurship to derive general insights of how to cope with institutional complexity. For example, corporate executives may recruit ‘advocates’, e.g. business managers who can sympathize with social welfare logics, include social and environmental performance in their KPI systems, and invite board members representing social entrepreneurship, as was discussed, at the time of writing, within Switzerland’s largest telecommunications company based on the example of WWF Switzerland. Contexts of institutional complexity are increasingly prevalent for traditional businesses, as societal demands for businesses have grown while formerly domains of public and philanthropic activities have become more exposed to commercialization pressures.

1.6 Implications

1.6.1 General implications

Impact investing and social entrepreneurship are increasingly referred to as solutions to major societal problems such as poverty, lack of access to education, growing carbon emissions and degrading biodiversity, amongst others. If so much is at stake, it seems reasonable to develop better theory and provide practical recommendations on impact investing and social entrepreneurship.

Managing a hybrid organization, in general, and an impact investing fund, in particular, is cumbersome. Competing institutional logics exert pressures on impact investing organizations and social enterprises challenging their survival and growth. In order to grow, the four studies conducted in this dissertation explicitly or implicitly demonstrate that hybrid organizations need to develop financially viable models. While impact investing funds may seek philanthropic outcomes, an orientation towards mainstream financial logics enables hybrid impact investors to learn from and potentially achieve the scalability of traditional financial asset managers.

We may, for example, compare the growth of Zurich-based impact investor, responsAbility, which prioritizes financial over philanthropic logics, with the growth
of Acumen, which prioritizes philanthropic over financial logics. Both investors strive for positive value creation through deployment of capital and provision of non-financial support. The former has deployed approximately USD 2.2bn since 2003, while the latter, being celebrated as the leading impact investing pioneer, has deployed about USD 88 million since its founding in 2001. Applying a traditional asset management model to invest in microfinance institutions, responsAbility has outnumbered Acumen by a factor of 25 in terms of its capital deployed and within a shorter timeframe. Its financial viability enabled responsAbility to also initiate equity investments in growth companies, akin to what Acumen and others pursue. In contrast to philanthropically oriented impact investors, responsAbility can innovate based on a viable business model that finances its new fund development and growth. However, prioritizing financial or commercial logics also comes with restrictions. While philanthropically oriented impact investors can finance very high-risk companies with small investment requirements, financially oriented impact investing funds can only invest in companies with a financially viable business model and investment requirements larger than approximately USD 500'000 to 1 million. This restriction inevitably excludes innovations for positive value creation by smaller or less financially viable organizations, so that my dissertation also underlines the importance of impact investing funds that do not prioritize financial logics. Hybrid impact investors and social enterprises, though not reaching the growth figures of responsAbility, can develop and finance innovations that do not have financially viable business cases initially, but that either lead to or attract organizations with financially viable business models. For example, since the late 1990s, private donations have subsidized social enterprises and philanthropically oriented impact investments in the off-grid solar energy market in Eastern Africa. As these organizations innovated and improved the economics of solar device technologies and distribution in rural areas, the market has developed and attracted financially oriented investors: zouk capital, a for-profit private equity fund investing in environmental companies recently announced its participation in a USD 16 million investment round in Off.Grid:Electric, a financially viable social enterprise that “delivers electric services to the world’s off-grid poor” (Off.Grid:Electric website, accessed 21 December 2014). Impact investors and social entrepreneurs that do not prioritize any mature logic may thus play an important role in the creation of industries that were initially areas of public or philanthropic grant-making. Having outlined these
general implications derived from my dissertation, I present specific implications of each paper in the following paragraphs.

1.6.2 Specific implications of each paper

Paper I provides insights on the link between institutional theory and Strategy-as-Practice theory and it demonstrates the strategic relevance of operations and operational-level managers in hybrid impact investing organizations (Smets et al. 2014; Vaara and Whittington, 2012). Organizational members may not be aware of the strategic consequences of day-to-day activities. In contexts of institutional complexity, the paper emphasizes the importance of dealing more consciously with operational activities and people. On the one hand, organizational members should regularly express and align their intended course of action with their operational activities. In fact, since institutional logics exert competing claims, successful strategizing in hybrid organizations may be a regular iteration between operations and reflections about operations rather than an analytical process of scanning and interpreting the environment. On the other hand, hybrid organizations should recruit and educate operational staff considering not just their operational expertise but also their strategic skills. These implications are not necessarily limited to impact investing, but may hold for any young organization in an emerging field in which clear strategizing templates have not yet been institutionalized.

Paper II provides a framework to organize hybrid impact investors along key organizational dimensions and depending on their positioning in the emerging impact investing field (Maguire, Hardy and Lawrence, 2004). Leading impact investing organizations have been in turbulent times with high staff turnover rates and premature termination of funds. For example, the once largest renewable energy and energy efficiency impact investor, E+Co, had to be bought by a traditional private equity fund due to lack of access to sufficient financial resources. Other impact investors are publicly denying their simultaneous exposure to multiple institutional logics, yet still leading the discussions that shape the emerging impact investing industry (e.g. responsAbility and Bamboo Finance). Knowing how to organize around key dimensions of goal definition, people management and performance measurement may help impact investing executives, their staff, partners, investors and investees to focus on achieving their objectives rather than dealing with organizational issues. As the industry is still in
its infancy, the timing is right to suggest organizational templates that provide guidance. Accordingly, Filipe Santos and I regularly apply our ideas and frameworks developed in this paper in sector reports, conference keynote speeches and day-to-day work (cf. Birkholz, 2013). These implications are not only valuable for practitioners working in impact investing organizations, but they can also inform research and policy by offering a framework to better understand and evaluate hybrid organizing under institutional complexity in emerging fields.

Paper III offers implications for venture capital, impact investing and social entrepreneurship theory and practice: One may ask any (social) entrepreneur to list her most prevalent problems and chances are that access to funding ranks top of the list. Better understanding of how to look for and present a startup to impact investors positively contributes to (social) entrepreneurs. We suggest entrepreneurs seeking investors that are aligned with their pursuit for positive value creation in a distinct area of impact rather than approaching any impact investor. Now, one may ask any impact investor about her major issues. The answer very likely includes the problem of not finding enough investible deals. In fact, the highest priority issue of impact investors in Saltuk’s et al. (2014:6) survey is “shortage of high quality investment opportunities with track record.” Inspiring a research agenda on how to improve the venture pipeline through pre-investment activities matters to impact investors and to those providing and funding early-stage incubation such as public sector organizations, philanthropists and incubators.

As we argue in paper IV, social business hybrids already play an important role in the modern capitalist system. However, beyond social enterprises, the framework developed in paper IV informs managers of traditional businesses. To prevent disengaging customers, demotivating employees, or upsetting policy-makers, business leaders need to master institutional complexity stemming from increasing societal demands on commercial organizations. While social enterprises are already potential competitors to mainstream businesses as is the case in banking, cosmetics or mobile payments in developing and emerging countries, they may themselves become mainstream in the future as it has been the case with cooperatives in banking (cf. Raiffeisen Bank in Germany, Switzerland and Austria) and retail (cf. Migros and Coop in Switzerland). Paper IV primarily matters to the managers working within or competing with social enterprises in order to understand or align their governance, HR and performance measurement with their business models and organizational designs.
Having outlined the main contributions of the dissertation as well as why its implications may be of importance, I provide a brief overview of the dissertation structure in the next section before presenting paper I in the second chapter.

1.7 Thesis outline

The four articles within this dissertation are composed following a logic from exploratory to conceptual research, on one hand for impact investing and on the other hand for the broader concept of social entrepreneurship (see Figure 1:9) referring to, drawing from or advancing institutional theory, in general, and hybrid organizing, in particular. Following this introductory chapter, the second chapter covers the first paper reporting from an exploratory case study on an international impact investing organization. This paper was submitted to a Special Issue of Strategic Organization. As an empirical paper it does not only include an introduction, methodology and theory section, but also an overview and analysis of the empirical data gathered in the two-years research project. The paper finishes with a discussion, including recommendations for research and practice and concluding remarks.

Thereafter follows the second paper in chapter 3, reporting from a conceptual research project on impact investing. Subchapters are akin to those of the second chapter, however, without an empirical subsection. At the time of writing, we plan to submit this paper to the Journal of Business Ethics.

The same logic is followed from the perspective of social enterprises. Chapter 4 covers the third paper, reporting from an exploratory case study on the fundraising process of three social enterprises equivalent to the first paper structure. An earlier version of this article is accepted as a contribution to a conference book edited by Prof. Roberto Gutierrez and Prof. Yvette Sanchez.

Then follows a conceptual paper in chapter 5, covering business models and organizational designs for hybrid social enterprises. After a first response from the California Management Review to revise and resubmit the paper, we had received a second revision with the request for minor changes and resubmitted the manuscript thereafter.
1.8 References


2 It is a big deal: Emergent strategy-making in young hybrid organizations (Paper I)

By Christoph Birkholz

Abstract

Hybrid organizations navigate in complex institutional environments. Scholars have demonstrated how hybrid organizations respond to competing logics through strategic actions. However, we only know little about how strategic responses are actually crafted inside organizations. Building on Strategy-as-Practice, I report from a 24-months exploratory case study on a young hybrid organization in the field of impact investing emerging at the interstices of venture capital finance and philanthropy. My main argument is that, in young hybrid organizations, operational-level practices shape strategy through three mediators: Individual instantiations of operational practices become precedents, organizational members regularly reflect on these instantiations and, organizational members consider operational decisions as strategic ones. Internal collaboration and external signaling reinforce this link. I suggest that the deal-making process in impact investing entails such operational practices shaping strategy, thus providing an explanation for how antecedents of strategic responses actually lead to strategic responses under institutional complexity.

2.1 Introduction

“The more complex and open a model is, the more options there are for interpretations.”
– Managing Director, Social Investments Fund (SIF)

Organizations and their organizational members are increasingly exposed to competing, sometimes incompatible institutional logics (Besharov and Smith, 2014; Jay, 2013; Kraatz and Block, 2008; Oliver, 1991, Raynard and Greenwood, 2014; Seo and Creed, 2002). To maintain legitimacy, hybrid organizations need to cope with these different logics. For example, a microfinance institution may need to demonstrate compliance with retail banking, while also being aligned with the
demands of the development sector (Battilana and Dorado, 2010). Scholars have investigated, how successful hybrid organizations enact strategic responses to cope with diverging institutional claims and potentially even benefit from institutional complexity (Smets, Morris and Greenwood, 2012). However, organizational strategy does not only occur at the organizational level generating a universal response to competing institutional claims. Limiting our view of organizational strategy to strategic responses at the organizational level fails to consider the micro-level practices at work during strategizing. Organizational strategy may, for example, emerge from strategic action of middle-level managers (Burgelman, 1994), in the organizational periphery (Regnér, 2003) or through ex-post sense-making of a pattern in a stream of past decisions on various organizational levels (Mintzberg, 1978).

To develop a complete picture of strategizing in hybrid organizations, we need to shed light on the micro-level activities that are considered ‘operations’ or ‘tasks of operational-level managers’ and thus hidden from the focus of inquiry on strategic responses in most institutional studies (for exceptions, see Raaijmakers, Vermeulen, Meeus and Zietsma, forthcoming; Smets et al., 2012). Overall, “strategy-like outcomes originate from sources other than strategy” (Weick, 2001:345).

Answering the research question of ‘How do young hybrid organizations strategize?’ I draw from Strategy-as-Practice (SAP) literature, which provides a useful lens revealing the strategic implications of everyday activities inside organizations (Golsorkhi, Rouleau, Seidl and Vaara, 2010; Whittington, 1996 and 2006). Besides contributing to our understanding of organizing under institutional complexity, the article also responds to recent calls of combining institutional and SAP theory (Smets et al., 2014; Vaara and Whittington, 2012).

Reporting from a 24-months exploratory case study on a young impact investing organization, I derive a model for strategizing under institutional complexity. Venture capital-type impact investing organizations deploy financial and human capital in social enterprises in order to generate a financial return and societal value (Gordon, 2014; Mair and Hehenberger, 2014; Scarlata and Alemany, 2010). Being partly exposed to financial market logics and partly to philanthropy logics, impact investing organizations are well-suited settings for the study of strategy-making in hybrid organizations (Battilana and Lee, 2014; Billis, 2010). My main argument is that, in young hybrid organizations under emerging institutional complexity, operational practices can shape strategy through three
mediators: First, instantiations of operational practices become precedents for future operational practices, they are regularly reflected upon by organizational members, and organizational members consider decisions made within those practices as strategic although they were intended to be operational. Disguised as operations, organizational members may not be aware of the strategic relevance of the practices that operational processes entail; nor may the respective organizational members responsible for the operational process be considered strategists, although in fact they do shape strategy.

This article contributes to the growing literature on institutional complexity and strategizing in hybrid organizations. Furthermore, it provides an account of strategy emergence, whereby the case study demonstrates how emergence can be an ongoing process rather than ex-post sense-making of past decisions (Mintzberg and Waters, 1985; Vaara and Whittington, 2012). The article investigates a new phenomenon, i.e. impact investing, and opens up the ‘black box’ inside a venture capital-type organization (Gompers and Lerner, 2006; Petty and Gruber, 2009; Zacharakis, McMullen and Shepherd, 2007). Finally, the article contributes to impact investing practitioners, as it demonstrates the strategic implications of practices within operational processes that are not necessarily considered as part of strategizing.

Applying a methodology inspired by ethnographic research, the role and background of the researcher is important. Throughout the study, I was a passive observer and interviewer, later even befriending some organizational members. Due to my professional background, I entered the field as both a researcher and practitioner. I have co-founded a hybrid social enterprise as well as an impact investing initiative for early-stage social enterprises, thus having thorough practical experience with the phenomenon.

The remainder of this article goes as follows. First, I describe the theoretical context of this study prior to presenting the methodology and subsequent case study section. Both the primary theory, i.e. institutional complexity, and the secondary theoretical strand, i.e. Strategy-as-Practice, were systematically consulted as a result of an initial round of data collection and then deepened due to several iterations between theory and data. While institutional theory assisted sense-making during the first months of research, it only led to the focus of theoretical advancement during later iterations of data analysis. After the theory section, I explain the methodology and present the case study. The main theoretical contributions follow thereafter, developing a model of practice-driven
strategizing in young hybrid organizations under institutional complexity. I conclude with avenues for further research and recommendations for practice.

2.2 Theoretical background

Institutional fields encompass all relevant organizations, practices and beliefs that “in the aggregate constitute a recognized area of institutional life: key suppliers, resources and product consumers, regulatory agencies and other organizations that produce similar services or products” (DiMaggio and Powell, 1983:148). Fields carry logics that prescribe legitimate forms of organizing, ways of behaving and goals to pursue.

Organizations may not only find themselves exposed to one institutional logic, but to a set of competing logics that entail diverging prescriptions (Besharov and Smith, 2014; Jay, 2013; Raynard and Greenwood, 2014; Thornton and Ocasio, 2008). While institutional pluralism describes the co-existence of different institutional logics, it is institutional complexity where competing logics contradict (Greenwood, Raynard, Kodeih, Micellota and Lounsbury, 2011; Smets and Jarzabkowski, 2013). Environments with increasingly competing logics have been studied in both established and emerging fields in areas such as biotechnology (Powell, 1999), community banking (Almandoz, 2012; Marquis and Lounsbury, 2007), cultural industries (Glynn and Lounsbury, 2005), dispute resolution (Purdy and Gray, 2009), drug abuse treatment centers (D’Aunno, Sutton and Price, 1991), law firms (Cooper, Hinings, Greenwood and Brown, 1996; Smets et al., 2012), life sciences (Murray, 2010), manufacturing (Greenwood, Diaz, Li and Lorente, 2010), medical education (Dunn and Jones, 2010), microfinance (Battilana and Dorado, 2010), museums (Alexander, 1996), mutual funds (Lounsbury, 2007), social enterprises (Dacin, Dacin and Tracey, 2011; Pache and Santos, 2013a), and symphony orchestras (Glynn, 2000). In these settings, organizations craft strategies to respond to diverging institutional claims. Depending on field-level, organizational and individual antecedents (Besharov and Smith, 2014; Oliver, 1991; Pache and Santos 2010; Raynard and Greenwood, 2014), organizations may enact different coping strategies such as selective coupling (Pache and Santos, 2013a), avoidance (Pache and Santos, 2010), compromise, and manipulation (Oliver, 1991), amongst others.
Institutional theory (DiMaggio and Powell, 1983), institutional work (Lawrence and Suddaby, 2006; Zietsma and Lawrence, 2010), and institutional entrepreneurship (Dorado, 2005; Leca, Battilana and Boxenbaum, 2008) inform us about either how organizations are influenced by isomorphism or how they shape institutions based on their organizational or human agency. The predominant outcomes in studies on strategic responses to institutional complexity are legitimacy and internal alignment of organizational members or, in other words, the prevention of internal conflict (Pache and Santos, 2010). Thus far, strategy only occurs on the organizational level as a means to gain legitimacy, maintaining internal coherence and favorably shape institutions.

This view ignores the micro-level processes at work that may influence strategy. It neglects that any activity can be considered strategic if it is “consequential to strategic outcomes, directions, survival and competitive advantage” (Jarzabkowski, Balogun and Seidl, 2007:8). Strategy-making is not limited to organization-wide responses to competing institutional claims, but it encompasses all activities that lead to the emergence of strategy, regardless of its intentionality or awareness within the organization (Burgelman 1994; Jarzabkowski et al. 2007; Mintzberg and Water, 1985). To reveal how strategic responses emerge, we have to take a closer look inside the organization.

Strategy-as-Practice (SAP) theory can assist this endeavor (Golsorkhi et al., 2010; Vaara and Whittington, 2012). Stemming from the practice-turn in social sciences (Bourdieu, 1990; de Certeau, 1984; Giddens, 1984), SAP focuses on the ways in which actors are enabled by organizational- and field-level practices in their decisions and actions, as well as how their actions change organizations and institutions. Scholars have called for combining SAP with institutional theory (Suddaby, Seidl, and Lê, 2013) as they “occupy both sides of the same debate, each calling for engagement with the other” (Smets et al., 2012:880).

In SAP theory, “practices are accepted ways of doing things, embodied and materially mediated, that are shared between actors and routinized over time” (Vaara and Whittington, 2012:287). Aside from its theoretical framework to investigate micro-level influences on strategy, SAP research offers three further advantages for the inquiry reported in this article. First, SAP is open to a variety of outcomes of strategy beyond legitimacy or internal coherence. Second, SAP research is often qualitative, ethnographic and focused on one single organization, based on interviews on multiple levels (Mantere, 2005; Regnér, 2003), including work shadowing (Jarzabkowski and Seidl, 2008) and participant observation.
(Samra-Fredericks, 2010). Third, similar to institutional theory, SAP scholars have conducted research on a variety of different organizations spanning across business, public, cultural and social sectors. Hence, organizational goals transcend economic performance to include multiple organizational outcomes. Hybrid organizations are by definition affected by different institutional logics that span across different sectors pursuing potentially contradicting goals at the same time, as is the case for impact investing organizations (Battilana and Lee, 2014).

To conclude, we know that hybrid organizations craft strategic responses to institutional pressures based on, amongst others, the internal representation of competing logics within the organization (Besharov and Smith, 2014; Pache and Santos, 2010). However, we do not know how this process unfolds within organizations. How do organizational members, those who embody logics, contribute to the development of distinct strategic responses? In every-day practices, we may observe different strategic responses being negotiated internally. For instance, some organizational members may try to compromise competing institutional claims, while other try to manipulate logics through their particular instantiated practice. The conceptual question accordingly is, how do antecedents of strategic responses, e.g., internal representation of logics, link to their outcome, i.e., a distinct strategic response such as selective coupling (Pache and Santos, 2013a). As we do not know how strategizing in young hybrid organizations actually takes place, we need to explore the internal practices within young hybrids. This study aims to provide preliminary answers to these questions.

2.3 Methodology

This research project started with an interest in the difficulty of organizing hybrid organizations at the center of an emerging institutional field. Located at the interstices of mainstream finance (in particular venture capital finance) and philanthropy, impact investing is an appropriate context for this endeavor. In recent years, impact investing has emerged, first, as a means to finance social enterprises through debt and equity, and later to invest in any type of asset class pursuing positive value creation for society while generating a financial return on investment (Battilana and Lee, 2014; Mair and Hehenberger, 2013; Santos, 2012). Being knowledgeable about institutional complexity, I kept an informed, but open mind to observe competing logics from finance and philanthropy at play (Siggelkow, 2007).
The study is based on a 24-months period of data collection spanning a total of nine years of an impact investing organization from inception to becoming one of the global leaders of venture capital-type impact investing. As there is only limited research on strategizing inside hybrid organizations, I developed an exploratory, single case study design (Edmondson and McManus, 2007; Eisenhardt, 1989; Siggelkow, 2007). Sampling a single organization was practically necessary in order to immerse in the case sufficiently deep revealing the day-to-day activities of impact investing professionals and their implications on strategic responses, respectively (Dougherty, 2002; Mintzberg, 1978; Smets and Jarzabkowski, 2013).

The impact investing organization, Social Investments Fund (SIF), was headquartered in an economically developed country, while most of its operations were conducted in their regional offices in developing and emerging economies. I closely investigated the operations in one of the regional offices following the deal-making praxis of their office leader, Lesley Jones, as two investment deals happened. The study relied on observations of daily actions, participant observations in meetings and field trips, open interviews, informal conversations and a collection of documents-in-use (Agar, 1980; Van Maanen, 1988). In total, I collected and transcribed 54 recorded interviews, which were conducted as the process unfolded. Additionally, I drew from countless informal conversations over the two years, two field trips to the regional office, and several visits to the headquarter offices as instances of trying to live in the setting (Johnson, Melin and Whittington, 2003). From a large set of documentation, I selected and analyzed 92 documents-in-use ranging from internal decision documents, confidential email correspondence, newsletter announcements and openly available industry reports. The study overcomes ex-post biases and allows triangulation as I interviewed different individuals about the same events, often multiple times. Triangulation was further strengthened by collecting data from all hierarchical levels, i.e., temporary trainees, operational managers, managing directors and investment committee (IC) members, and from different geographic and cultural areas across four continents.

Data analysis was conducted in three main iterations between theory and data. First, after nine months of collection, I analyzed the data based on field and interview notes and by listening to all interviews conducted thus far. After organizing broad open codes using excel spreadsheets, a focus on institutional

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1 All references to the real case study organization have been changed to maintain anonymity.
complexity emerged as a theoretical framework to understand the implications of venture capital finance and philanthropy logics within the organization. Furthermore, it became evident that operational-level praxis was interdependent with organizational strategizing and the logics embodied by organizational members. Accordingly, I tried to dig deeper into these interdependencies of people, operations and strategy. The second round of data analysis took place nine months later in an intense process involving a research colleague familiar with impact investing. The research partner, who had not participated in data collection, listened to my reports from the field, challenged my interpretations and helped develop the major insight of this study. Together, we crafted the main proposition moving from broad open codes to more specific concepts. Concretely, we realized that the deal-making processes on the operational level had an influence on the strategizing on the organizational level. This constituted a link that the organizational members did not seem to be aware of. From then on, Strategy-as-Practice became an important second theoretical strand guiding the inquiry. The third, and final step of data analysis happened another six months later, after I had conducted repeated interviews with leading organizational members seeking for support for or objection to my assumptions and exposing interviewees to the emerging conceptual model (cf. Smets, Jarzabkowski, Burke and Spee, 2014). The following part outlines the context of impact investing and the main developments of the case study organization including two deal-making processes. It is a deep dive into an organization in which Non-Disclosure Agreements, delicate negotiations with entrepreneurs, and intimate interactions with high net worth individuals are part of the daily business.

2.4 Impact investing and the case of Social Investments Fund

To make this article sufficiently compact, the data report is limited to selected pieces of information exemplifying the theoretical propositions rather than outlining a comprehensive account of all the stories and observations analyzed throughout this research project.
2.4.1 Impact investing sector emerging between venture capital finance and philanthropy

Impact investing is a growing sector that spans largely across financial industries, social welfare systems and development cooperation. It describes the deployment of capital in any type of asset class with the intention to earn a financial return and generate social outcomes in form of positive externalities (Grabenwarter and Liechtenstein, 2013; Santos, 2012; World Economic Forum, 2013b). The sector size measured by assets under management was approximately USD 25bn in 2012 (Saltuk, Bouri, Mudaliar and Pease, 2013; World Economic Forum, 2013a). Its growth was projected to reach between USD 400bn to USD 1 trillion by 2020 (Koh, Karamchandani, and Katz, 2012; O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine and Brandenburg, 2010). While reports count about 250 venture capital-type impact investment organizations, its sector boundaries are not yet clear making it difficult for impact investing professionals to identify and relate to peers.

A head of an impact investing organization expressed his concern about mainstream financial institutions being considered impact investors: “Morgan Stanley and JP Morgan are members of the GIIN [Global Impact Investing Network]. They [the GIIN] take everyone. This is how industry associations work. They need the members. But are they [Morgan Stanley and JP Morgan] really impact investors” (int.: Head of Ventures, International Impact Investing Fund)?

While the impact investing approach can be applied to any type of investing, such as stocks, bonds, real estate, infrastructure, or project finance, this paper focuses on debt and equity investments into early-stage growth companies (Gompers and Lerner, 2006; Petty and Gruber, 2009). It is in this segment that the logics of the venture capital approach more clearly collide with the logics of philanthropy (see Table 3).

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2 I indicate quotes from personal interviews conducted during this research project with ‘int.:’ including the name and/or position of the interviewee as well as his/her organizational affiliation.
Table 3: Venture capital finance, philanthropy and impact investing logics

<table>
<thead>
<tr>
<th></th>
<th>Venture Capital finance logics</th>
<th>Philanthropy logics</th>
<th>Impact investing logic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals</strong></td>
<td>Financial return maximization</td>
<td>Positive societal outcomes</td>
<td>Positive societal impact while pursuing financial return</td>
</tr>
<tr>
<td><strong>Granted financial resources</strong></td>
<td>Equity and debt by institutional investors, family offices, foundation endowments</td>
<td>Philanthropic grants, government grants, development cooperation</td>
<td>Equity and debt by family offices, private individuals, philanthropic grants, (few) institutional investors, government grants, development cooperation</td>
</tr>
<tr>
<td><strong>Investment approach</strong></td>
<td>Equity or mezzanine into portfolio ventures; trying to exit in five to seven years</td>
<td>Grants for projects and programs; from a few months to multiple years of duration</td>
<td>Grants, debt, equity and mezzanine; sometimes combination of different forms for the same portfolio company</td>
</tr>
<tr>
<td><strong>Background of professionals</strong></td>
<td>Corporate finance, investment banking, private equity, consulting, entrepreneurs</td>
<td>Diverse (from social, cultural, public or scientific areas)</td>
<td>Diverse, but mostly with business or financial background</td>
</tr>
<tr>
<td><strong>Relationship with investee / grantee</strong></td>
<td>Reciprocity, close monitoring and support; little pre-investment support</td>
<td>Non-reciprocal, requiring limited reporting</td>
<td>Reciprocity, close monitoring and support; strong pre-investment support</td>
</tr>
<tr>
<td><strong>Board role</strong></td>
<td>Involved in deal-making operations; board members/partners want to meet entrepreneurs prior to decision; strategy; fundraising</td>
<td>Decides on grant-making and strategy; generally not in contact with grantee prior to decision</td>
<td>Strategy, deal-making and fundraising; rarely in contact with deals prior to decision</td>
</tr>
<tr>
<td><strong>Strategizing</strong></td>
<td>Emergent, opportunistic (King, 2008)</td>
<td>Planned, top-down; strong adherence to foundation mission and sector regulation</td>
<td>Organizational members enact operational processes to continuously shape strategy; potentially emergent, opportunistic</td>
</tr>
</tbody>
</table>

Impact investing organizations raise commercial and philanthropic capital and enact venture capital investment practices (Gompers and Lerner, 2006) to provide
financing and support for organizations that create positive social outcomes. They synthesize practices from mainstream finance and philanthropy as they integrate social impact analysis into their deal screening and evaluation process (O’Mahony, Besharov and Chen, 2014). They deploy varying financing mechanisms, i.e. debt, equity, mezzanine and grants, coupled with a mission typically associated with a philanthropy logic. The backgrounds of professionals working in impact investing organizations are diverse, although a majority has a business or finance background. Currently, most impact investing organizations are in an exploratory stage piloting different approaches and seeking access to resource from wealthy individuals, large foundations, and institutional investors. The largest financial asset managers, that is pension funds and insurance companies, were, at the time of writing, just starting to invest in impact investing, making industry observers optimistic about its future development (World Economic Forum, 2013a).

2.4.2 Ambiguous environments and lack of organizing templates

Impact investing organizations operate in ambiguous environments. Often, they seek to invest in social enterprises that are located in regions with institutional and regulatory voids (Mair and Marti, 2009). In some cases, impact investors are the first international equity investors ever investing in a company within a respective region. For example, Jones explained Social Investments Fund’s pioneering effort with one of the two deals followed throughout this research endeavor: “The state minister confirmed to me that no international investor has ever done a due diligence on a company in his state. We are the first [international investor] in 100 years who’d invest in a company there” (int.: Jones).

In addition to difficult contexts, impact investing organizations cannot draw from fully institutionalized organizing templates. Some organizations prioritize financial market logics, while others choose philanthropy as their main reference point – the former resembling financial asset management firms, the latter developing charities financed by donations.

In unstable institutional and geopolitical contexts and without clear organizing templates for impact investing, predicting the outcomes of investing and crafting top-down strategies become difficult. In this setting the key question is, how did Social Investments Fund (SIF) decide on the right course of action? How did the organization craft a strategic response to conflicting institutional demands?
2.4.3 Building a hybrid organization: Social Investments Fund

SIF was founded in 2005 with the intention to professionalize and grow former corporate philanthropic activities. After several months of research, an initial concept for SIF was developed and managing directors were recruited. This first concept covered the objective, structure and main activities of the initiative: An independent charitable organization managed by a professional team, primarily provided grants to social-purpose organizations and used approximately 25% of deployable capital for exploring debt investments in growth companies that pursue a social mission. As its mission, SIF sought to invest for positive social and environmental outcomes.

At the time of this study, the impact investing organization counted over 15 people based in five countries across the globe. In total, there were over 25 portfolio organizations making SIF one of the top venture capital-type impact investing firms by number of portfolio companies. SIF provided capital from USD 100’000 up to USD 5 million. The organization complemented financial investments with intense management support by both their regional investment managers as well as external advisors.

Though being financed by its corporate mother, a professional service firm, SIF operated quite independently having its autonomous legal structure, its own investment committee (IC) and decision-making processes. The IC was composed of experienced professionals from private equity, development cooperation, and consulting. The management team members came from consulting, banking, and private equity backgrounds, but they also had some social sector experience.

Akin to venture capital, the majority of practices were focused on investment decisions in new companies, management of existing portfolio companies, fundraising and, in addition to venture capital, client advisory and advocacy for impact investing. Regional managers, located in developing and emerging countries, screened, selected, analyzed and presented potential investment deals to the managing directors and the IC. This investment process was codified in a clear decision-making guideline for regional managers.

The IC convened quarterly to discuss strategy and to review and decide on new and existing deals. IC members also had annual meetings dedicated solely to strategy. Furthermore, every year in fall, the entire team gathered for a team retreat, in which past year’s deals were reflected upon and the coming year’s plan was laid out together with the IC.
Intentionally allowing for exploration, the leadership team defined a broad overall strategy, i.e. using venture capital-type investments to generate positive social and environmental outcomes. Front-line managers in the regional offices sought strategic guidance from the headquarter to pursue their investment activities, e.g., knowing whether to screen for investment opportunities that require small or large amounts of capital and being guided in which sectors to seek investment opportunities.

The expected strategy process is presented in Figure 2: Based on the leadership’s interpretation of the external environment, the leadership team would craft a strategy, which then guided investment activities of regional managers. This was the expected, top-down strategy process that organizational leaders validated in initial round of interviews.

**Figure 2: Standard top-down strategy-making**

However, this expected strategy process diverges from the observations that I made during the case study. Providing an account of the work in the regional office, the next section sheds light on the operational practices happening during the deal-making process.

### 2.4.4 Operational-level practices: Deal-making in the regional office of an emerging country

The regional office opened in 2007 with Lesley Jones being their regional leader. Jones had joined SIF as one of their first employees one year earlier. With a background in peacekeeping, she learned venture capital investment techniques in
seminars and on-the-job training at SIF. Though Jones was a ‘tabula rasa’-hire in Battilana and Dorado’s (2010) terms, she had a strong personal opinion that the role of SIF was to finance high-impact deals that tackle the challenges of poor citizens and that do not have access to venture capital or bank finance (Raaijmakers et al., forthcoming). “As an impact investor, we should invest where venture capital or banks are not willing to provide financial resources because the risk is too high. This is our sweet spot” (int.: Jones).

During the period of this research inquiry, Jones’ investment activities were dominated by two new deals: The first deal was a small family business in the less developed region within an emerging country. Jones had learned about the venture at an impact investing conference. Founded by a young entrepreneur, the company provided alternatives for small-scale farmers, positively contributed to the environment and generated economic development in a struggling region with little economic activity beyond illegitimate businesses. Jones was excited about this company. “I was convinced of their positive impact. Being born and raised close to their headquarters, I know how important real business is for the region” (int.: Jones). However, the small company did not have the required level of professional administration necessary to receive impact investing funding. Despite strong pro-bono advisory, the deal-making process lasted over three and a half years from first point of contact to the final investment decision; a process that is supposed to last “ideally, three to four months” (int.: Managing Director, SIF). In 2013 and after several rounds of discussions within SIF, the small deal was finally approved.

The second deal was a larger social enterprise in the area of finance. Being headquartered in an emerging country capital, the social enterprise had operations in several countries with a strong network of investors and donors including leading business entrepreneurs and philanthropists on the continent. Early in the screening process, Jones was convinced of the positive impact of the company enabling positive developments of clients and their respective families, in most cases being the first generation within their families to benefit from the respective service. After several rounds of negotiations with the venture’s lead entrepreneur and Jones acting as facilitators between the venture’s board and SIF’s IC, the two parties successfully agreed on the deal. Again, the deal-making process had lasted longer than suggested by the ideal-type process as codified within SIF. In both deal-making processes, the entrepreneurs did not pitch their companies directly to the IC, but Jones presented their cases. Regional managers on the
operational-level played an important mediation role between the deals to be evaluated and the IC being responsible for the investment decision as well as for strategy. Regional managers filtered the information of the external environment via the operational practice of deal-making to the IC.

2.5 Toward a model of practice-driven strategic responses to institutional complexity

2.5.1 Deal-making as an operational process shaping strategy

As the IC was accountable for strategy as well as for the final decision about investment deals, regular committee meetings were intended to serve both for strategic conversations and operational decisions. However, with SIF’s increasing popularity in their investment markets, the number of deals grew significantly rendering IC meetings to be solely dedicated to investment decisions, as an IC member pointed out: “We used to decide on strategy in the regular [investment committee] meetings, but the deal-decisions become too many and too time consuming” (int.: IC Member, SIF).

Deal-making decisions had taken the place of strategic decisions in regular IC meetings. Pure strategy conversations could not keep up with the urgent attention that new and existing deals were demanding from IC members. The strategy process itself was under constant review over the first five years. A managing director explained that “the strategy process two years ago has been a different one than today” (int.: Managing Director, SIF). Emphasizing this notion, an IC member added the following: “As we are young, the process is also constantly shifting. So now, in three weeks, we are testing a different format with the senior management team” (int.: IC Member, SIF).

In ambiguous environments without clearly prescribed organizing templates, SIF could not enforce strict operational guidelines, but had to leave space for exploration in the regional offices. As a consequence, the regional investment teams sought opportunities that they considered appropriate based on their personal backgrounds in line with SIF’s broad mission of investing to generate positive social and environmental outcomes. One regional manager underlined this openness for exploration: “What I like very much is that our managing directors
never say ‘this is how we do things’. They listen to us” (int.: Regional Manager, SIF).

Through collaboration with colleagues and managing directors, investment opportunities formed into concrete deals presented to the IC, which consequently had an influence on what SIF pursued as an impact investor. SIF’s change from providing mostly grants to investing debt and equity illustrates this relationship between opportunities in the environment and strategy. Initially, the organization sought to primarily provide grants to social-purpose organizations and allocate 25% of capital to test debt-financing opportunities. When they first entered the regional investment markets in developing countries, the team screened multiple early-stage growth companies creating positive value for vulnerable groups of society, yet, operating with a financially viable business model. Accordingly, SIF could finance these organizations with debt and equity, rather than with grants. With their strong business background, the early team of SIF prioritized investing over donating and changed their ratio of capital deployment to approximately 75% debt and equity and 25% grants. While this shift based on the deals they sought was enacted intentionally, the continuous shaping of strategy through deal-making happened emergently and implicitly without organizational members always being aware about it.

In conclusion, without clear prescriptions from the institutional environment about how to develop strategy and which strategy to pursue, SIF enacted their operational-level practices in form of the deal-making process that would then influence strategy. To advance our understanding on hybrid strategizing, we need to develop a general model of how operational-level practices influence strategy. While a single, exploratory case study cannot deliver this general model, it can propose a set of constructs that draw a link between operational practice and strategizing in young, hybrid organizations. Once tested in future research projects, these constructs may allow us to better understand and predict how antecedents of strategic responses are linked to their organizational outcomes through the enactment of operational practices.

2.5.2 Inside operational processes: Mediators linking antecedents of hybridity with their organizational outcomes

In this section, I propose three constructs that mediated the relationship between antecedents and organizational consequences of institutional complexity through
the operational deal-making practice. First, individual deals became cases of precedence for later deals, second, the influence of deals on the organization was reinforced through regular instances of reflection, and, third, operational-level managers perceived IC decisions on deals as strategic rather than operational.

**Setting of precedence.** Every investment that SIF pursued had an influence on the positioning of the organization, that is, on what kind of deals they invested in and the type of impact investing organization they were. With over 20 portfolio companies and around 80 due diligence processes since inception, an individual deal rarely changed the entire organization of SIF directly. Yet, organizational members consciously and (most likely) unconsciously referred to former deal-making decisions when they argued in favor of a particular deal. As a managing director pointed out: “A series of deals become a precedent for where we invest” (int.: Managing Director, SIF). Each positive or negative deal decision set a precedent for the organization providing the base for a pattern of similar deal-making decisions. This pattern of decisions contributed to the shaping of an emergent strategy (Mintzberg, 1978).

An example of how one deal served as a precedent for future decisions was the case of Beta-Water, a former portfolio company of SIF. After several detrimental events had happened, the company went bankrupt with SIF being their main investor. The specific reasons for bankruptcy were investigated and shared across the organization. However, its consequences for future deal-making decisions were generic rather than distinct. When another deal in a related area was brought to the attention of the IC, an IC member’s reaction based on the experience with Beta-Water was: “I don’t think we are doing [these kinds of deals] for the moment” (int.: Jones). And a managing director added a general view on this: “It is natural that things that have been successful in the past, people want to replicate in future and things that have been complete failures, people want to avoid them in future” (int.: Managing Director, SIF).

Due to the ambiguous environment, special deals were the rule rather than the exception. Team members brought forward special reasons for why a particular deal should be approved. However, the special features of deals could be put out of context when applied to a different deal-making process at a later date. “So, we’re stretching in a way, what we’re willing to do with specific deals. And then, what happens is, you present something that is similar to that, and then nobody can tell you, ‘No, we don’t really do that because we do that.’ Right” (int.: Jones)? Through this pattern of positive and negative precedence, individual deals had an
effect on other deals that collectively influenced the investment strategy of SIF. Hence, I propose the following.

**Proposition 1:** The higher the tendency of organizational members to refer to earlier operational decisions as cases of precedence, the higher the likelihood of an operational practice to shape strategic responses to institutional complexity.

**Reflective faculties.** Regular instances of reflection in which SIF’s managers and IC members discussed about deals reinforced the implications of deal-making on the organization. In particular, the organization held quarterly IC meetings in which regional managers would report the status quo of their investment deals. Through regular reflection, the organization increasingly familiarized with portfolio companies. Moreover, every year in fall, the entire team gathered in a retreat to reflect on past year’s deals and plan for the coming year. The discussion outcomes of this gathering served as a preparation of the IC’s formal strategy session a few weeks later. During the gathering, the team focused on sharing their learnings from existing deals thus developing their collective knowledge in deal-making and reinforcing the strategic relevance of past deals as they derived their strategic agenda from the then existing portfolio. As organizational members discussed deals they unconsciously negotiated the strategic response based on their personal backgrounds and using the deal as an instantiation of these logics. Schedler (2012) labeled these meetings to reflect on different views based on underlying institutional logics as ‘reflective faculties’.

**Proposition 2:** The more reflective faculties exist related to an organizational practice within an organization, the higher the likelihood of the operational practice to shape strategic responses to institutional complexity.

**Strategic belief.** Regional managers had only limited opportunities to speak to the IC, so that the IC meetings in which they presented ‘their’ deals were of high importance for them. Referring how individual comments of IC members were taken very seriously, a managing director half-jokingly said: “For them [regional managers], what IC members say is almost like the voice of God in that situation” (int.: Managing Director, SIF). An approval or decline on a deal could be interpreted as a new strategic agenda as one of SIF’s IC members explained it:
“There is a difficulty in this process, because sometimes deals are decided negatively. The IC decides not to do [a deal] and then the regional managers out there try to interpret whether that is a strategy shift and what kind of strategy shift. And sometimes that is indeed a strategy shift. But sometimes that is not a strategy shift at all. […] And then it is very important to make very clear that this is not a strategy shift. And sometimes they believe us and sometimes they do not. Sometimes they think we are just hiding a strategic decision behind this excuse” (int.: IC Member, SIF).

The degree to which decisions on operational practices were misperceived as strategic decisions contributed to strategy-shaping function of these practices. Accordingly, the third proposition goes as follows:

Proposition 3: The more a leadership decision along an operational practice is misperceived as 'strategic' by operational-level managers, the higher the likelihood of this operational practice to shape strategic responses to institutional complexity.

2.5.3 Inside operational processes: Moderators influencing the effect of individual deal-making practices on organizational outcomes

I propose two moderators influencing the degree to which deal-making practices shape strategy. First, internal collaboration on a deal increased its diffusion inside the organization. Second, the degree of external signaling of a deal towards key constituencies affected strategy as it related to how SIF team members anticipated the impact investing organization to be perceived.

Internal collaboration. Along the investment process, Jones involved several colleagues, both peers and seniors. For example, she asked one colleague to assist with the financial analysis during a due diligence of a venture company. This colleague from another regional office provided a critical piece of information during the final IC meeting, in which the deal was approved. Through collaboration, regional managers created a sense of ownership among their team members helping to get an approval for deals.

Deal-making practices also involved senior management of SIF. The final decision to invest or not to invest in a deal was done in IC meetings. Before this final decision was made, there were various conversations both with the managing directors and the IC. Collaboration of regional managers, managing directors and
IC members during decision-making increased the strategic implications of individual deal-making practices for strategic responses on the organizational level. This goes in line with Smets and colleagues’ (2012:899) conclusion that “organizational coordination […] accelerates and amplifies the change process, facilitating its movement from practice to field.” In addition to a shared experience during deal-making, the organization built up a shared knowledge repository with each deal that was done. Hence, collaboration on deals increased the relevance of individual deals for subsequent deals within SIF.

**Proposition 4:** The higher the degree of internal collaboration during an operational practice, the more this practice can shape strategy in a young hybrid organization.

**External signaling.** Seeking legitimacy in different institutional environments, hybrid organizations enact strategies to demonstrate adherence to the claims of institutional referents. In both deals followed during this study, signaling to constituencies was relevant to the final decisions as well as to their implications. In one deal, Jones pointed out how important the network of the venture company was and that she wanted SIF to be perceived in a specific way. She emphasized: “There are few things so transparent like an investment deal in a young impact investing market like [ours]. Everybody knows we are doing a due diligence on this company” (int.: Jones).

While presumably not being the only reason, signaling to key constituencies seemed a relevant factor in the consideration of the deal-decision. Due to its exposure among other investors, one impact investing deal could shape the way external referents perceived SIF as a particular type of impact investor.

In the other deal-making process, the potential implications on fundraising from key constituencies played an important role. At the time of the deal-making process, SIF was in fundraising mode, i.e. trying to secure mandates from potential investors. The deal provided a good case study expressing to investors which impact SIF achieved with investments in economically less developed regions. It was a case that was easily understood and communicated. As Jones put it: “You know what's interesting? If […] you present a summary of the two deals to everyone and say ‘hey, here are two investment opportunities’ [and] you don't give names, you just say this is a story of a company [in this rural, less developed region] doing this and that, and that another company is [providing financing to their clients to improve their lives]. Everyone asks us about [the first
company]. Everyone. It's like “hey, tell me more about it, we would like to meet them, we like to see them” (int.: Jones).

Deal-making sent signals to external constituencies who then developed a perception about what the organization is and is not doing. Their perception influenced how they interacted with the respective impact investor, including granting of financial resources. Hence, I propose that the signals sent to external constituencies during a deal-making process influence the strategic response of SIF.

**Proposition 5:** The more an operational practice is exposed by sending signals to key constituencies, the more this practice can shape strategy in a young hybrid organization.

The five propositions developed above are summarized in the emerging model in Figure 3:39.

**Figure 3: Conceptual model of practice-driven hybrid strategizing**
2.6 Discussion

2.6.1 Summary and boundary conditions

Building on Strategy-as-Practice and institutional theory, I propose a conceptual model for strategizing in young hybrid organizations under institutional complexity. The model entails how organizational members enact practices along an operational process based on their personal perception of the organization’s raison d’être. Under institutional complexity without clear organizing templates, operational practices can shape strategy to the extent that individual instantiations of an operational practice become precedents for future decisions, organizational members regularly reflect on these instantiations and they consider their outcomes as strategic although they were not intended to be strategic. Internal collaboration and external signaling during these practices strengthen their effect on strategy-making.

Over the last two decades, scholars have increasingly developed theory around institutional complexity and its respective strategic responses (Battilana and Dorado, 2010; Jay, 2013; Kraatz and Block, 2008; Oliver, 1991; Pache and Santos, 2010 and 2013). Calling for combining Strategy-as-Practice and institutional theory (Golsorkhi et al., 2010; Smets, Greenwood and Lounsbury, forthcoming; Vaara and Whittington, 2012), some studies take a practice perspective on institutional theory in general, and institutional complexity in particular (Jarzabkowski, Spee and Smets, 2013; Smets et al., 2012 and 2014). Thus, the ‘p’, i.e. ‘practice’, of Strategy-as-Practice theory has been applied to institutional theory. However, the ‘s’, i.e., ‘strategy’, has received less attention. This is quite surprising considering that Oliver’s seminal article on institutional complexity is titled “strategic responses to institutional processes” (1991:145, emphasis added). Thus, we only know little about how strategizing actually takes place within young, hybrid organizations. Looking at the day-to-day work of organizational members, it becomes evident that strategic responses are in competition with each other before they form an organizational-level response. The forming of strategic responses, i.e. strategizing, in young hybrids is as dynamic as is their institutional environment. This view adds a new notion to current theory on how field-, organizational- and individual-level antecedents shape strategic responses. Drawing from a 24-months data collection effort on an
international impact investing organization, this study explores and suggests a preliminary conceptual model to bridge this theoretical gap. In terms of boundary conditions, the case organizations, Social Investments Fund (SIF), is a young hybrid organization in the emerging impact investing field at the interstices of venture capital finance and philanthropy logics. The model should therefore be tested referring to similar cases such as, for example, social enterprises in countries where the institutionalization of social entrepreneurship emerging between market and welfare logics is only starting (Battilana and Lee, 2014). Additionally, the deal-making process in impact investing organizations is an important operational process at the core of organizational functioning. It is legitimate under the mature logics, i.e., venture capital finance and philanthropy, as well as under the emerging logic of impact investing. Finally, it spans the boundaries between the organization and its environment. The model should be refined and tested with operational processes with equivalent features.

2.6.2 Limitations, future research and recommendations to practice

As with other single case studies, the developed model lacks generalizability to the universe of all young hybrid organizations in emerging fields. The results are exploratory propositions to inspire future research rather than theoretically proven knowledge.

Furthermore, SIF and the two investment processes followed during this study can be considered an extreme case (Siggelkow, 2007). Due to their strong financial endowment from the corporate mother, the organization could explore impact investing practices and be open to a broad range of investment opportunities. The deal-making processes lasted over one year and three and a half years respectively, the latter being the longest ever deal-making process in SIF’s history. This was helpful to be able to draw the connection between deal-making practices and strategizing as individual responses to competing logics develop over time (Raaijmakers et al., forthcoming). However, such a long deal-making process is the exception rather than the norm.

Finally, the model connects operational deal-making with organizational strategizing as several deals collectively shaped strategy in a bottom-up way. However, it neglects that an initial top-down decision to initiate investing or to enter a particular market was necessary in order to have deals ‘coming in’. Accordingly, the model provides a limited view and overemphasizes operational practice-driven
strategizing. However, with most studies emphasizing field-level pressures or agency of top-down leadership, this article hopefully contributes to develop a holistic theory of strategizing in hybrid organizations.

Naturally, future research could test the propositions of this study. Future research may also apply the findings to contexts of mature, rather than emerging fields (cf. Greenwood and Suddaby, 2006) or to mature, rather than young organizations (cf. Burgelman, 1994; Jones, Boxenbaum and Anthony, 2013; 2013; Regnér, 2003). As mentioned above, future scholars may also develop a dynamic model in which strategizing is sometimes enacted by operational-level and sometimes by strategy-level practices. Most importantly, though, future research should refine the proposed model. In its current version, the model only implicitly suggests how distinct antecedents of institutional complexity, e.g., a distinct configuration of internal representation of logics, links to distinct consequences, e.g., manipulation of logics.

This study contributes to praxis as it sheds light on the strategic implications of operations, especially during phases of exploration. Leaders of young hybrids should consider operational-level managers, e.g. those at the frontline, as important contributors to strategy, maybe even as ‘strategists’.

2.7 Conclusion

Echoing Battilana and Lee (2014) that social enterprises provide excellent contexts for the study of hybrid organizing, this study hopefully inspires more research and practice on institutional complexity and impact investing. Suddaby and colleagues (2013) as well as Vaara and Whittington (2012) are right in calling for a combination of Strategy-as-Practice and institutional theory in order to advance our understanding of increasingly present contexts of institutional complexity. In conclusion, this study reminds us that we must not underestimate operational practices. They are a big deal, even, or especially, for strategy.
2.8 References


3 Impact investing: Competing logics and hybrid organizing in an emerging field (Paper II)

By Christoph Birkholz and Filipe Santos

Abstract

Impact investing is a growing phenomenon to invest capital pursuing financial returns and positive impact for society. Impact investors are hybrid organizations that are exposed to the institutional logics of mainstream finance and philanthropy. As both logics entail competing prescriptions for legitimate behavior, impact investors face institutional complexity. Based on a recent model developed by Raynard and Greenwood (2014), we build a framework for organizational configurations of impact investors under different types of institutional complexity. For those impact investors prioritizing either mainstream finance or philanthropy logics we elaborate on symbolic coupling and hierarchically structured hybrid configurations. For impact investors without any prioritization we provide a detailed overview of federated, network-modular and generative hybrid impact investors. Conceptualizing along key organizational dimensions, namely goal definition, people management and performance measurement, we advance existing models for organizing under institutional complexity and we apply our framework to examples from the emerging impact investing field. We conclude with recommendations for further research and practice.

3.1 Introduction

Building on the growing momentum of social entrepreneurship, impact investing has emerged since the earlier 2000s as a new approach to allocating financial resources at the intersection of mainstream finance and philanthropy (Mair and Hehenberger, 2013; Miller and Wesley, 2010; Santos, 2012; Scarlata and Alemany, 2010). Impact investors pursue simultaneous goals to grow financial capital while intentionally generating a positive and measurable impact on society
(Grabenwarter and Liechtenstein, 2013; World Economic Forum, 2013a). Despite vague definitions and fluid sector boundaries, industry reports count approximately 250 dedicated impact investing organizations in 2013 with at least USD 25bn assets under management across the globe (Saltuk, Bouri, Mudaliar and Pease, 2013; World Economic Forum, 2013a) and projections of the market potential for impact investment ranging from USD 400bn to 1 trillion by 2020 (Koh, Karamchandani and Katz, 2012; O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine and Brandenburg, 2010).

Alongside dedicated impact investment organizations, several sector-building networks and associations have emerged, e.g. the Global Impact Investing Network, the European Venture Philanthropy Association and the Asian Venture Philanthropy Network. These organizations provide market data, convene key actors and lobby for favorable legislation – effectively helping to build the infrastructure for a new investment approach that considers positive societal impact as a driving factor in the decision-making process (Birkholz, 2013; Mair and Hehenberger, 2013). In addition to these actors, there are now impact investing wholesalers such as UK-based Big Society Capital, a growing number of impact investing teams in larger banks and foundations as well as novel financial instruments like social impact bonds. All of these developments are creating the makings of a new field for impact investing (DiMaggio and Powell, 1983; Fligstein and McAdam, 2013).

This emerging field and associated ecosystem is incorporating competing logics and prescriptions from both the financial investment sector and the philanthropic sector. On one hand, the financial sector prescribes organizations to maximize financial returns, often with a fiduciary responsibility to pursue this goal. Typical actors of mainstream investment markets are financial intermediaries, structured as fund management organizations that raise capital to invest in assets such as stocks, bonds or private equities. For example, traditional venture capital funds provide expertise and networks alongside their financial resources to young growth companies in order to grow and eventually sell the equity of the respective companies (Gompers and Lerner, 2006). They recruit new team members from the existing private equity industry, investment banking and business school graduates primarily carrying financial market logics (Besharov and Smith, 2014). On the other hand, the philanthropy sector is composed of individuals and organizations providing grants to worthwhile causes, charities and other non-profit organizations. Generally organized in foundations and regulated by tax authorities,
philanthropic grant-giving organizations pursue value creation for society. As
grant-givers, foundations do not expect financial returns but may require reporting
during and after the funded project. Active involvement in external projects is less
common. Recruiting strategies for foundations are diverse, as they target people
with experience in the public sector, international development and social
economy. There are few established education program for careers as manager or
grant advisor in foundations (Anheier, 2001).
By being exposed to the logics of these two different fields, impact investors face
ambiguity about which organizational mission is considered legitimate, how to
pursue this mission, and whom to attract as organizational members to enact its
practices (Raynard and Greenwood, 2014; Souitaris, Zerbinati and Liu, 2012).
That is, key elements of organizing appear incompatible as they try to cater for
both mainstream finance and philanthropy (Friedland and Alford, 1991; Thornton,
Ocasio and Lounsbury, 2012). The institutional environment of impact investors,
composed of resource providers, sector organizations and legal regulators,
imposes potentially incompatible institutional pressures on organizations in the
emerging field (DiMaggio and Powell, 1983; Pache and Santos, 2010). Impact
investors find themselves in-between regulations and accepted practices for
charities and foundations as well as for financial institutions and investment funds.
By pursuing two potentially diverging goals, i.e. financial return and societal value
creation, impact investing organizations constitute a hybrid organizational form
(Greenwood, Raynard, Kodeih, Micelotta and Lounsbury, 2011; Jay, 2013;
Thornton et al., 2012) which exposes them to the competing logics that the fields
of mainstream finance and philanthropy entail (Battilana and Dorado, 2010; Pache
and Santos, 2010). A key challenge for impact investors is how to manage this
institutional complexity (Mair and Hehenberger, 2013).
On the surface, impact investors may publicly allege that they cater for both
financial return and positive societal impact without assuming any trade-offs
(Grabenwarter and Liechtenstein, 2013). However, even if they are able to
convince external stakeholders and avoid significant trade-offs, individuals have
underlying beliefs that are dependent on their prior experiences, socialization and
education. They thus espouse and adhere to particular logics (Pache and Santos,
2013a), which influence the decisions to favor one logic over the other (Souitaris et
al., 2012). If this competition of logics is represented internally in the human
resources composition of the organization, it can lead to lack of clarity, tensions
and eventually breakup amongst organizational members (Besharov and Smith, 2014; Pache and Santos, 2010).

In summary, impact investors are in effect operating in an institutionally complex field, attempting to operate without the benefit of accepted blueprints for hybrid investing (Battilana and Dorado, 2010). In this context, we seek to understand how impact investing organizations deal with and potentially benefit from institutional complexity.

Addressing this research question we draw from existing theories on competing institutional logics and hybrid organizing (Battilana and Dorado, 2010; Besharov and Smith, 2014; Glynn, 2000; Heimer, 1999; Kraatz and Block, 2008; Meyer and Rowan, 1977; Oliver, 1991; Pache and Santos, 2010, 2013; Raynard and Greenwood, 2014; Scott and Meyer, 1994; Thornton and Ocasio, 1999 and 2008).

To clarify, we refer to the term hybrid organization as an organization that combines multiple logics in new ways (Thornton et al., 2012), potentially, yet not necessarily, benefiting from institutional complexity (Jay, 2012). We then elaborate on organizational configurations for impact investors depending on their positioning in the emerging institutional field and along three key organizational dimensions, i.e. goal definition, people management and performance measurement. In doing this, we develop a better understanding of the organizational configurations necessary to cope with different types of institutional complexity, thus contributing to the discourse on competing logics and organizational responses.

Researching organizations in an emerging field provides an exciting opportunity to theorize around the dynamism that hybrid organizations must cope with as they move from formerly uncontested positions to a state of institutional complexity. Applying our framework to the emerging field of impact investing, we facilitate comprehension of the theoretical concepts and remain relevant for practice, enabling impact investing professionals to make better decisions about the set-up and management of their impact investing fund organizations. We conclude with a discussion on the implications and limitations of this work and suggest potential avenues for further research.
3.2 Organizing in contexts of institutional complexity

Organizational scholars show increasing interest in institutional complexity and associated organizational responses (Battilana and Lee, 2014). Institutional complexity can provide a context for hybrid organizations to develop new models, draw resources from multiple institutional referents and to secure a central role in an emerging field (Raynard and Greenwood, 2014). However, by being exposed to competing institutional logics, organizations need to cope with internal and external claims that may diverge and appear incompatible. Thus, they may lose legitimacy from key institutional referents as they violate the norms and prescriptions of one logic while trying to meet the requirements of the other(s). Since organizational members embody institutional logics, they may experience misunderstandings or tensions when working with colleagues who have been educated and socialized differently (Battilana and Dorado, 2010). While these perspectives highlighting organizational conflict have dominated earlier research on competing logics, scholars have recently started to investigate the conditions under which organizations may survive and even thrive under institutional complexity (Besharov and Smith, 2014; Jay, 2012; Pache and Santos, 2010; Schedler, 2012; Souitaris et al., 2012).

In particular, hybrid organizations can master institutional complexity by developing configurations that allow them to cater for the different competing logics. They enact distinct strategies to attract and manage organizational members, set intermediate goals, signal coherence through symbolic actions, build separated organizational entities, and couple accepted practices from mature fields (Battilana and Dorado, 2010; Besharov and Smith, 2014; Pache and Santos, 2013b). Yet, despite an array of existing research on organizational responses to institutional complexity, we lack a fine-grained understanding of how hybrid organizations innovate in their organizational configurations as a new institutional field emerges. Depending on the positioning within a field (Fligstein and McAdam, 2013), organizations face distinct combinations of institutional claims as well as different opportunities to invent and enact novel practices and organizing forms (Maguire, Hardy and Lawrence, 2004; Wright, 2009).

Seeking to understand the emerging impact investing field, we draw from a recent framework of Mia Raynard and Royston Greenwood (2014). The authors conceptualize different types of institutional complexity. Under ‘Restrained
Complexity’, they suggest that competing institutional logics exist, yet, one logic is clearly prioritized. Hybrid organizations may consider this logic as central to their functioning, which enables them to mirror this logic internally and to signal compliance externally (Besharov and Smith, 2014). Under Restrained Complexity, competing logics entail incompatible prescriptions of why, what and how to organize, and jurisdictional claims of different institutional logics overlap. In a different type of institutional complexity, jurisdictional claims also overlap and logics appear incompatible. However, in addition to this, a clear prioritization of one single logic is not possible. Raynard and Greenwood (2014) label this most difficult type of institutional complexity as ‘Volatile Complexity’.

While the distinction of these two types provides a helpful conceptual framework to further build theory on how to organize under institutional complexity, newly emergent fields may actually incorporate both types of complexity simultaneously. Organizing in an emergent field at the interstices of mature institutional fields may depend on the positioning of actors within the field (Greenwood and Suddaby, 2006; Maguire et al., 2005). Organizations that remain closer to a mature field may prioritize one logic, while others are equally distant from both fields, thus not being able to prioritize any logic. The former actor finds itself in a context of Restrained Complexity while the latter is exposed to Volatile Complexity within the same emergent institutional field (see Figure 4:53).

**Figure 4: Restrained and Volatile Complexity in an emerging field**
With a framework for different types of institutional complexity in mind, we will discuss next how the field of impact investing is emerging and how impact investing organizations may react to this change.

3.3 Impact investing as an emerging field with institutional complexity

Social entrepreneurship has developed over the last decade into a growing phenomenon as a response to the discontent with existing economic systems and market failures (Battilana and Lee, 2014). Social entrepreneurs prioritize societal value creation over value capture (Santos, 2012). Thus, they primarily seek positive societal impact as opposed to financial returns. Due to the ineffectiveness of conventional start-up capital providers and philanthropic donors in financing these positive impact-oriented entrepreneurs, impact investors – sometimes also referred to as Social Venture Capitalists, Philanthropic Venture Capitalist or Venture Philanthropists – have emerged in order to combine practices from both mainstream finance and philanthropy (Mair and Hehenberger, 2013; Miller and Wesley, 2010; Scarlata and Alemany, 2010). While the combination of financially- and ethically-motivated practices is not new and has been enacted for centuries by, for example, churches, cooperatives, and charities (Scarlata and Alemany, 2010), the emergence of a new institutional field of impact investing, including major infrastructure developments such as the creation of industry associations, commonly used practices and terminologies, is a novel phenomenon (World Economic Forum, 2013a).

Emerging at the convergence of mainstream finance and philanthropy, the impact investing sector encompasses organizations that either move from one of the two institutional fields into impact investing or that are newly created impact investing organizations. Impact investors position themselves either close to one or equally distant to both existing fields (see Figure 5:55). Those that remain close to one of the two fields prioritize the logic that is most central to their functioning (Besharov

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3 Impact investing organizations may also embody logics from other relevant institutional fields such as international development cooperation. However, for conceptual parsimony, we only focus on the two dominant logics, being mainstream finance and philanthropy.
and Smith, 2014). For instance, finance-first impact investors are oriented towards mainstream finance by defining a minimum for societal value creation through their investment allocation, and then maximizing financial return. On the opposite side, and drawing from philanthropy as their main reference point, impact-first impact investors satisfy on a certain level of financial return and maximize on societal value creation (World Economic Forum, 2013b).

While prioritizing one logic may be possible, impact investors still need to cater for both institutional referents creating a complex context for organizations and individuals (Besharov and Smith, 2014; Pache and Santos, 2010). Comparable to the pluralism of work integration enterprises that are exposed to commercial and social sector logics, mainstream finance and philanthropy entail incompatible logics with regards to goals, i.e. financial wealth maximization versus positive societal impact generation; organizational form, i.e. for-profit form versus non-profit form; and governance mechanism, i.e. hierarchical governance mechanisms versus democratic governance mechanisms (Pache and Santos, 2013b).

Mainstream finance encompasses specific practices such as performance measurement based on quantitative proxies, market-based competition, hiring and socializing of analytical professionals and financial incentive systems to govern organizational members. Philanthropy, on the other hand, honors altruistic behavior and grant-making in order to tackle root causes and/or mitigate suffering (Anheier, 2001).

Requirements of jurisdictional institutions prescribe which behavior is legally accepted. Impact investors face overlapping claims from mainly two distinct sources of legislation. While national banking and asset management authorities usually regulate financial market actors, foundations and charities fall under charitable or philanthropic supervision, depending on the country in which they are domiciled. As a result, impact investors face overlapping jurisdictional claims creating institutional complexity. For example, a foundation that strives to use part of its annual interest income to provide loans to for-profit start-up companies tackling neglected societal problems instead of donating to charitable organizations may find itself on illegitimate territory due to lack of compliance with taxation practices. In most countries regulatory frameworks do not facilitate philanthropic foundations moving into impact investing. In a similar vein, being regulated by asset management legislation, for-profit venture capital funds are expected to assume fiduciary responsibility on behalf of their financial investors. Hence, venture capitalists who aim to practice impact investing may be acting
illegitimately as they might sacrifice financial value capture for their investors in exchange of enhanced societal value creation (Santos, Pache and Birkholz, 2014). This context of competing institutional logics creates a challenge to impact investing organizations.

**Figure 5: Impact investing emerging between mainstream finance and philanthropy**

![Image](image_url)

### 3.4 Organizational configurations at the margins of the emerging impact investing field

As outlined in the previous section, impact investors face incompatible logics of mainstream finance and philanthropy as well as overlapping claims of financial market and philanthropy regulators. At the margins of the emerging impact investing field, impact investors prioritize either mainstream finance or philanthropy. They are exposed to Restrained Complexity, in which they may organize by enacting two different configurations, i.e. enacting ‘symbolic coupling’ or choosing a ‘hierarchically structured’ configuration.
3.4.1 Symbolic coupling as a response to Restrained Complexity

In contexts of institutional complexity with a clear prioritization of one logic, organizations may respond to competing institutional claims through symbolic actions (Pache and Santos, 2010; Westphal and Zajac, 2001). Using symbolic coupling they express compliance with less central logics without actually integrating these logics at the core of their organization. Symbolic actions require little internal adaptation, while still being able to mobilize resources from different institutional constituencies (Fiss and Zajac, 2006; Tilcsik, 2010).

For example, private equity firms deploying capital in growth companies in emerging economies may publicly claim to generate societal value. Presenting themselves as socially-oriented investors, they can draw resources from Development Finance Institutions (DFIs) that support positive social and economic impact through private sector investments. Despite their symbolic actions, they do not actually incorporate any social sector logics, but proclaim a positive correlation between portfolio company growth and social development. However, their organizational goals, structures, practices and talents are focused on financial wealth maximization and their key institutional referents, including their primary source of capital, are located in mainstream finance.

The global emerging market private equity investor, Abraaj Group, claims to build sustainable businesses and communities including a commitment to ESG investing, i.e. to environmental, social and governance considerations in investing. However, with existing portfolio companies in areas like oil exploration or leisure yachting, the logics of philanthropy do not seem to have a significant effect on Abraaj’s investment activity.

On the other hand, philanthropic foundations increasingly apply venture capital language, labeling their grant-making activities as ‘investments’ and speaking of ‘portfolio companies’ rather than grantees. Learning from venture capital has been suggested to foundations, not the least, by management literature (Letts, Ryan and Grossmann, 1997). However, for many foundations, symbolically using venture capital language is a lip service to express adherence to business and for-profit scaling ambitions, rather than an actual integration or blend of venture capital practices. Overall, core practices of many philanthropic foundations have not changed substantially. Philanthropic organizations do not expect reciprocal financial transactions in return of their grants (which in many regulatory
frameworks would be prohibited), they prioritize project funding and outcomes over organizational growth of grantees, and their involvement in the activities of grantee organizations is low as compared to venture capital. Accordingly, major tenets of venture capital practices are neither directly applied nor significantly merged with traditional philanthropic approaches.

Symbolic coupling enables organizations to hybridize in its mildest form. While it does per se neither imply shorter survival nor lower performance, it becomes unsustainable once symbolism is revealed as such, potentially resulting in a loss of legitimacy. In summary, at the margins of the emerging impact investing field, fund management organizations and philanthropic foundations may be granted legitimacy by enacting symbolic coupling strategies. They remain close to one institutional logic and refrain from positioning themselves at the center of the emerging impact investing field.

### 3.4.2 Hierarchically structured hybrid configurations

Besides symbolic coupling, organizations that maintain a close connection to either mainstream finance or philanthropy may enact a hierarchically structured hybrid configuration (Raynard and Greenwood, 2014). Hierarchically structured impact investors actually internalize some of the logics of the field that they do not prioritize. However, they mirror their perceived prioritization for either mainstream finance or philanthropy by an internal hierarchy of legitimate actions. Despite their participation in field emergence, they stay close to their institutional heritage and stick to their distinct “home group’s dominant logic” from which they had initially ventured out (McPherson and Sauder, 2013:167). Some impact investors thus seek to internally “(re)install a mono-rational situation.” (Schedler, 2012:10).

Hierarchically structured impact investors that prioritize financial logics enact mainstream financial practices while catering for philanthropy logics as they also pursue and track social impact generation. They apply private equity investment practices, raise capital from mainstream asset owners, place their funds in mainstream sales outlets and signal their identity as a private equity or investment firm in external communications. Yet, they also cater for philanthropy logics by measuring and communicating the societal impact of their investment activities. Importantly, prioritization of mainstream financial market logics does not imply that these hierarchically structured impact investors actually generate more or less
financial return or positive societal impact than do other hybrids. However, these hybrids are likely to remain close to mainstream financial logics instead of striving for a center position in the emerging impact investing field.

As an example, Geneva-based international impact investing fund, Bamboo Finance refers to itself as a global and commercial private equity firm (Bamboo Finance website, accessed 29 October 2013). While they practice intensive social impact management of their investment activities, their CEO actually refrains from being called an ‘impact investor’ on conference appearances. In 2013, another leading impact investment firm in Switzerland informed its stakeholders that they have changed their name from ‘responsAbility – Social Investment AG’ (emphasis added) to ‘responsAbility Investment AG’ since “public perception of the term ‘Social Investment’ has become increasingly philanthropic so that it does not express its core meaning and can thus easily lead to wrong associations” (Habari - responsAbility Newsletter 03/2013). However, in the same newsletter editorial, responsAbility’s co-founder and CEO emphasizes that the firm will continue to “foster societal progress in emerging and developing countries.” While external communication may only be a vague proxy for the full spectrum of institutional work, it indicates the primarily intended positioning of organizations within the two relevant institutional fields.

Alongside a stronger signaling towards mainstream finance, the business models of Bamboo Finance and responsAbility depend on their financial investment activities. As their revenue stems from a percentage of the invested capital, they are more likely to invest in portfolio companies at a later stage of the venture company growth path requiring larger capital amounts and offering the highest possible rate of return. Prioritizing investing over philanthropy, hierarchically structured impact investors secure less grants – though most impact investors still receive some level of public or private grant funding – and they typically cannot afford to spend resources on in-depth due diligence on investment opportunities with capital requirements of less than USD 300’000 to 500’000. Hence, hierarchically structured impact investors with a prioritization of financial sector logics refrain from small deals due to their business model contingencies. In a similar vein, ventures with a promising approach for social value creation but limited organizational scaling potential or startup companies located in unstable or inaccessible geo-political regions are less likely to receive funding from hierarchically structured impact investors that prioritize financially scalable investments.
On the other side of the spectrum, impact investment organizations may also prioritize philanthropy logics over mainstream financial market logics. For example, the global impact investing pioneer, Acumen, primarily focuses on impact creation rather than financial return. Its operations are financed by philanthropic grants as a main source of capital rendering the philanthropic logic central to the organization (Thornton and Ocasio, 1999). Acumen’s main reference point is the charity rather than the investment community. To compare and signal their competitive advantage over charitable approaches, Acumen has developed the BACO framework, i.e. a comparison with the Best Available Charitable Option (emphasis added). In 2013, Acumen announced its name change from Acumen Fund to Acumen and published a manifesto expressing their primary pursuit for societal value creation as opposed to the prioritization of financial returns through investments (Acumen Twitter feed, 21 April 2013). On their website, they signal proximity to and advancement of social sector philanthropy. Acumen’s slogan is “a bold new way of tackling poverty that’s about dignity, not dependence, and choice, not charity” (Acumen website, accessed 3 January 2014). They enact philanthropic fundraising practices by prominently placing a ‘Donate’-button on the front-page of their website (Acumen website, accessed 29 October 2013) and, through their newsletter, they ask for donations to be matched by “one of [their] supporters up to $100’000 in online donations” (Acumen Newsletter, 11, 19 and 30 December 2013). Acumen caters for its key institutional referents by prioritizing philanthropy over mainstream finance logics. Nevertheless, as a hierarchically structured impact investing organization, Acumen innovatively incorporates and combines venture capital investment practices with a philanthropically funded operating model.

By being close to one institutional logic, impact investors enacting symbolic coupling and hierarchically structured impact investors can gain and maintain legitimacy in the context of Restrained Complexity. In these less contested institutional environments, a prioritization of logics allows for less challenging organizational configurations to survive and thrive. However, at the center of the emerging impact investing field, institutional complexity becomes increasingly unstable. Without a prioritization of logics, impact investors cannot draw from clear prescriptions about which goals and practices are considered legitimate, or how to couple approaches from competing logics. Organizational configurations might need to adapt to institutional change happening over years rather than decades so that impact investors find themselves in a constant state of change. As the focus
and primary contribution of this article, we now turn to organizational configurations for impact investing hybrids at the center of the emerging impact investing field.

### 3.5 Organizing at the center of the emerging field of impact investing

At the center of an emerging field with institutional complexity, clear templates for organizing have not yet been institutionalized. Organizations that pursue balancing institutional claims from both fields need to cater for diverging logics. They have to express alignment with two competing institutional constituencies while claiming their distinct nature as a central actor of an emerging field, i.e. an ‘impact investor’. They cannot prioritize one central logic but need to accommodate all institutional referents in similar but evolving ways (Besharov and Smith, 2014). Legitimate goals become ambiguous and symbolic action alone does not suffice to align organizational members. In the case of impact investing, regulations, practices and organizational prescriptions stemming from mainstream finance and philanthropy overlap, thus creating a fragmented and diffused institutionalization of logics in the emerging impact investing field (Morrill and Rudes, 2010; Purdy and Gray, 2009). At the core it remains unclear what the field is about, who are its main actors and which behavior is granted legitimacy (Scott, Ruef, Mendel and Caronna, 2000).

Impact investors that aim to be positioned at the center of the emerging field need to distance themselves from their institutional heritages. Yet, as their organizational members embody beliefs stemming from their prior professional socialization and education, they carry logics from mainstream finance or philanthropy (Battilana and Dorado, 2010; Besharov and Smith, 2014). This provides a fertile ground for internal misunderstandings and tensions (Pache and Santos, 2010). Externally, this context implies a high risk of loss of legitimacy and less access to key resources. Thus, organizations that strive for and maintain a center position in the emerging impact investing field need to create novel impact investing templates whilst the field constantly evolves in its nascent state. These impact investing organizations need to master what Raynard and Greenwood (2014) call Volatile Complexity. Volatile Complexity is “by far the most challenging
pattern of complexity for organizations to navigate” (Raynard and Greenwood, 2014). However, a central position in an emerging field may also offer the greatest potential for innovation and future resource acquisition once a dominant impact investing logic is institutionalized (Garud, Jain, Kumaraswamy, 2002).

In these contexts past research has suggested three modes of organizing to manage hybridity (Raynard and Greenwood, 2014): First, the ‘federated hybrid’ internally combines autonomous units each catering for one single logic. Second, the ‘network-modular’ hybrid connects individuals who embody competing institutional logics in a semi-structured way and organize them around project- or task-based activities. Third, the ‘generative hybrid’ aims to integrate competing logics into one internal unit in order to develop a distinct, novel institutional template for impact investing.

Based on existing literature on institutional complexity and its organizational-level interdependencies (Smets, Morris and Greenwood, 2012; Smets, Jarzabkowski, Burke, Spee, 2014) as well as our own practical experience managing hybrid organizations, we propose three key organizational dimensions that are important in order to better understand how to develop hybrid organizations, namely goal definition (Pache and Santos, 2010), people management (Battilana and Dorado, 2010) and performance measurement (Battilana and Lee, 2014).

3.5.1 Goal definition

With regards to goals, it is relevant which goals organizations set based on the diverging options ingrained in different institutional logics (Lounsbury, 2007). In the context of multiple competing goals, no single goal is yet legitimized for all relevant actors. Prescribed goals may appear incompatible, such that pursuing different ones at the same time may lead to loss of legitimacy and internal conflict (Besharov and Smith, 2014). Combining multiple goals in new ways is challenging and requires innovation (Jay, 2013).

Organizational members embody distinct beliefs of which goals are appropriate for the organization, potentially causing tensions internally and loss of legitimacy externally. The degree of tensions may depend on the degree of internal representation, the type of goals that are conflicting and how organizational members are responding to the complexity (Raaijmakers, Vermeulen, Meeus and
Zietsma, forthcoming). For example, Pache and Santos (2010) suggest that conflicts over organizational goals impose higher risks of tensions than does a conflict over the means of how to achieve these goals.

To facilitate alignment between diverging beliefs among organizational members, organizations might need to focus on intermediate goals such as pursuing ‘operational excellence’ rather than striving for a definitive goal, e.g. maximizing financial return while satisfying on positive spillovers to society. Intermediate goals guide organizational members in their day-to-day activities without emphasizing diverging taken-for-granted perspectives of why and how the organization exists and operates (Battilana and Dorado, 2010).

Goal definition is a key organizational dimension interdependent with external institutional referents as well as with internal organizational members. Impact investing hybrids that try to cope with Volatile Complexity need to balance the continuum between concreteness of goals, e.g. ‘financing the provision of distributed, clean energy in off-grid communities in India’, and openness such as ‘investing for a better world’. A too concrete goal may alienate organizational members and risk loss of legitimacy from institutional referents – a too broad goal may ease institutional constituencies but it may not provide sufficient guidance on strategy and actions for organizational members.

Furthermore, organizations can define different goals on different levels. An overarching organizational goal may be sufficiently open in order to signal belonging to all relevant institutional logics, while parts of the organization, e.g. subunits, may follow a distinct intermediate goal that guides their actions. In this case, organizational leadership needs to ensure alignment of organizational goals with subunit goals preventing conflict of interest due to incentives favoring subunits’ rather than organizational success.

In summary, impact investing organizations under Volatile Complexity need to define and manage their goals to enable orientation and guidance for organizational members and to align with diverging institutional demands from their environment. To prevent internal tensions or lack of guidance, they may choose to set intermediate goals or define different goals at different levels of the organization.
3.5.2 People management

Hybrid organizations have particular needs in terms of people management; that is, which people to recruit and how to socialize them. Depending on their prior experiences (Jones, 2001), professional expertise (D’Aunno, Sutton and Price, 1991) and functional background (Fligstein, 1990), people embody distinct institutional logics. Individuals inside organizations are influenced by and influence the hybrid nature of the organization (Besharov and Smith, 2014). Internal representation of logics affects organizational responses to competing demands and diverging views may cause internal conflict (Pache and Santos, 2010).

In their study on executive leaders at liberal arts colleges, Kraatz and Moore (2002) demonstrate how inter-organizational migration of executives can shape institutional change for the respective organizations as well as the institutional context of liberal arts colleges. Organizations that recruited executive leaders from colleges with professional programs or with a lower status were more likely to adopt controversial programs. Kraatz and Moore’s study demonstrates how managers with distinct prior experience may introduce innovation, yet, be considered more controversial and thus granted fewer resources. Furthermore, the authors make an implicit case on the importance of board members who are responsible for recruiting executive level managers.

Not only executives but also individuals on the operational level are interdependent with institutional complexity (Besharov and Smith, 2014). Based on their study of two Bolivian microfinance institutions (MFI), Battilana and Dorado (2010) explored two distinct recruiting approaches leading to different performance and survival outcomes due to the embodiment of logics of recruited individuals. The successful MFI applied ‘tabula rasa’-hiring by selecting individuals without prior sector experience in neither of the two relevant institutional fields being retail finance and development work. Hiring people who had not yet embodied logics from either side, the MFI was able to socialize their personnel around intermediate goals. The less successful MFI, however, recruited experienced staff from both fields which led to a strong performance initially but turned out to cause conflict and a low performance in the long-term. While ‘tabula rasa’-approaches of hiring

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4 We refrain from the term ‘human resources’ or ‘HR’ in order to conceptualize humans as people instead of resources. Though running the risk of creating confusion, we use the term ‘people management’.
inexperienced or less educated workers is suitable for MFI fieldwork, hybrid impact investors necessitate highly educated professionals to deliver special tasks. For example, investment managers of impact investors may need expertise on company valuation in the food processing industry in Eastern Africa as well as healthcare sector knowledge on the effect of early childhood interventions in Central African countries. This combination of diversity and specialization imposes a challenge on impact investors.

Hybrid impact investors under Volatile Complexity need to approach recruiting and people management with different strategies at different levels of the organization. While a board member who identifies strongly with one logic might be beneficial to acquire resources from her institutional heritage, the executive management team may need to be composed of hybridizers and operational staff being neither socialized nor educated in neither of the two dominant logics. In young, less hierarchical organizations, these fine-grained distinctions for recruiting and people management based on different levels are less evident and more difficult to pursue than it may be the case in large, established organizations. Nevertheless, neglecting to consider level-specific requirements for people management sets hybrid impact investors under Volatile Complexity at risk.

### 3.5.3 Performance measurement

Hybrid organizations require performance measurement systems that reflect institutional complexity of organizational members and goals. The content and process of performance measurement needs to be in line with the multiple institutional logics prescribing what is relevant, important and reasonable to be measured. In particular for organizations pursuing multiple competing goals, measuring the performance for combined and individual goals is both important and challenging (Kneiding and Tracey, 2009; Zald and Denton, 1963).

Institutional logics may diverge in their prescriptions of what measurement means. For example, mainstream finance logics entail quantitative measurement of performance proxies, often labeled Key Performance Indicators (KPIs), that allow abstracting the complexity of the outcomes of an organization to distinct figures such as internal rates of return (IRR), sales, net earnings, share prices, market capitalization, company valuations and total return on investment, amongst others. These figures allow comparison of outcomes in short timespans. In philanthropy,
there is less consensus about the necessity and way of performance measurement. In their account on early developments of organized philanthropy in Europe, Mair and Hehenberger (2013) observed how traditional philanthropy advocates opposed the influx of metrics coming from venture philanthropists based on their venture capital backgrounds. Philanthropy pursues positive spillovers to society for which comparable, agreed-upon metrics do not yet exist. While impact investing professionals call for a global impact measurement framework, it is questionable how this framework may look like. Outcomes of interventions for positive impact on society occur over decades rather than years, and the effects on society, even in highly localized contexts such as a neighborhood or a community, are by nature systemic, which makes it difficult to single-out useful quantitative proxies. Impact investing hybrids at the center of the emerging field require a performance measurement system that allows managing diverse individuals and evaluating whether or not hybrid goals have been met (Maas and Liket, 2011).

Aside from an outcome perspective, other focuses of performance measurement exist depending on a field’s prescriptions. Performance measurement systems vary in their emphasis on process compliance as opposed to outcome targets. As an example, O’Mahony, Besharov and Chen (2014) demonstrate how organizational members of an open source software community and the burning man festival had distinct expectations of process compliance and openness in content production.

Also, the approaches of how to integrate performance measurement within organizations differ. For example, responsibility over performance measurement and reporting can be explicitly structured in a unit or with a dedicated person, as is frequently the case for CSR departments in large commercial organizations. On the other hand, it can cut across the entire organization as a part of organizational culture.

In summary, goal definition, people management and performance measurement compose three key organizational dimensions with distinct requirements and opportunities for innovation for hybrid impact investors. Having elaborated on these organizational dimensions, we now assert how different choices along these dimensions allow developing three organizational configurations for Volatile Complexity, i.e., federated, network-modular and generative hybrid impact investors.
3.6 Organizational configurations for impact investing under Volatile Complexity

3.6.1 Federated impact investors

Federated impact investors integrate the multiple logics they are exposed to inside the organization (Binder, 2007; Raynard and Greenwood, 2014). To cope with institutional complexity they establish “decentralized and relatively autonomous decision centers” each catering for a different logic (Zald and Denton, 1963:234). Adopting this configuration, they strive for legitimacy by and mobilize resources from different institutional referents. In particular, impact investors can apply a federated hybrid configuration by establishing multiple funds each enacting the logics of either mainstream finance or philanthropy. The management of the whole impact investing organization is then focused on building coherence amongst institutionally diverse subunits and their members. As an example, a venture capital-oriented team might invest in later-stage financing rounds of growth companies, thus pursuing commercial viability through a market-based IRR while creating jobs in an economically deprived geographic area. With another fund under the same organizational roof, a social impact team may invest in seed-stage ventures intending to return the principal while funding high-risk and high-impact social innovations.

Both teams belong to the same impact investment organization as is the case of Bridges Ventures, a UK-based impact investor with five different funds that are organized in three subunits catering for different institutional logics: The Sustainable Growth Funds typically investing GBP 2-15 million in high-return investments, the Sustainable Property Funds, also aimed at making financial returns by investing in regenerative areas and environmentally sustainable buildings, and the Social Sector Funds that finance high-potential charities and social enterprises (Bridges Ventures website, accessed 31 October 2013). Federated impact investors can mobilize resources from mainstream institutional investors such as insurance or pension funds, and from philanthropic foundations, public welfare funding and private philanthropists. However, they face challenges of organizational alignment and coordination of differentiated units as suggested by Binder (2007:551f.):
“It follows that organizations with multiple subunits are likely to be home to multiple and negotiated local meaning systems, which means that staff, management, funders, and clients will have varying interpretations of the definition of the organization’s purposes, the organization’s intended outcomes, and even what the services of the organization actually are.”

Using the three key organizational dimensions developed in the previous section, we provide a detailed conceptualization of federated impact investors and derive recommendations for their set-up and management.

**Goal definition.** Defining and communicating high-level organizational goals is essential for federated impact investors to help organizational members and institutional referents make sense of why the federated subunits belong to one organization. To develop internal coherence among separated units that adhere to different logics, the organization requires a clear anchor on what its goal is. A high-level, yet specific overarching ‘anchor goal’ helps to align professionals from different institutional backgrounds (Zald and Denton, 1963). This anchor goal transcends the individual subunits’ goals so that managers working in one fund pursue a (set of) fund specific goal(s) and simultaneously contribute to the organization’s anchor goal. Importantly, the anchor is not a vague vision to be pursued, but a concrete goal that guides strategy and against which progress can be measured for all subunits. A distinct anchor might align the organization towards developing a certain geography or sector. The means on how to achieve this anchor goal might diverge, e.g. one fund can pursue financially attractive infrastructure investments in the target region while the other fund invests in very early-stage social enterprises with high-risk and high-impact profiles. Both funds define and follow distinct intermediate goals for their particular fund strategy while, at the same time, contribute to the entire federated impact investor reaching its anchor goal. Earlier mentioned UK-based impact investor, Bridges Ventures, uses impact investing as a mechanism to promote the sustainable development of underserved areas within the UK, thus setting an anchor goal that also guides strategy and action in the subunits.

**People management.** With a shared anchor goal but distinct individual funds’ mandates, federated impact investors require professionals that strongly identify with one logic. For example, a federated impact investor with one of its funds focusing on municipal infrastructure (e.g., financing switching costs for energy-efficient municipal streetlights) and the other investing in solutions tackling
homelessness in the same area may require professionals with prior education and socialization in infrastructure investments and in social work, respectively. However, looking at three levels inside the organization, i.e. board, executive and operational level, it needs a more detailed conceptualization for people management.

On the board level, federated impact investors necessitate professionals with a deep understanding, track record and strong ties in either finance or philanthropy. In order to navigate in Volatile Complexity, secure resources from both mainstream financial investors and philanthropic funders and to oversee strategies of diverse, yet focused subunits, the board must be equipped with a group of individuals who identify with either of the logics. Identification with several institutional logics due to experiences in different sectors comes at the expense of expertise in one single sector identifying with one institutional logic only. Since long-term experience and networks are important, we suggest composing the boards of federated impact investors with professionals that strongly identify with a single logic. However, both logics must be represented by board members to prevent a board that exclusively identifies with either finance or philanthropy.

Likewise, on the operational level, federated impact investors require specialists to execute distinctly focused fund strategies. These operational-level fund managers have been educated and gained substantial work experience in line with either of the two relevant logics. Like their board members, operational-level managers working in individual funds embody one single logic, rather than a combination of several logics. However, managers in federated impact investors still need to sympathize with the other relevant logic in order to associate with their colleagues in different subunits. Hence, we suggest hiring advocates for the operational level who embody one logic but can also sympathize with the other (Pache and Santos, 2013a).

Finally, the organization’s executive management team needs to be able to converse with these two groups of professionals identifying with a single, but different logic. They need to orchestrate their board preventing intractable conflict; and they have to lead subunits that partly follow their own distinct agenda. Accordingly, federated impact investors are ideally managed by hybridizing executives who embody both finance and philanthropy logics.

Apart from recruiting, executives may install formal, structural elements (e.g., dedicated sessions) or cultivate interactions amongst colleagues in order to align organizational members around the anchor goal (Smets et al., 2012). For example,
Schedler (2012:12) proposes the establishment of “platforms on which the various subsystems’ representatives openly exchange their differing arguments, make concrete decisions or lay down more general conventions.” Federated impact investors may establish regular sessions of dialogue between the separated units and run experiments that are beyond the conventional scope of each separated unit in order to allow organizational members gain shared experiences around a particular task or project (Schedler, 2012).

**Performance measurement.** A federated structure encompasses decentralized decision-making and distributed control over the organization, thus allowing space for different types of decision-making such as analytical or intuitive approaches depending on the primary logic that each subunit is part of (Souitaris et al., 2012). Without direct control over the operations of each funding team, executives may try to control the context of decision-making for each team (Willke, 1989 and 1998). ‘Context control’ may include setting annual budgets, employing horizontally focused professionals who cut across the subunits and agreeing on organization-wide minimum reporting standards (Schedler, 2012). In federated impact investors, governance must balance local autonomy of subunits with global, organization-wide alignment. While the board of an impact investor may benefit from a unitary reporting framework, individual subunits establish distinct measurement systems that make sense for them being aligned with the practices prescribed by their particular institutional referent. For example, fund managers of a later-stage, commercially-oriented equity fund need metrics different to the ones required by a seed-stage philanthropy-type impact investing fund. Yet, in order to manage and report for the entire fund organization, common measures are essential. Rather than synthesizing all data into one metric for the entire fund portfolio, we suggest federated impact investors to establish a dualistic performance measurement framework that captures both the individual performance of each fund as well as the contribution of individual funds to the overarching anchor goal.

Their performance measurement is primarily focused on outcomes whereby mainstream finance oriented funds can draw from conventional measures derived from private equity or venture capital industries. Those fund teams that embody a philanthropy logic may avoid exclusively quantitative measurement frameworks in order to capture the highly contextualized value creation that their portfolio companies may generate. They may keep track of outcomes with a combination of quantitative targets (e.g. number of formerly unemployed people being assisted
into employment) and qualitative measures to provide context to the figures (e.g. selected stories of individuals who have successfully found employment). Aside from these individual metrics, the performance of both subunits needs to be measured from the perspective of the overall anchor goal. Though tempting, executive managers should refrain from directly comparing subunits that adhere to different institutional logics and rather analyze contributions individually and in line with a theory of why the subunits exist in relation to the anchor goal. Direct comparisons of quantitative outcomes might neglect or even foil spillover effects and contributions that are difficult to measure quantitatively, e.g. sector-building activities from which the overall fund management organization may benefit through stronger exposure amongst asset owners. In order to integrate performance measures from both logics, a dedicated team that cuts across the different subunits should manage performance measurement. They help to ensure aligning subunits’ individual goals with the anchor goal. Ideally being hybridizers, these people can understand and potentially blend both financial and social performance measurement systems.

3.6.2 Network-modular impact investors

Network-modular impact investors connect people who embody different institutional logics to make collective decisions. A network-modular configuration describes a loosely coupled organizational form in which members convene to deliver distinct tasks or projects. Within a network-modular impact investor, a fund may be managed or accompanied by a network of professionals whereby organizational boundaries span beyond an administrative center and include network members. While the network organization as a whole is a distinct organizational configuration, its central unit may resemble a generative hybrid configuration. However, the primary activity, i.e. investing in social enterprises, is systematically different from generative hybrid impact investors as described in the subsequent section.

Network-modular impact investors are well positioned to cater for different institutional logics since each organizational member carries one or more institutional logics. The network allows the organization to gain legitimacy and access key resources from different institutional fields to which their members belong. Furthermore, network-modular impact investors facilitate developing novel
approaches as professionals come together with ideas and practices that are grounded in various, potentially competing logics.

Though applicable to a variety of emergent fields under Volatile Complexity, impact investing seems particularly well suited for network-modular hybrid configurations. On one hand, key elements of the impact investing workflow are organized in distinct tasks or steps along the venture capital cycle (Gompers and Lerner, 2006) corresponding to task- or project-orientation of network-modular hybrid organizations (McPherson and Sauders, 2013; Raynard and Greenwood, 2014). On the other hand, a critical success factor for impact investing is its access to high-quality deal flow, which primarily originates from recommendations of trusted peers (Wuebker, Hampl and Wüstenhagen, 2014). A network-modular impact investor can leverage its network of organizational members to source potential investment opportunities.

However, this type of impact investors face higher difficulties in people retention as compared to configurations in which organizational membership is organized through stronger, legally regulated relationships, e.g. work contracts as opposed to association memberships. With ambiguous organizational boundaries, members may leave the organization once a task or project is finished. Network-modular impact investors require organizational templates that provide guidance for how to set-up and maintain the network, its organizational center unit and its interfaces between individual members as well as between members and the center (Bachmann, 2013).

Network-modular impact investors can leverage their network of members for co-investment opportunities. Members might be individuals or organizations that also pursue impact investing activities independently. Hence, it seems likely that these members propose their individual investments for potential co-investments to the group of members organized in the network-modular impact investor. In this context, a shared purpose and strong network identity may prevent potential risk of adverse selection.

Investment clubs and business angel networks exemplify network-modular impact investors. For example, the organization Benefiit, based in Zurich and Singapore, is a non-profit impact investing association that connects diverse individuals from “banking, investment management, finance, law, engineering, and sustainability” backgrounds to “make impact investing more accessible to ordinary, affluent, professionals by addressing the barriers to access, cost and quality that hinder
such investment” (Benefiit website, accessed 16 January 2014). Benefiit members collaborate on deal flow, due diligence and investment activities. They pool their resources to directly invest in social enterprises. Toniic, Investor Circle and PYMWYMIC are other angel networks whose members make both independent investments and investments as part of their membership with the network-modular impact investor.

**Goal definition.** Leaders of network-modular impact investors define multiple goals that attract professionals who identify with different logics. Rather than providing a guideline for subunits’ strategies, as is the case with federated impact investors, these goals primarily serve for motivating differently institutionalized individuals to engage with the organization. These ‘multi-faceted goals’ create an organizational context in which existing and potential organizational members from diverse institutional backgrounds find distinct reasons for engagement. It follows that organizational goals of network-modular impact investors mirror the emerging field’s incompatibility of logics and may thus collectively appear incompatible. As multi-faceted goals represent diverse, competing institutional logics, rather than guiding collective action, network-modular impact investors require strong processes for guidance and organizing around defined projects or tasks. Additionally, they may craft and communicate a vision masking incompatibility on the goal level without restricting or guiding action.

For example, Benefiit envisions making impact investing accessible, which does not guide action but can easily be accepted by diverse professionals. Yet, individuals embodying mainstream finance logics might adhere stronger to one facet of Benefiit’s multi-faceted goals, e.g. making cost-efficient pooled investments. On the other hand, those embodying a philanthropy logic may stronger identify with another facet such as to “seek substantial social impact” (Benefiit website, accessed 16 January 2014). As a network-modular impact investor, Benefiit achieves alignment through organizing around clear tasks, i.e. the deal-making process, thus facilitating and sustaining diverse, potentially even contradicting goals.

**People management.** Network-modular impact investors need to be able to attract and retain organizational members from diverse backgrounds coming together for distinct tasks or projects. Since their loose organizational form might be considered as less professional when compared with conventional fund management or philanthropic organizations, these impact investors face the risk of not being granted sufficient resources. We suggest that, on the board level,
network-modular impact investors require experts who identify with one particular logic, yet who are able to sympathize with others. Board members signal adherence to mainstream finance and philanthropy constituencies, while being able to sympathize with the claims of other board members who embody different logics.

Similarly, the organization’s executive management team requires these ‘advocates’ to be socialized in one logic but also sympathizing with others. In addition, executive managers of network-modular hybrids need to demonstrate and enforce process compliance in order to ensure efficient work on the operational level. The executive management team or CEO acts as orchestrators and safeguards of the organization’s praxis (Vaara and Whittington, 2012). While having special knowledge and ties to mainstream finance or philanthropy, executive managers ideally have strong communicative abilities, a high level of understanding for differently institutionalized people, and “mutual respect and accommodation among group members” (Denis, Langley and Rouleau, 2007; Raynard and Greenwood; 2014:30). They are able to ‘hijack’ effective approaches from logics that other organizational members embody, thus nurturing innovation (McPherson and Sauders, 2013). Network-modular impact investors may create new blends of impact assessment, financial due diligence, term sheets, and social outcome analyses, amongst others.

On the operational level, a network-modular impact investor can attract members who strongly identify with one single logic or who embody a blend of different institutional logics. Due to its loose form, organizational members have more flexibility to convene for a task or project that they prefer to engage with and among members with whom they personally like to connect. Diverging institutional logics embodied by organizational members are thus less problematic as in other hybrid configurations. Network-modular impact investors require members on the operational level who provide distinct expertise to the tasks of the organization. People management should be focused on attracting experts required for the organization’s goals rather than spending time and resources on trying to align organizational members embodying diverse institutional logics.

Network-modular impact investors face the challenge to attract organizational members who are committed to stay within the organization for the long-term. Due to its loose organizational boundaries and its flat structure, the network constantly risks losing members when a distinct project is completed. Financial or career
development incentives such as the ones applied in more hierarchical organizations are less appropriate within network-modular impact investors. Yet, exceptional opportunities for learning and innovation due to the diverse backgrounds of organizational members as well as status within the network (e.g. by appointing and communicating members based on certain achievements) may substitute for lack of career development opportunities or financial incentives.

**Performance measurement.** Having to convene a diverse group of individuals, standardized decision-making processes are a central tenet for the performance of network-modular impact investors. Rather than focusing performance measurement on certain outcomes, the organization ensures that individuals comply with the prescribed processes for distinct tasks along the investment cycle, i.e. fund creation and fundraising, deal screening and due diligence, term negotiation and deal closing, portfolio management as well as exiting deals and fund closing. While fund creation and closing might be tasks of the network’s center organization (or not delivered at all in case the network enacts direct investments rather than practicing fund activities), the remaining steps along the venture cycle allow focused engagement by organizational members. Through strong process codification and enforcement, network-modular impact investors are able to draw from multiple perspectives in a collective decision-making process without getting stuck in internal discussions.

Additionally, network-modular hybrids can flexibly engage members based on the investment deals’ particular necessities with regards to knowhow from mainstream finance or philanthropy, e.g. engaging social sector experts in case the financial due diligence has already been delivered by a co-investor from mainstream finance, but the effectiveness of a venture company’s impact model, i.e. its potential positive spillovers to society (Santos, 2012), has not yet been evaluated.

Not every organizational member is able or willing to measure his or her performance in the investment process. However, a network-modular impact investor requires resources to ensure process compliance and an overview of the organization’s performance in order to improve operations. Rather than demanding from every organizational member to enact performance measurement for financial and social value creation targets, these hybrid investors are likely to install performance measurement in form of process surveillance at the center of the organization. While its focus has to be on process rather than content, network-modular impact investors are also well-positioned to measure financial and social performance. Experts for financial performance measurement or for
understanding social value creation are likely to be among the network of organizational members from whom the executive team can draw specialized knowledge. However, it requires a dedicated person to be responsible for integrating financial and social performance measurement in order to prevent prioritization of either logic or competition between controllers identifying with one logic only (Battilana and Lee, 2014). Network-modular impact investors therefore require hybridizers conducting performance measurement.

### 3.6.3 Generative hybrid impact investors

As a third configuration of coping with Volatile Complexity, generative hybrid impact investors are engaged in a dynamic process synthesizing mainstream finance and philanthropy (O’Mahony, Besharov and Chen, 2014; Raynard and Greenwood, 2014; Smith and Lewis, 2011; Van de Ven, Ganco and Hinings, 2013). Until the emergent impact investing field reaches maturity and becomes stable, generative hybrids find themselves in constant flux continuously modifying their strategy and key activities. As generative hybrid impact investors integrate different logics within one team, they generate innovations and challenges at the same time. On the one hand, impact investors enacting a generative hybrid configuration develop novel approaches that attempt to blend mainstream finance and philanthropy (Battilana and Lee, 2014), e.g. introducing a due diligence process and evaluation framework focused on positive societal value creation or an impact-based carried-interest reward system. On the other hand, generative hybrids “embody a latent paradox that repeatedly surface when organizational actions lead to outcomes that [are] difficult to define” (Raynard and Greenwood, 2014:30). Generative hybrid impact investors need to manage a balance between chaos and structure. Their goals and practices may iterate on a pendulum between mainstream finance and philanthropy logics. Generative hybrid impact investors are thus affected by an inexorable fluidity and pace of change. Yet, they are the most probable actors to develop novel impact investing templates. Until this is achieved, they risk losing legitimacy as well as internal tensions and high people turnover on all levels of the organization. To prevent premature termination, generative hybrid impact investors are likely to move towards a different hybrid configuration. Those that try to scale in the financial market may become federated impact investors, since institutional clients require dedicated funds with specialized
teams or they evolve into hierarchically structured impact investors. Maintaining a center position at the emerging field until it stabilizes is a long-term and high-risk ambition that may require strong initial resources in order to survive.

As an example, Zurich-headquartered international impact investor, LGT Venture Philanthropy (LGT VP), was initiated with the objective to structure, focus and leverage the philanthropic activities of the royal family of Liechtenstein. Pursuing a philanthropic mission but linked to a mainstream financial institution, i.e. LGT bank, LGT VP enacted a combination of philanthropy and mainstream finance logics. They set up a foundation providing grants as well as a fund investing in debt- and equity. A key step along the screening process includes an innovative blend of financial due diligence and estimating the potential for social value creation. LGT VP maintains a continuous dialogue amongst board, management and investment team members around how to ideally achieve their key mission of improving the quality of lives of less advantaged people. For example, the organization pivoted around ideal deal sizes as it developed and then partly terminated an early-stage acceleration program to provide small investment amounts of USD 50'000 in order to grow the pipeline of investible deals. In their pursuit to advance the impact investing sector, LGT VP hybridizes key organizational dimensions for a consistent impact investing logic to emerge (Garud et al., 2002).

**Goal definition.** Generative hybrid impact investors require sufficient flexibility to incorporate the changing nature of the emerging field and its representation by organizational members (Besharov and Smith, 2014; Pache and Santos, 2010). This implies defining an ‘umbrella goal’ that expresses its *raison d’être*, yet neither limiting nor clearly guiding action within the organization. It creates a space for exploration and discovery for a new synthesis to be developed (Battilana and Lee, 2014). Rather than providing a clear prescription for strategy, it demarcates a domain of action. Different from an anchor, such as the geographically-focused goal of earlier mentioned Bridges Ventures, LGT VP’s goal to improve the quality of lives of less advantaged people may serve organizational members and key referents to live out their personal purpose within the organization without actually restricting practice. The broad scope of its major goal allows the board, management and investment professionals to adapt strategy and practices in line with the changing requirements of the emerging impact investing sector in each relevant geographic, socio-economic and political context.
**People management.** As internal representation of different institutional logics can cause tension and breakup (Pache and Santos, 2010), generative hybrid impact investors require integrated people management focused on professionals who can navigate in both mainstream finance and philanthropy. While the board may be composed of specialists who identify with one logic but also sympathize with the other, the board’s leadership position, e.g. its president or vice president, should be chaired by hybridizers who have been socialized in both sectors. The board creates alignment through continuous sense-making of the operational and strategic practices of the organization. The board benefits from executive team members’ support to find central themes in the constantly evolving institutional environment. However, if the board’s leadership prioritized on one logic only, a generative hybrid impact investor may move into this field’s direction evolving into a different hybrid configuration (e.g., federated or hierarchically structured impact investor).

In a similar vein, the executive management team may be composed of hybridizing individuals with a background in both finance and philanthropy. However, in case of a strong and well-connected board, generative hybrid impact investors may also hire executive managers with little or no socialization and education in either of the two fields. Hiring executive managers in a ‘tabula rasa’-approach (Battilana and Dorado, 2010), these generative hybrid impact investors may be better suited to develop entirely new templates and practices necessary for a distinct new impact investing logic to emerge (Kraatz and Moore, 2002). Referring to ‘tabula rasa’-hiring, Battilana and Dorado demonstrated how microfinance field workers had ideally not yet been educated and socialized in a dominant logic of the emerging field. However, in a knowledge-intense position like the leadership of an impact investing organization, it requires high professionalism and organizing skills in order to build up and lead an impact investing organization including novel fundraising, investment and management practices for impact investing. Hence, we suggest hiring professional generalists such as entrepreneurs or management consultants as executive managers in generative hybrids proposing a ‘professional tabula rasa’-approach for hiring on the executive level.

Generative hybrid impact investors need to distance themselves from taken-for-granted operations of mainstream finance or philanthropy organizations (Smets et al., 2012). Similar to the executive management level, we suggest hiring highly educated, talented professionals for operations applying a ‘tabula rasa’-approach, i.e. attracting people who do not yet embody either of the two logics. Generative
hybrid impact investors educate and socialize these operational-level managers during their investment activities through learning-by-doing and in-house training. Similar to earlier mentioned Acumen, LGT VP offers an outplacement program for young professionals to work in portfolio organizations for one year before potentially being hired to join the team or other organizations in the social entrepreneurship and impact investing sector.

**Performance measurement.** For effective decision-making, generative hybrid impact investors need a performance measurement system that reflects their dynamic environment. With local opportunities constantly emerging, a dedicated person or unit that acts as an internal performance controller would be limiting the pace with which operational-level managers need to take decisions. Instead, each organizational member should blend financial and social sector performance considerations in a way that does not restrict innovation. Generative hybrid impact investors should therefore employ a transversal performance measurement that cuts across the entire organization.

In a similar vein, the focus of performance measurement must enable flexibility. Rather than developing fixed KPIs for the entire organization, we suggest focusing on the definition of organization-wide rules or principles of engagement within which local teams or individual investment managers can freely adapt practices and intended outcomes to their particular contexts. While principles might not suffice to compare results between units or individuals, generative hybrid impact investors may leverage their center position in the emerging field to introduce and establish field-wide KPIs on social impact performance. The executive management team must resist the temptation of only relying on comparable and manageable quantitative metric systems, while the board should buffer the organization from asset owners’ claims for quantitative measurements.

The following Table 4 summarizes the three configurations of hybrid impact investors under Volatile Complexity. It provides an overview of the main configurations, its characteristics, challenges, key organizational dimensions and examples from practice.
Table 4: Configurations for hybrid impact investors under Volatile Complexity

<table>
<thead>
<tr>
<th>Key characteristic</th>
<th>Federated impact investor</th>
<th>Network-modular impact investor</th>
<th>Generative hybrid impact investor</th>
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<tbody>
<tr>
<td></td>
<td>• Distinct, separated units catering for each of the two relevant logics (i.e., mainstream finance and philanthropy)</td>
<td>• Network of individuals or organizations working together in a task- or project-oriented way</td>
<td>• The “organization as a whole is engaged in dynamic and innovative syntheses of elements from different logics” (Raynard and Greenwood, 2014:30)</td>
</tr>
<tr>
<td>Goal definition</td>
<td>• Setting an anchor goal that creates commonality for activities across different subunits</td>
<td>• Multi-faceted goals with which diverse individuals can identify</td>
<td>• Defining an umbrella goal that creates a space for exploration and discovery</td>
</tr>
<tr>
<td></td>
<td>• Transcends subunits’ individual goals</td>
<td>• Provides an organizational context in which existing and potential members find distinct reasons for engagement</td>
<td>• Allows a new synthesis of integrated activities</td>
</tr>
<tr>
<td></td>
<td>• Provides clear guidance for strategy content of subunits</td>
<td>• Requires clear process guidance for task- and project-oriented activities</td>
<td>• Neither limits nor clearly guides strategizing, but demarcates a domain of action</td>
</tr>
<tr>
<td>Organizational dimensions</td>
<td>Board</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Individuals who identify with either of the two relevant logics in order to demonstrate board adherence to competing logics (both logics need to be represented)</td>
<td>• Advocates, i.e. individuals who identify with one logic while sympathizing with the other logic</td>
<td>• At the chairman position, it requires hybridizers who identify with both logics</td>
</tr>
<tr>
<td></td>
<td>• Alignment through anchor goal</td>
<td>• Alignment through ability to understand and accept points of view informed by other logic</td>
<td>• Other board members need to be diverse and able to sympathize with other logic</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Alignment through a continuous sense-making process</td>
</tr>
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<td></td>
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<tr>
<td></td>
<td>Executive management</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• Hybridizers who identify with both relevant logics</td>
<td>• Advocates who can draw from processes of either of the two logics, while still sympathizing with other logics</td>
<td>• Either hybridizers (similar to the board), or individuals who do not identify with either of the two logics in order to drive innovation (‘professional tabula rasa’)</td>
</tr>
<tr>
<td></td>
<td>• Executive team members/CEO need to orchestrate diverse board members (requires ability to converse with specialists)</td>
<td></td>
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</tr>
</tbody>
</table>
### Operations
- Requires advocates in distinct subunits who identify with one logic but who can still sympathize with other logics to prevent breakup and tensions between subunits.
- Requires a logic representation that is feasible, able to recruit, manage and retain specialists to deliver tasks.
- Generalists who do not strongly identify with either logic (‘professional tabula rasa’)
- In-house or on-the-job training to develop hybrid practices of impact investing.

### Performance measurement
- Focus on outcomes
- Dedicated group of people with mixed backgrounds
- Dualistic system combining subunit goals and contribution to organizational anchor goal
- Focus on process
- Dedicated person who is a hybridizer using an integrated reporting system
- Focus on rules or principles of engagement
- Transversal (i.e., blended within all team members)

### Key challenges
- Aligning separated units across the entire fund management organization
- Refraining from direct comparisons and managing internal competition between different units
- Long-term commitment of organizational members
- Defining and reaching consensus about the role of the center unit
- Business model (esp. appropriation of sufficient resources for the center unit)
- Balancing between chaos and structure
- Sustaining relentless pace of change
- Developing new consolidated hybrid practices
- Maintaining access to resources from key institutional referents

### Examples
- Bridges Ventures
- Vox Capital
- Media Development Investment Fund
- RSF Social Finance
- Benefiit
- Tonic
- Investor Circle
- PYMWYMIC
- Go Beyond
- LGT Venture Philanthropy
- BonVenture
- Alterra Impact Finance

### 3.7 Discussion

As its main contribution, this article provides a conceptual framework to understand impact investing. Applying insights on institutional and organizational hybridity, we describe organizing configurations of impact investing hybrids under Restrained and Volatile Complexity. Furthermore, we derive findings on three
organizational dimensions of hybrid impact investors, namely goal definition, people management and performance measurement.

First, on the goal level, hybrid organizations may choose to segregate or blend the institutional complexity that they are exposed to. In line with their distributed structure, network-modular hybrid configurations segregate legitimate goals from each relevant institutional field by defining a set of goals that may be in competition with each others, but that provide distinct reasons to engage with the organization for organizational members stemming from various institutional fields. On the other side of the spectrum, generative hybrid impact investors blend the goals prescribed by the two dominant logics, thus forging an umbrella goal that leaves space for exploration of an emergent impact investing logic without neither limiting nor clearly guiding action. Federated impact investors are a combination of both as their subunits have specific goals to follow while being aligned on the organizational level by an anchor goal. Rather than leaving space for interpretation and exploration, an anchor goal ‘anchors’ subunits towards a distinct common goal such as a clear geographic or thematic focus of intended outcomes.

Second, with regards to people management, we suggest that impact investing hybrids are less likely to employ hybridizing individuals at the operational level. Federated and network-modular impact investors may recruit operational-level professionals with a prioritization for one logic in order to have clear prescriptions for day-to-day actions, while generative hybrid impact investors hire well-educated people who do not yet embody neither of the two logics in order to develop new templates, e.g. through internal socialization and education (‘professional tabula rasa’-approach). Furthermore, impact investing hybrids in Volatile Complexity are less likely to have an executive management team or CEO who identifies with only one logic.

Third, regarding performance measurement, generative hybrid impact investors are more likely to enact an organization-wide performance measurement system that is focused on rules rather than on processes or outcomes. Process- and outcome-based performance measurement frameworks are more appropriate for distinct subunits, in the case of federated impact investors, or individual organizational members, i.e. for network-modular impact investors.

These three hybrid configurations described in detail differ in their orientation towards one logic. Additionally, impact investors enacting symbolic coupling as well as hierarchically structured impact investors maintain closer proximity to either
of the two mature fields of mainstream finance and philanthropy, thus being positioned on the margins of the newly emerging impact investing field. Drawing from existing research, we argue that federated, network-modular and generative hybrid impact investors are positioned closer to the center of the emerging impact investing field where they are exposed to Volatile Complexity.

We further suggest a structural difference in how these configurations are positioned amongst each other. Starting at the edges of the emerging impact investing field, impact investors with a strong association to either mainstream finance or philanthropy apply symbolic coupling to signal adherence to other logics while being exclusively aligned with one dominant logic. Moving from the edges in direction of the center of the emerging impact investing field, hierarchically structured hybrids still prioritize one logic over the other. However, different to symbolic coupling, they actually integrate elements of the other logic. As we suggest in our model, both impact investors are exposed to Restrained Complexity. Closer to the center of the emerging field, federated impact investors operate different fund management units that cater for the different logics within one organization. Generative hybrid impact investors are positioned right at the center of the emerging field with similar distance to the fields of mainstream finance and philanthropy. Finally, network-modular impact investors, through their members, span a network across the entire spectrum of the emerging field, i.e. connecting members with a strong association to mainstream finance as well as those who embody a philanthropy logic. Its central unit that manages the network-modular hybrid may however resemble a generative hybrid being positioned at the center of the emerging field.

Drawing from institutional theory (Greenwood and Suddaby, 2006), it follows that the institutional pressure pulling towards either one logic or the other increases the closer an organization is positioned towards the center of an established institutional field. Impact investors solely enacting symbolic coupling face stronger pressure to become a mainstream financial or a philanthropic organization than do hierarchically structured impact investors. However, both configurations are pulled more strongly towards either mature logic than are federated, network-modular and generative hybrid impact investors. Though being the most unstable organizational configuration, generative hybrids face lowest pressure to adapt the logics of one particular logic, while, amongst those hybrids that are exposed to Volatile Complexity, federated impact investors tend to be pulled most towards either mainstream finance or philanthropy (see Figure 6, grey arrows).
Though having a stable institutional position with similar pressures from both sides, generative hybrids face higher organizational instability. They cannot draw from any institutionalized organizational template, thus having to cope with highest ambiguity and constant change. As referents from the existing fields are less likely to grant resources to generative hybrids, their chances of organizational survival is lower as compared to other hybrid configurations. Comparing federated, network-modular and generative hybrid impact investors, we thus propose an inverse relationship between ‘positional stability’ being a function of pressures from mature institutional constituencies and ‘organizational stability’ in the emerging impact investing field (see Figure 7:80).
3.7.1 Recommendations for further research

We suggest five main avenues for further research of which two are general research projects on hybridity and three are avenues with regards to the developed configurations of organizing for impact investors.

First, we encourage scholars to develop our framework into a general model for hybrid organizing. While our results are focused on impact investing organizations that are exposed to competing logics from mainstream finance and philanthropy, the article can inform scholars to advance the propositions into configurations of organizing for hybrids in general. For example, we only briefly elaborate on the inverse relationship between positional and organizational stability. Scholars could build on this notion to develop a testable model on positional and organizational stability. Taking data from trade associations in emerging industries might allow researchers to track how organizations move towards established industries and plot the data against organizations’ survival rates.

Second, building on and further developing Raynard and Greenwood’s (2014) types of complexity, we conceptualize impact investing as an infant field that entails both Restrained and Volatile Complexity depending on the positioning of organizations at the margins or at the center of the emerging field (Maguire et al.,
However, we do not elaborate on why organizations prioritize one logic and thus remain closer to an institutional heritage or why they strive to emancipate from any existing institutional logic in order to contribute to the creation of a new logic. Future research could look at field positioning under various types of complexity, develop propositions based on either agency, i.e. the deliberate choice of a position, or institutional pressures, i.e. the necessity to be located at a certain field position, and conceptualize how hybrids may dynamically move from an intended central position in an emergent field towards existing mature fields and vice versa. For example, generative hybrid impact investors are likely to become federated or hierarchically structured impact investors as they try to scale their activities with capital from large asset owners. The two largest groups of private investors, i.e. pension funds and insurance fund managers, require highly specialized teams managing focused funds rather than innovative organizational forms of generative hybrid impact investors. However, access to resources is but one explanation for intended and consequential field positioning; another being, for instance, the backgrounds of organizational members – leading to a third area of potential research.

Third, future research may focus on the antecedents of each of the three configurations of organizing, i.e. federated hybrid, network-modular hybrid and generative hybrid. Our propositions with regards to people management suggest that the backgrounds of board members and executives influence the choice of an organizing configuration. This is in line with existing literature on institutional pressures and logics embodied by organizational members (Besharov and Smith, 2014; DiMaggio and Powell, 1983; Mair and Hehenberger, 2013). For example, hybridizers or professionals hired in a ‘tabula rasa’-approach may be more likely to start a generative hybrid, while federated hybrids are more likely to be initiated by either hybridizers or advocates. Advocates may be more likely to establish network-modular hybrids. However, building on resource dependence theory (Pfeffer, 1982; Pfeffer and Salancik, 1978), the initial resource endowment accessible to the founders may also influence the choice of configuration. Generative hybrids require a strong initial endowment to buffer institutional pressures during exploration. Federated hybrids may require an intermediate level of upfront resources as they need to compensate organizational members but can access resources from both institutional referents. Network-modular hybrids may start with a small resource endowment as they can be initiated on a voluntary, non-profit basis with organizational members ensuring light but ongoing access to
resources. Combined with the second recommendation for further research, this also calls for better understanding the choice of configuration and intended or consequential positioning. Scholars may clarify which construct is better conceptualized as antecedent and which one as successor, i.e. do organizations choose a particular configuration and move to the appropriate field position or do they choose a field position and then adapt their configuration accordingly.

Fourth, scholars may research other organizational dimensions of impact investors in addition to goal definition, people management and performance measurement. For example, we do not explicitly provide propositions on governance, incentive structures and strategizing of hybrid impact investors (Battilana and Lee, 2014). Future research could focus on how different configurations of hybrid impact investors build governance structures catering for competing logics while preventing internal tensions. The governance structure of a network-modular impact investor most likely differs from the one of a generative hybrid impact investor. In a similar vein, scholars could analyze strategy process and content of hybrid impact investors. In contexts of Volatile Complexity, strategizing is a cumbersome and ambiguous process due to the exposure to a complex and changing institutional environment. Ongoing operations such as investment activities may have an influence on the strategic direction of an impact investing organization. Future research could analyze the interdependencies of strategy and investment practices of impact investors.

Fifth, we suggest mapping the organizing configurations within the entire field of impact investing. Future scholars could match the approximately 250 venture capital-type impact investing organizations with all five configurations, respectively. This would strengthen the conceptual validity of the proposed configurations and it may offer a better understanding of the importance of fit amongst organizational dimensions.

### 3.7.2 Recommendations for practice

This article should increase awareness of the different organizing configurations when setting-up and managing an impact investing organization. Managers may deliberately choose a configuration based on their intended positioning within the emerging field. More specifically, we suggest recommendations for practitioners along the three organizational dimensions. Building on our overview in Table
4:76f., executive managers and board members of impact investing organizations may derive how and which goals to define, whom to hire and how to manage people as well as how to establish an appropriate performance measurement system for the respective organizational configuration.

Additionally, there are observations and recommendations for practice specific to each configuration. Generative hybrid impact investors require a strong initial resource endowment in order to sustain long periods of exploration and synthesis of logics during which established institutional referents may not grant any resources to the organization. Furthermore, the leadership teams of generative hybrids should strive for a close alignment of values and professional backgrounds, as these determinants guide decision-making amidst competing institutional pressures. Without strong alignment, organizational members may consciously or unconsciously negotiate the desired course of action through their day-to-day praxis.

Network-modular impact investors may face difficulty to develop a business model that can sustain the center unit, which is pivotal to operate the network. Founders of network-modular impact investors are advised to develop a financially viable business model right from the start, e.g. requiring network members to pay a membership fee and/or to commit to minimum annual investments linked to a contribution to the center unit. Network-modular organizations, in general, often underestimate the necessity of finding a financially viable model for operations.

Finally, federated impact investors are likely to become the most prominent configuration for impact investors under Volatile Complexity as capital from pension funds and insurance companies flows into the sector. While generative hybrid impact investors are centrally positioned to access both financial and philanthropic resources, federated impact investors can better respond to the demands of professional asset managers. Financial assets of pension funds and insurance asset managers are approximately 25 times larger than philanthropic, family office and DFI funds combined (World Economic Forum, 2013a). Requirements of insurance and pension fund managers for focused asset management teams are likely to shape impact investing organizations as they enter the market. Managers should be aware of these dynamics as the impact investing field evolves between mainstream finance and philanthropy.
3.7.3 Limitations and conclusion

We contribute to the development of organizational configurations by informing scholars and managers of impact investing on how to research, set-up and manage impact investors with regards to goal definition, people management and performance measurement. Organizing impact investors with a prioritization of mainstream finance or philanthropy is less cumbersome as compared to organizations without any clear prioritization, because executives can then draw from the practices prescribed in either of the two logics while accommodating to the claims of the other. Without clear prioritization of logics, impact investors may choose one of three configurations with different implications for goal definition, people management and performance measurement practices.

Limiting the scope of our argument, the proposed insights might be bound to impact investing organizations that are primarily exposed to mainstream finance and philanthropy logics. While this applies to the majority of impact investors, the emergent field of impact investing is also influenced by other logics such as public policy and development cooperation, amongst others. Despite comparable prescriptions for what is considered legitimate (e.g. the pursuit of helping vulnerable people is ingrained in various institutional logics), there might be different challenges to overcome as organizations are exposed to more than two dominant logics. This may limit applicability of our model to other contexts of institutional complexity. Yet, the combination of two dominant logics is an increasingly prevalent institutional environment as we see growing claims towards commercial businesses to cater for societal issues as well as increasing commercialization of formerly philanthropic activities (Battilana and Lee, 2014; Santos et al., 2014).

Building on Raynard and Greenwood’s (2014) configurations of organizing under Volatile Complexity, we may draw from a too limited set of options for organizing. While we consider these archetype configurations as suitable to describe a large variety of impact investing funds – and we provide examples from practice for each – there could be other meaningful organizational configurations for impact investing hybrids under Volatile Complexity. In a similar vein, drawing from existing literature on organizational responses to competing institutional logics, we focus on three relevant organizational dimensions, i.e. goal definition, people management and performance measurement. However, there are other dimensions that may be important to conceptualize for impact investing hybrids as
we earlier suggest for further research, e.g. governance, strategy, and organizational structure.

In conclusion, we echo Battilana and Lee (2014) that social entrepreneurship and impact investing provide excellent contexts for research on institutional complexity. We offer a set of configurations for organizing impact investing hybrids. Institutional environments with competing logics become increasingly prevalent in formerly stable sectors of social and economic life. With this article, we hope to inspire more research on impact investing to advance theory and provide guidance for the growing number of professionals that try to navigate in ‘colliding worlds’ (Pache and Santos, 2010) as they combine financially sustainable investments with social value creation.
3.8 References


4 Getting ready for impact investment: Exploring fundraising processes of early-stage social entrepreneurs in biodiversity, water treatment and energy efficiency in Colombia (Paper III)⁵

By Christoph Birkholz and Andrés Jose Guerrero Alvarado

Abstract

Social entrepreneurs require access to financial resources in order to grow their organization and increase their impact. Despite existing research on social entrepreneurship, we do not know much about how the resource acquisition process of social entrepreneurs unfolds.

Reporting from a multiple exploratory case study on three for-profit social enterprises in Colombia, we explore novel constructs in the investment process between social entrepreneurs and venture capital-type impact investors. In particular, we suggest that impact investors, different to venture capitalists, provide significant pre-investment support in order to increase the ‘investment-readiness’ of their potential future portfolio companies. Furthermore, we suggest that social entrepreneurs need to seek investors that are aligned with their particular domain of impact and they need to demonstrate a track record in that particular domain in order to secure financing.

Our findings call for further research on the distinct relationship between social enterprises and impact investors and we derive recommendations for social entrepreneurs, impact investors, asset owners and policy-makers.

4.1 Introduction

Social entrepreneurship is a growing phenomenon and field of study (Mair and Marti, 2009; Santos, 2012). As Dees, Anderson and Wei-Skillern (2004) suggest one of the major challenges faced by social entrepreneurs is how to scale their

⁵ An earlier version of this paper has been accepted in a conference book edited by Prof. Roberto Gutierrez and Prof. Yvette Sanchez after helpful reviews from three reviewers.
impact. Equivalent to commercial entrepreneurship (Bhidé, 2000), social entrepreneurs require access to start-up and growth finance in order to scale (Bygrave and Zacharakis, 2007; Hall, Daneke and Lenox, 2010; Shane, 2008). However, unlike their commercial peers, many social entrepreneurs are active in regions of lacking financial infrastructure (Lingelbach, 2009) and their approach of prioritizing value creation over value capture (Santos, 2012) renders traditional equity-based start-up financing difficult. Enter impact investors providing start-up and growth funding for social entrepreneurs (Miller and Wesley, 2010; Scarlata and Alemany, 2010). Still in its infancy, the impact investing sector is growing at a fast pace reaching expected USD 9bn in invested capital in 2013 (Saltuk, Bouri, Mudaliar and Pease, 2013). While promising to be an important source of finance, we do not know how social entrepreneurs interact with these impact investors in order to acquire financial resources. Given the importance of funding in the venture process, it is striking that so little is known about the fundraising process of social entrepreneurs in general. This lack of knowledge may be due to the nascent state of social entrepreneurship and impact investing research. The field requires more exploratory investigations in order to develop concepts that inform theory and practice (Edmondson and McManus, 2007). We aim to contribute to this exploratory endeavor. Based on an in-depth, qualitative study following the fundraising efforts of three social entrepreneurs, we explored and compared emergent themes in the start-up finance acquisition process from impact investing funds. While keeping an open mind, we were guided by the following research question:

‘How do social entrepreneurs seek start-up and growth finance from impact investors?’

Within this article, we present three narratives of social enterprises and compare and analyze their fundraising processes. The study benefited from unique data access. In the first case, one co-author followed the fundraising effort of a food company (‘FoodCo’) that pursued preserving the Amazonian rainforest’s biodiversity. He conducted regular interviews both with the entrepreneurs and the investor as the process unfolded over time. The second co-author worked as the start-up advisor of FoodCo as well as of the two other case companies from the water treatment (‘WaterCo’) and energy efficiency (‘EnerCo’) sectors. All three companies were early-stage ventures based and active in Colombia. They shared an orientation towards positive social and environmental impact, participated in the
same venture acceleration program (‘Green Accelerator’) and had access to the same investors. However, the experiences, interactions and outcomes of their fundraising processes with impact investors differed significantly. WaterCo sought funding from impact investors, but was declined. EnerCo was declined initially, then further developed the company, and when reconnecting with the impact investing community at a later stage received promising feedbacks. FoodCo initiated connections to an impact investing fund and was accepted in the fund’s in-house acceleration program.

All three cases offer insights into the learning process during fundraising, the dialogue between social entrepreneurs and impact investors and the influencing factors for different routes of fundraising from impact investors. Thus, we contribute to the nascent theories of social entrepreneurship (Mair and Martí, 2009), social entrepreneurial finance and impact investing (Scarlata and Alemany, 2010) while offering rare insights in the real-life fundraising processes from which both entrepreneurs and investors may benefit. The study provides rich descriptions and preliminary analyses of how social entrepreneurs seek start-up and growth financing in the areas of bio-diversity, food, water treatment and energy efficiency. It contributes to the research collaboration on ‘Managing Strategies to Scale Up Sustainable Social and Environmental Projects in Colombia’ organized by Universidad de los Andes and University of St.Gallen. Both co-authors were PhD researchers and social entrepreneurs experienced in social venture incubation, acceleration and impact investing.

4.2 Theory

Theory on social entrepreneurship in general and on their resource acquisition processes in particular is limited (Dacin, Dacin and Matear, 2010). Likewise, the emergent phenomenon of impact investing, that is, investments into social entrepreneurial ventures, has not yet led to robust theoretical concepts (Scarlata and Alemany, 2010). Santos (2012) offers a promising definition for social entrepreneurship by omitting the tautological reference of ‘entrepreneurship that is social’ as the defining element, i.e. a process of venturing with the primary intent for value creation as opposed to a primary intent of value appropriation. Furthermore, he suggests social entrepreneurship being more likely to occur around areas of neglected positive externalities. Its core unit of analysis is the
solution built around a business model rather than the start-up organization (Santos, 2012). While the focus on value creation and positive spillovers of entrepreneurial activity offers insights to the scaling of a solution, it leads to the question of how social entrepreneurs attract financial resources in comparison to conventional entrepreneurs. More specifically, both the portfolio- and the equity-for-money-approach of classic venture capital depend on value appropriation and growth (Gompers and Lerner, 1999); difficult to apply to social entrepreneurship financing following Santos’ definition.

Impact investors, like the social entrepreneurs they finance, pursue financial returns while generating a positive impact on society (Bugg-Levine and Emerson, 2011). Scarlata and Alemany (2010) analyzed the deal-structuring phase of philanthropic venture capitalists concluding that, with regards to their for-profit investments, the deal structuring does not differ from conventional venture capital. However, given the hybrid nature of both social entrepreneurs and impact investors (Battilana and Dorado, 2010; Pache and Santos, 2010), theory-building on impact investing may require deeper exploration into what actually happens in the fundraising process of social entrepreneurs and the investment process of impact investors, respectively (Scarlata and Alemany, 2010). Impact investors invest in business models with a positive correlation between financial return and positive impact on society (Grabenwarter and Liechtenstein, 2013). They offer financial and non-financial resources to social entrepreneurs (Sanz and Lazzaroni, 2009). Scarlata and Alemany (2010) suggest that impact investors, when investing in for-profit social entrepreneurs, use the same decision-criteria than do conventional venture capital investors. However, they differ from venture capitalists in their level of education and sector experiences (Scarlata, Zacharakis, and Walske, 2011). In line with Miller and Wesley’s (2010) work, we assume that both social entrepreneurs and impact investors have dualistic organizational identities. They are exposed to competing institutional logics and thus may face conflicts over goals and means (Pache and Santos, 2010). In the face of dual organizational identities and competing logics, social entrepreneurs may choose to cater for one identity and logic more than for the other (Miller and Wesley, 2010; Souitaris, Zerbinati and Liu, 2012). However, we do not know how social entrepreneurs deal with the goal complexity in fundraising from impact investors. How do they present the social impact of their start-up? Do they prioritize financial or impact projections? What do they learn in the fundraising process? And how do
they adapt their model based on their learning? These questions supported us as mental guidelines during our exploratory research endeavor.

4.3 Methodology

We aim to explore these questions and the research question respectively through an in-depth comparable case study design with three social entrepreneurs during their fundraising efforts (Eisenhardt, 1989; Siggelkow, 2007). In this process we benefited from accessing data in a special way: We were able to follow a fundraising effort as it unfolded and to gain insights from within the venture companies and the investors in real time. Furthermore, one of the authors served as an advisor during fundraising for all three cases. This data access to fundraising and impact investing processes is extraordinary as “it is notoriously difficult to secure VC (venture capital) participation in academic research” (Zacharakis, McMullen, and Shepherd, 2007:697).

The sampling focused on three social entrepreneurial ventures in the start-up phase seeking growth finance. All three ventures were for-profit Colombian companies with a primary intent of creating positive social and environmental impact. They shared the same advisor, participated in the same venture acceleration program (‘Green Accelerator’) and had exposure to the same investors. Furthermore, the companies were similarly considered ‘early-stage ventures’ within the acceleration program’s classification. An early stage referred to either a minimum level of experience and sales in a social or environmental domain or having a prototype with a high potential to be developed through a social and environmental venture. FoodCo met both conditions, while WaterCo and EnerCo met the second condition. The Green Accelerator supported the ventures until negotiation processes with potential investors would start. After that, in case the entrepreneur and investor asked for it, the program also provided assistance during investor conversations. FoodCo received the support to initiate and continue negotiations. WaterCo and EnerCo received assistance to initiate negotiations and, due to lack of concrete investors’ interest, to continue looking for alternative financial resources.

Interestingly, the three cases showed significant differences in the processes and outcomes of their fundraising efforts with regards to impact investments. The first case, FoodCo, is a social venture from South Colombia seeking financing from an
international impact investor headquartered in Europe, ImpactFund, who finally 
invested into the company through their own early-stage acceleration program. 
FoodCo is a for-profit company producing and selling confectionary sweets, jams 
and sauces from Amazonian fruits to sustain the region’s bio-diversity and foster 
economic development in one of the poorest states of Colombia. The second case 
company, WaterCo already ran operations in selling water treatment applications. 
However, the lead entrepreneur pursued focusing stronger on customer segments 
at the Base of the economic Pyramid (BoP), thus leveraging the company’s 
experience in order to generate positive social impact (Prahalad, 2010). WaterCo 
was declined by impact investors and subsequently changed the core model of the 
company to present an investment case larger in size and scope. Finally, EnerCo, 
the third case company, sold energy efficiency solutions for private households 
thus creating positive environmental impact through CO2-emission and energy 
consumption-reductions. After initial financing declines, EnerCo developed the 
company independently over two years to then reconnect with the investment 
community with an adapted funding proposal. At the time of writing, EnerCo was in 
promising negotiations with impact investors.

Data collection for the FoodCo case took place between the intense pre- 
investment time during September 2012 and March 2013, including regular 
interviews with the entrepreneurs and investors (in total, 27 interviews of 
approximately 60 minutes on average, mostly recorded and transcribed), several 
informal meetings, 253 pages of archival documents, two field visits of 13 days in 
total as well as ongoing participant-observation of one of the co-authors as the 
advisor to the company in the fundraising process. Data collection for the second 
and third case relied on ex-post interviews, archival data and participant- 
observation respectively.

While an exploratory study may benefit from a close relationship between authors 
and case protagonists, the authors made an extra effort to reduce biases due to 
the role of one co-author as an advisor to all three companies. First, data collection 
and an initial iteration of analysis between theory and data for the FoodCo case 
were developed by the first co-author alone. In fact, the second co-author served 
as an interviewee before the research collaboration had been proposed. After first 
themes had emerged from the FoodCo case, both co-authors convened to develop 
the comparative research design and select the EnerCo and WaterCo cases as 
part of the theoretically informed sample. Both co-authors then conducted ex-post 
together, added their analyses of archival data and induced emergent
themes of each individual case during several rounds of discussions. The storylines of all three cases as well as open questions were presented to the entrepreneurs and investor afterwards and then adapted accordingly. Finally, the first co-author developed the first iteration of the cross case analysis based on a visual map capturing the major developments which were then discussed amongst both co-authors (Langley, 1999; Langley and Truax, 1994). Thereafter, the study reached a higher level of conceptualization in form of the first two propositions that emerged across these three cases.

The following case study sections provide a narrative and within-case analysis for each company. For reasons of space limitation while trying to provide interesting in-depth content, we present the narrative on FoodCo in more detail and outline only the most relevant developments of the two other cases, i.e. WaterCo and EnerCo. Then, we compare the analytical implications across cases and conclude general patterns in the final section. All personal and organizational names are fictitious. City references are changed while maintaining sufficient analytical proximity to the real locations.

### 4.4 FoodCo case

“This company is a dream come true. We sustain the natural resources of the Amazonas and support the families of farmers in the region.”

– Ana García, Co-Founder and Commercial Manager, FoodCo, Mocoa, Putumayo, South Colombia, Amazonas region

“In this remote region of the country, most economic activity happens either through the state or through illegal businesses. FoodCo is an alternative. That is why we need to scale the company.”

– Juan Rueda, Co-Founder and CEO, FoodCo

Though only in their mid thirties, Juan Rueda and Ana García had already created and lost an Amazonian fruit juice company, GoodJuice, that counted the Colombian armed forces to its largest clients. After losing GoodJuice, they
developed further ideas on how to commercialize Amazonian fruits and finally, started and grew FoodCo to a ten employee, USD 200’000 grossing start-up, thus being the single largest food company in the economically less developed region of Putumayo, South Colombia. After winning several social venture competitions, FoodCo initiated conversations with an international impact investment fund, ImpactFund, headquartered in Geneva, Switzerland.

4.4.1 Early developments

In 2000, Juan Rueda participated in a university project in his hometown, Mocoa, researching ways to process and commercialize Amazonian fruits. While he was still working for a local bank, based on his final university thesis and together with his fiancé, Ana García, he took the opportunity to develop their first company selling fruit juices to restaurants and hotels. What had started with an initial seed investment of USD 400 to purchase raw fruits, glass bottles and etiquettes, they developed into the primary juice supplier to the state army base with 60’000 daily consumers of their Amazonian fruit juices. Within three years, the company became a role model venture in a region of high levels of unemployment and corruption as well as little socio-political stability. The Colombian government seemed distant and both paramilitary and guerrilla forces were active oppressors in the region. Then in late 2003, armed guerillas demanded the entrepreneurial couple to terminate their fruit juice company. They did so immediately.

“In those days, people could just walk to your doorstep and request your car keys. You handed them over and you no longer had a car. That’s what happened to GoodJuice.”

– Juan Rueda

While this was the end for the fruit juice company, the socio-political situation changed due to the approach of the new National Government confronting the illegal groups in the region. Although the conflict had not been resolved, the population had a higher perception of safety that improved the business environment.
4.4.2 Founding of FoodCo

Juan Rueda and Ana García took advantage of the developments and founded FoodCo in March 2006 producing confectionary sweets, cookies, jams and sauces from Amazonian fruits. Despite the many mistakes they made (e.g., the first marmalade from a yellow fruit turned out dark brown), the company broke-even in its first year of operations. FoodCo could be further developed with operating profits alongside the small loans that Juan Rueda and Ana García were granted by Fondo Comercial de Sostenibilidad, a trade fund for small and medium-sized enterprises. However, the entrepreneurs would not receive funds beyond USD 2'000, which together with all their private savings were still not sufficient to finance growth. While access to capital was not the main problem in the region, it was the source of the capital that was problematic. Despite several offerings, the FoodCo founders would not compromise on their pursuit to only receive funds from transparent sources without any relations to illegal business.

4.4.3 Impact in the supply chain

In 2007, FoodCo improved their supply chain by founding Soportar, an association to organize the farmers from whom they sourced the raw fruits. Many of those farmers lived at or below the poverty line with too small farms and too inefficient farming techniques to sufficiently sustain their families’ livelihoods. To increase their income, farms switched from indigenous fruits to imported farming for natural rubber, illegal crops or unproductive cattle farming all of which implied slash-and-burn methods accelerating deforestation, creating losses to bio-diversity, and leading to social unrest (ImpactFund FoodCo PR).

Through Soportar, presided by Ana García, farmers would receive fair and stable prices for organically-grown Amazonian fruits. Soportar could apply for regional development funding which enabled FoodCo to purchase transport boxes that increased transportation efficiency from the farms to the company factory in Mocoa, thus lowering the largest cost position for the farmers.
4.4.4 Acceleration and advisory

With the early achievements of their socially- and environmentally-inclusive business, Juan Rueda and Ana García applied for and were selected for venture acceleration programs and competitions of prestigious, international social entrepreneurship organizations.

“Coming from the south of Colombia, we were very proud to be selected amongst the best social start-up companies in the entire country. We were encouraged that we were working in an important area with large potential markets that we had not been aware of before.”
– Juan Rueda

Besides an increase in reputation and confidence, the awards and selections brought them in contact with free-of-charge business advisory. In particular, their successful participation in the Green Accelerator program organized by Universidad Andina de Colombia allowed them to collaborate with Camilo Silva, who was mandated as the main pro-bono advisor to support on the company’s fundraising efforts.

After a first investor conference in Bogotá had not led to any promising contacts for FoodCo, Camilo Silva invited Juan Rueda to join him at the largest impact investment event in Latin America in Mérida, Mexico. It was the first time that the young entrepreneur would leave his country of origin. In a three and half minute pitch, Juan Rueda presented FoodCo after which three impact investors approached the entrepreneur for further conversations. However, two funds backed off due to the early stage of the company, though, not leaving without a general interest to follow-up two years later.

The third investor, ImpactFund, was represented by its Colombian investment manager, Miguel Paredes, who was born and raised in Caquetá, a neighboring state of Putumayo where FoodCo was headquartered. Their similar personal background facilitated communication and enabled the development of a trusted relationship between the entrepreneurs and the potential investor.

Although FoodCo had the opportunity to continue looking for other impact investors through the Green Accelerator Program, they instead focused exclusively on ImpactFund as a potential investor. This decision was based on a high level of confidence through the first encounters with ImpactFund, an anticipation of each investment process being resource and time intense, and the entrepreneurs' personal conviction that negotiating with other potential investors
could be perceived as a lack of trust. Back in Colombia, Juan Rueda and Ana García, advised by Camilo Silva decided to continue fundraising conversations only with ImpactFund.

“For us it was a matter of honesty to not proceed with other investors. We said then: We are going only with ImpactFund!”
– Juan Rueda

### 4.4.5 Screening

After the investment conference in early 2011, FoodCo continued the conversations with ImpactFund. The company fitted the impact investor’s criteria for improving the livelihoods of disadvantaged people, i.e. increased income for local farmers as well as the conservation of ecologically vulnerable regions of high bio-diversity. In line with the standardized investment process, Miguel Paredes consulted with the fund’s management team and received approval to proceed with a preliminary analysis of the company, its impact model, market and growth potential. Once having understood the model, Miguel Paredes had come to a conclusion:

“I make up my mind whether I would like to invest or not as soon as I have a good understanding of how their model works… and, of course, I have to like the people running the company. An investment is almost like looking for a new job, because as an investment manager you might spend 10-20% of your time for the next seven years with this deal.”
– Miguel Paredes

The internal decision-making of the fund consisted of several further steps to be taken, before an investment decision was finally made. As a next milestone and in order to initiate the official preliminary review phase, Miguel Paredes had to present the deal in a board call conducted in August 2011. Receiving approval during this call, it took another six months to develop the ‘Preliminary Review’ document. The process had taken longer than the usual duration, primarily, because the company was at an early stage at the start of the discussions. Yet, the potential social and environmental impact of an investment in FoodCo was not in question.

“From an impact perspective, FoodCo had always been interesting. That’s why we followed up on it despite its very early stage.”
– Managing Director of ImpactFund
Past data was difficult to access. FoodCo did not have administration and accounting systems in place that would easily allow compiling financial records of the company. They relied on friends and pro-bono advisors for financial audits. To project the company’s sales potential, Camilo Silva hired experts from Universidad Andina de Colombia in order to conduct a market study. While this facilitated the process to a large extend, ImpactFund’s investment managers still lacked the time for deeper analyses at the remote location in South Colombia, as other deals, both existing and emerging ones, demanded strong attention at that time.

4.4.6 Due diligence

In mid 2012, the process intensified after Miguel Paredes had visited FoodCo in the remote city of Mocoa. Finally, in August 2012, ImpactFund engaged in a three days due diligence process to collect required data for an investment decision. Data collection included organizing past sales receipts stored in cardboard boxes, conversations with factory workers and farmers in remote fincas, as well as meetings with local officials from the municipality. Emphasizing the low level of business activity in the region, the state governor confirmed that ImpactFund was the first international institutional investor that had ever expressed a concrete interest in a company from the region in over a hundred years.

During due diligence, Juan Rueda and Ana García collaborated closely with Miguel Paredes and his colleagues from the investment team. While this additional work was a demanding exercise, the two entrepreneurs could learn significantly in the process.

“We did not know how to make financial projections that would satisfy the necessities of an international investment fund.”
– Juan Rueda

And, as their investment advisor pointed out:

“If ImpactFund does not invest, another fund will benefit from their learning curve.”
– Camilo Silva

Based on the due diligence, Miguel Paredes and his colleagues developed excel sheets that would feed into the twenty-pages investment memorandum:

“...an average annual growth rate of 121% between 2007 and 2010. In 2011, FoodCo’s annual production exceeded 110 metric tons p.a., it purchased fruits from 62 farmers, and distributed its products through Colombia’s major retail chains. FoodCo’s
product portfolio is composed of sweets (60% of sales), cookies (30%), fruit pulp (5%) and others (5%), including marmalade and sauces. Annual sales in 2011 reached 185,659 USD, with a gross margin of 43% and an EBITDA margin of 16%. So far, FoodCo has financed its own growth. The company’s financial status is healthy, with total outstanding long-term obligations of 25,352 USD and an estimated pre-money valuation of 350,000 USD (management estimation). However, production remains suboptimal and sales dropped in 2011 due to unpreparedness in response to extreme weather phenomena.” (ImpactFund FoodCo PR)

To initiate the negotiation process, the entrepreneurs, their advisor and the investment managers identified four critical areas for which solutions needed to be planned, before the deal could be presented to ImpactFund’s investment board for a final decision:

1. Scalability: FoodCo needed to professionalize its current systems and processes in order to prepare for and achieve larger scale. Thus, they would hire an interim CFO recruited through the network of ImpactFund and partly compensated by ImpactFund.
2. Logistics: A logistical infrastructure, in particular, a warehouse, had to be established in order to avoid delays and product losses due to severe road conditions between Mocoa and Bogotá.
3. Commercialization: The company would have to hire a sales representative located in Bogotá in order to penetrate the national market beyond current low levels of sales in supermarkets and specialized gourmet restaurants.
4. The company’s current financial requirements had to be analyzed and the valuation negotiated in order to design the ideal type and size of investment.

The first three issues were quickly agreed upon. Yet, the fourth area, i.e. finding consensus about the value of the company, proved to be more challenging.

4.4.7 Negotiations

Juan Rueda and Ana García had never conducted a company valuation for themselves. Their advisor, Camilo Silva, was not a valuation expert either. Thus, they invited a professor for corporate finance from Universidad Andina de Colombia to come up with a financial model of FoodCo that would calculate the
company value. As the resulting value was far beyond what Miguel Paredes had thought would be feasible to present to his investment board, the two negotiating parties looked at the underlying model of the professor. Miguel Paredes could not agree with the assumptions and they agreed to discard the financial model.

“The involvement of the finance expert from the university did not seem to facilitate the process. The company was still too young to use traditional valuation techniques.”
– Managing Director of ImpactFund

Hence, they would have to rely on alternative methods to estimate the current value of FoodCo. When asked for a valuation, Juan Rueda first stated, “it is so difficult to put a price tag on something that is so emotional to you”, while then “Juan [Rueda] mentioned USD 450’000 in the heat of the battle” (Miguel Paredes). Yet, they later agreed on a pre-money valuation of USD 250’000, which “felt about right from our experience with these types of companies at that stage” (Miguel Paredes). Now, they had a company valuation with which Miguel Paredes could develop an investment proposal for ImpactFund’s board. The valuation was “at a level where a normal venture capitalist would be interested” (Miguel Paredes), or, “not a good valuation for FoodCo, but still the best option because Juan Rueda and Ana García are more interested in the future development of the company than in its current value” (Camilo Silva).

While both parties still shared strong mutual trust, the negotiations had left the entrepreneurs, together with their advisor, with mixed feelings: Although they had been fully transparent throughout the entire process, there had been misunderstandings about disclosure of financial models to estimate the company value as initially provided by ImpactFund. Additionally, the negotiation process was perceived to resemble a traditional venture capital approach more than an impact investing deal, in which the notion of impact creation has as much significance as has the notion of financial return. Yet, their intention to have ImpactFund as their major investor remained unchanged.

4.4.8 Deal closing

To present the FoodCo deal to the investment board of ImpactFund, Miguel Paredes had to finalize the investment memorandum and prepare for the board call. In the meantime, he was closing another deal, managing an existing portfolio company that required intensive support and launching an early stage accelerator
program (AccelerateLatam) with which the fund aimed to strengthen the pipeline of investible ventures in Colombia. These developments led to a delay of the preparation of the FoodCo investment memorandum and thus to a postponed presentation of the deal. While it had initially been planned to discuss the deal in ImpactFund’s investment board meeting in mid December 2012, the FoodCo deal could only be presented at the end of March 2013. The delay gave more time to evaluate alternative financial structures, have conversations with co-investors and develop a thorough investment memorandum. However, the postponement required additional patience from FoodCo’s entrepreneurs.

In these first three months of 2013, three further developments happened that affected the deal closing process. Since the first investment conference in early 2011, various investors had stated their interest in FoodCo. In January 2013, an impact investor group from Switzerland expressed its willingness to co-invest in the deal thus reducing the capital requirement to be provided by ImpactFund. The fund managers were in favor of this option, yet, it was a new situation, to which FoodCo’s reaction was unclear. Furthermore, when preparing the investment memorandum, Miguel Paredes and his colleagues developed an alternative structure based on debt rather than equity. While this would have implied lower cost of capital for FoodCo, the young entrepreneurial couple disliked the idea of further debt and preferred equity as had been agreed upon earlier. The existence of a second, still unknown investor for the company was not well received. However, their open attitude and their positive relationship with Miguel Paredes left them in good faith that the investment manager would propose the right things for the company and convince ImpactFund’s investment board to invest in FoodCo.

Another development that was outside the scope of Juan Rueda, Ana García and Camilo Silva was the launch of the AccelerateLatam accelerator program of ImpactFund. With a second potential co-investor expressing interest, the required amount of capital from ImpactFund was at a level that qualified for the newly launched program. This offered two significant advantages for FoodCo: The investment-decision would no longer have to be made by the investment board of ImpactFund, thus diminishing the risk of a rejection in the board. And, participants in the acceleration program could benefit from significant non-financial support beyond the effort that ImpactFund could provide in its normal impact investing deals.
4.4.9. Investment decision

In March 2013, Miguel Paredes consulted with his managing partner in order to decide between a normal investment proposal to be presented to the board and acceptance of FoodCo into the newly launched acceleration program. Throughout the screening, due diligence and negotiation process it had become clear that FoodCo offered a strong potential impact for economic development and biodiversity preservation in a highly vulnerable region. However, besides a financial investment, the company and its directors required support in several areas of organizational development. AccelerateLatam seemed better suited as it allowed bringing in coaching and mentoring resources from program partners. Additionally, there was a risk of rejection in the investment board due to the early-stage of FoodCo. After over two and a half years of preparation between FoodCo and ImpactFund to collaborate on an investment into the company, a rejection seemed very unfavorable for Miguel Paredes and his colleagues. In late March 2013, instead of sending the fully written investment memorandum to the members of the investment board, ImpactFund’s managers decided to include FoodCo as one of the first ventures in their Colombian version of AccelerateLatam with the official decision to be made by mid June alongside other applicants. Miguel Paredes, Juan Rueda, Ana García and Camilo Silva were excited and relieved to finally move forward towards an official investment relationship with on-going support and valuable reputation through ImpactFund’s engagement in the company – the first time that an international impact investor has ever invested in a company in Putumayo, South Colombia.

4.4.10 Findings from FoodCo: Within-case analysis

The FoodCo case narrative enables exploring the fundraising effort of a social entrepreneur and it provides insights into an impact investing process as it unfolded. During the exploratory case study we particularly looked for how the social entrepreneurs interacted with impact investors, what triggered their decisions and actions and why the process did have, in the case of FoodCo, a successful outcome. Namely, we observed five emerging factors during the fundraising process (see Figure 8:108):
**Personal relations.** Relationship-building seemed to have positively influenced both the fundraising process and outcome. A shared cultural background, geographic proximity and the involvement of experts to develop a balance of expertise enabled a strong relation between entrepreneurs and investor. The entrepreneurs and their investor shared a similar cultural background as the main investment manager from ImpactFund was born and raised a few kilometers from Mocoa, FoodCo’s headquarter. They focused exclusively on fundraising from ImpactFund, since they considered it an expression of lack of trust towards the investment manager if they had engaged in conversations with other investors at the same time. This strong personal relationship enabled both parties to reach agreements based on trust rather than objective data alone, which would have been impossible to obtain due to the early stage of the company. While generally in line with theory (Maxwell and Lévesque, 2011; Sapienza and Korsgaard, 1996), this high level of trust between entrepreneurs and potential investors might be specifically important in the area of social entrepreneurship in developing and emerging country contexts. As neither experiences from past investment activities nor market data are existing, impact investors may need to put stronger emphasis on elements like trust in addition to conventional sources of information for an investment decision (e.g., company valuation based on multiples of projected financial data). Being physically present in the same country may have facilitated developing a trusted relationship. While the distance between the location of the investors and the venture’s Southern Colombian headquarter still made personal meetings difficult, rare site visits had an impact on investors’ perception:

“Initially, I was in doubt about FoodCo as an investment case. But if you see FoodCo’s operations in Mocoa with your own eyes, you understand the massive achievement Juan Rueda and Ana García have already made.”

– Junior Investment Manager, ImpactFund

Furthermore, we found a new perspective on the usefulness of Principal Agent Theory for the social entrepreneurs and investor relation (Scarlata and Alemany, 2010). As the impact investors had more management and finance knowledge than the social entrepreneurs, they could analyze the company’s current state and easily influence decision outcomes. Actually, the investor intentionally invited legal experts to represent FoodCo during negotiations in order to achieve a more balanced relationship. Hence, it may be questioned whether Principal Agent Theory offers most appropriate explanations for social entrepreneurship fundraising. In several instances, we could indeed conceptualize an information
asymmetry, however, in a way that the investor had a better understanding of the company’s financials than the entrepreneurs – as opposed to vice versa. Combined with company information about which the entrepreneurs have a better knowledge than the impact investor (e.g., operational processes), the predictions derived from Principal Agent Theory may be less appropriate for social entrepreneurship in emerging economy contexts. This notion opposes the findings of Scarlata and Alemany (2010).

**Past experiences.** Past experiences of the venture and its entrepreneurs seemed to be relevant for the fundraising process and outcome. While the financial history of the company was not well documented, thus making extrapolations to the future difficult, the two founders had already gained experiences as entrepreneurs through their prior start-up. Yet, the lack of financial know-how contributed to the long duration of the due diligence phase as the investors needed to analyze past financials based on receipts collected in cardboard boxes. Though lacking much needed management and financial skills, both entrepreneurs had already existing experiences in the core operations of the company being raw fruit sourcing, processing and selling in a sustainable way. They could demonstrate their experience in working with and improving the situation of local farmers being the main lever for positive social impact creation and an important factor for the investor’s evaluation of the company.

**Venture characteristics.** Not surprisingly, venture characteristics shape fundraising processes and outcomes. For decades, venture capital and entrepreneurship researchers have covered this particular notion providing long lists of venture criteria important for venture capitalists’ decision-making (Franke, Gruber, Harhoff and Henkel 462; Petty and Gruber 174). In order to explore new emergent themes, we only focus on social entrepreneurship-specific aspects: As can be expected, positive social impact potential is a major characteristic, which occurs in social entrepreneurship fundraising processes rather than in traditional entrepreneurship. FoodCo’s potential impact on the livelihoods of farmers living at or below the poverty line was frequently mentioned as a key factor of why ImpactFund was interested in the deal despite its very early stage. Furthermore, the context of FoodCo in South Colombia played an important role as, on one hand, geopolitical tensions and lack of infrastructure increased the level of risk of the investment, while, on the other hand, job creation and economic development were positive impacts of FoodCo.
Pre-investment venture development. Before the actual investment decision was made, the entrepreneurs substantially developed their ventures in terms of learning, reputation and networks. This provides insights in the role of start-up awards and programs for early-stage ventures and it adds a new perspective to the post-investment activities of venture capitalists (De Clerq and Manigart, 2007). There is extensive research on the value-adding activities of venture capitalists after an investor decides to invest in a deal (see Large and Muegge 2008 for an overview). However, we do not yet know how entrepreneurs benefit from investors’ support prior to the actual investment decision. In a mature venture capital market with sufficiently attractive deal flow, fund managers might not take the time nor see the advantage of engaging heavily with the venture in order to build critical capabilities. However, social entrepreneurs in areas of low economic development may require this learning to understand and meet basic venture capital requirements. They are less familiar with common business and finance terms. Impact investors, on the other hand, may have more resources for developing the pipeline of investible ventures as compared to traditional, purely profit-oriented investors.

Both social entrepreneurs and impact investor could leverage their impact orientation to attract high quality advisory at low costs. Advisory may have a high importance in social entrepreneurship and impact investing due to the infant state of the industry, especially in developing and emerging countries. Both entrepreneurs and investor seemed to gain learning from fundraising and investments processes, respectively. As the presented negotiations lasted significantly longer than the average, ImpactFund also reflected on and further developed their investment strategy during this period.

Furthermore, we observed learning on basic managerial matters. FoodCo, for example, lacked administrative capacity such as a professional accounting system. As one board member of ImpactFund recalled, it was not the first time, the fund managers were facing lack of accounting know-how when working with social entrepreneurs: In a former deal in Colombia, the fund managers realized during the due diligence process that the company was actually cash positive and did not require funding. Aside from accounting, FoodCo did not have any experiences with financial projections nor with company valuation – two tasks which they quickly had to get acquainted with. Alongside the learning experience through interacting with an impact investor, FoodCo benefited substantially through the increase in reputation, access to networks and pro-bono advisory provided as part of the
Green Accelerator program and other supporters. In areas without a strong venture capital industry, start-up programs and awards can boost early-stage ventures through increase in confidence and reputation. The positive signal of winning a venture competition served as an alternative to introductions and recommendations within the investment community (Wuebker, Hampl and Wüstenhagen, 2014). Having been selected in the Green Accelerator, FoodCo was introduced to several impact investors, whom the entrepreneurs might have never met without the program. Similar to ImpactFund, the Green Accelerator contributed to the rapid venture development before the young company had received any investments.

**Fund developments.** By being exclusively focused on one investor, the company was dependent on ImpactFund, including several developments outside of the scope of the entrepreneurs that influenced the fundraising process and outcome (Petty and Gruber, 2011). Unfortunate for the relationship, events independent from the actual deal and thus outside of the scope of FoodCo, required the investment management team to dedicate resources elsewhere. This not only affected the process but also the outcome of the negotiation as FoodCo was finally accepted to a newly launched acceleration program that had not yet existed when conversations had started. Petty and Gruber (2011) found out that venture capital decision-making such as the decline of the deal may be independent from any criteria of that deal, but rather due to other circumstances such as the level of workload of the investor. FoodCo’s case is in line with this proposition. ImpactFund’s investment team in Colombia had to dedicate time to the management of their existing portfolio in the region, they were involved in a parallel investment process to be closed at the same time and they took a leadership role in developing the impact investing sector in the country. Having a small team of two senior and one junior investment managers, the accumulated workload implied lack of sufficient time for a faster investment process with FoodCo. Furthermore, the development of the early-stage acceleration program required commitment. Its launch during the FoodCo investment process turned out to be critical for the fund to invest. The program allowed investing smaller deal sizes and providing more hands-on support through a partner network for very early-stage companies. Additionally, the fund’s international investment committee was not involved in the final decision about participating ventures in the accelerator program. With an increased understanding of the early stage of FoodCo, the investment team realized how difficult it would be to convince their
board for a positive investment decision. Accepting FoodCo in the accelerator program alongside the interest of two potential co-investors seemed to be the more realistic trajectory.

Relationship-building between social entrepreneurs and investors, entrepreneurs’ past experience, venture characteristics, pre-investment developments of the venture and fund developments outside the scope of the entrepreneurs all seemed to have influenced the distinct fundraising process of FoodCo as well as its outcome with regards to the investment by ImpactFund. With two and a half years of pre-investment contact, the process turned out to be unusually long, the entrepreneurs had a steep learning curve through the process and finally a positive investment decision was agreed due to a special acceleration program of the fund (Figure 8:108).

**Figure 8: Factors influencing FoodCo's fundraising process and outcome**
4.5 WaterCo case

4.5.1 Early developments

Founded by Mario Nieto in Bogotá, Colombia, in 1999, WaterCo was a company that produced and sold water treatment supplies and equipment, including filtration and technology parts for water systems. Mario Nieto established the company after two years of experience as a commercial manager of a U.S. company dedicated to the production of water treatment supplies. After the value of the US dollar had increased significantly between 1997 and 1998, imported products and services from the USA were no longer competitive on the Colombian market. However, local production in order to reduce prices and maintain a market position in Colombia did not seem to be an option for Nieto’s employer at that time. Subsequently, Mario Nieto realized a business opportunity based on local production for two reasons: First, a Colombian company could reach higher margins due to lower costs. And second, technology adaption could be achieved much quicker with a company producing within its primary sales market. Hiring a local work force and sourcing nationally, the entrepreneur could significantly reduce the prices. However, the U.S. technology still needed to be adapted to the Colombian market. As an example, in Colombia, the use of chemical treatment plants for small communities was permitted, while in the USA small scale systems were not allowed to use chemical water treatment. Mario Nieto assumed that he could target residential condominiums and recreational units by downsizing the chemicals-based industrial treatment systems from the U.S. market. Once again, the entrepreneur took a necessity, i.e., the need for local adaptation, as an opportunity for a new, lower-price technology for households and small applications.

4.5.2 Company founding, market and technology

After WaterCo had started in 1999, the company operated above breakeven for eight consecutive years with average annual sales of approximately USD 400'000. However, to enable operational and commercial expansion, the company required new working capital. Mario Nieto relied on his personal network to attract an angel investor who became his partner in the newly found venture, WaterCo, to support
the marketing of the WaterCo products. The entrepreneur would then focus on his new role as general manager for WaterCo and hand over the partial management of the company to a trusted employee. Besides working capital, Mario Nieto could leverage his connection to the angel investor, particularly amongst local politicians from remote areas of the country. He learned about the environmental issues and the challenges for social development of these areas: In Colombia, countless small communities with less than 2'000 people lacked of access to safe drinking water as the government only developed projects with a minimum coverage of 10'000 inhabitants. Hence, these small communities fetched water directly from rivers and wells without any form of treatment. Purified water was available, however, only in large bottles at USD 10, which is equivalent to USD 2 per gallon, while in the cities the price of the same bottles was four times lower. To address this market, WaterCo designed a system using Reverse Osmosis (RO) technology treating the water obtained from the source. The RO system reduced the per unit price of these large bottles to USD 3 for sale in small communities. Labeled ‘Water Shops’, communities could buy the entire system and then rely on the support from WaterCo up until two years after breakeven. With an initial investment of USD 150'000 per installation, the Water Shops business model covered operating expenses within three years and recovered initial investment in seven. While the model provided significant benefits to the community, it also implied new challenges to WaterCo in dealing with a type of customer with which Mario Nieto had not yet gained any experience. At this stage, the entrepreneur considered that WaterCo should focus exclusively on selling its new Water Shops to small and remote communities. Therefore, he would develop a social venture instead of acting as the commercial arm of WaterCo as was the original idea. He started to promote the Water Shops among local leaders, however, facing two major constraints: First, most of the target communities lacked the necessary resources to invest in the system. The community mayors could not provide sufficient financing and would thus rely on support from the regional departments. Second, Mario Nieto had to deal with high levels of corruption as political leaders demanded bizarre fees for favorable decision-making. Since he was not willing to support corruption in the region, Nieto had to find other means of financing for the initial investment. He was aware of the potential environmental and social impact of the Water Shop concept, yet, he did not know about impact investing at that time.
4.5.3 Acceleration and advisory

Mario Nieto participated in the Green Accelerator program that would offer advice to selected ventures preparing them for start-up and growth financing from impact investors. Without any knowledge about the impact investing sector, he considered the program as an opportunity to promote the Water Shop concept. Eventually, he reached the final and was chosen for the social venture concept of Water Shops with WaterCo as the holding company.

Through the venture acceleration program, Mario Nieto was introduced to the Latin American impact investing community. He received training and consultancy in order to find investors and negotiate an investment deal. With the support of the Green Accelerator he developed an investment case for USD 150’000 to equip small communities with drinking water systems with 70% of the investment covering implementation and operations and 30% being dedicated to community training and management. The idea was that WaterCo would provide aftersales services to the communities for five years, i.e. until two years after reaching breakeven locally.

4.5.4 Seeking investors

In 2010, Mario Nieto focused on searching for investors rather than developing a customer network in remote communities. He visited both national and international investor events such as the Social Capital Markets conference in San Francisco, USA, and initiated a new round of interviews with government officials from national agencies, representatives of multilateral organizations and officials of impact investment funds in Colombia. Many underlined the importance of the project, however, no one decided to financially back the company. Government officials emphasized the urgency of addressing the drinking water challenges in small communities, but their national priority was the establishment of water aqueducts. They could not finance WaterCo systems as they only considered them temporary solutions until aqueducts were properly developed. Additionally, legal restrictions inhibited funding of private projects through public funds. For the small remote communities the situation seemed desperate. There was not any clarity when and how public investments would be made into the much-needed water aqueducts. Hence, with the Water Shop investment case,
Mario Nieto reached out to multilateral development banks, two of which expressed concrete interest. However, an official from one of the development banks explained the primary challenge in the case as follows:

"The technology is of great interest to us, but given our experience in social projects, our investment would be exclusively focused on community building, where we see the main challenges for the dissemination of such initiatives."

– Manager, Development Bank

The development bank proposed co-financing for the community-organizing part of the project if there was a co-investor for the commercial side. Furthermore, they offered assistance through sending technicians from the development bank to evaluate and advance WaterCo’s system. However, this hampered Mario Nieto’s confidence in the development bank as the ideal partner. He wanted to ensure that the development bank would not get full technology insight until they had confirmed the partnership. He feared technology theft as he had experienced before when a potential partner later developed a project with other suppliers using intellectual property of WaterCo.

Through his attendance at investment conferences and support of the Green Accelerator, Mario Nieto also initiated conversations with five impact investment funds, three from Switzerland, one from the USA and another one from Colombia. None of the funds had so far made any impact related investment in Colombia and WaterCo seemed an interesting opportunity to do so. However, after several meetings had taken place, all five funds decided not to continue with a full due diligence on WaterCo. The Swiss funds unanimously considered the required investment amount as too small for their fund operations to be sustainable. Their minimum deal size would at least be four times higher than what Nieto had requested for to develop a Water Shop pilot. The U.S. fund had concerns about the focus of the project’s impact since their social impact measures were targeted on job creation as opposed to a broader understanding of improving the quality of lives in vulnerable communities. The Water Shop investment case only projected the creation of 30 jobs directly, while serving 2,000 beneficiaries in total. Finally, the Colombian fund declined as they pursued investing in companies with proven business models, and although the entrepreneur could demonstrate his track record in the water treatment sector, he lacked experiences with impact-oriented business models for low-income communities. At the end of the conversations, all funds advised Mario Nieto to initiate the project on his own and seek government resources to develop a pilot in order to demonstrate its viability. The Colombian
fund also offered their support in seeking appropriate public resources for such an endeavor. While he had gained valuable insights into the fundraising process with impact investors and he had been offered concrete assistance, Mario Nieto found himself back at the beginning of his fundraising effort. In the meantime, he had continued operations with WaterCo that did well commercially, but was no longer aligned with the entrepreneur’s passion for social impact for the poor Colombian population in remote areas. Furthermore, impact investors questioned his attention to the commercial business: Why did he not follow their advice of developing a publicly funded BoP pilot?

Mario Nieto responded: “My company makes profits only after a long time. I don’t have enough resources to take that step yet. I invested my own resources in the design phase of the Water Shop system, but I need financial support for the implementation.”

4.5.5 Next steps for WaterCo

Mario Nieto was on and off searching for investors since 2009. Without having successfully obtained capital, he felt frustrated about the impact investing community. Investors required WaterCo to present a viable business model. However, he did not have the funds to demonstrate the model’s viability through a pilot for the social venture to start. His experience in the sector and his advancements in the technology design did not seem to create sufficient credibility for pilot funding by private investors. Based on the learnings with impact investor, he adjusted the investment case to a pilot of three communities including drinking water treatment and treatment for wastewater disposal with a total investment of USD 500'000. Mario Nieto did not loose hope for attracting impact investor in order to provide water solutions to small and poor communities in remote regions: "If I receive the funding for this project I would concentrate exclusively on developing the social venture. This is what I am most passionate about and I commit my full time engagement to it while delegating my other responsibilities. There are four billion people in the world who are dependent on new, innovative and affordable solutions for a safe water consumption."

– Mario Nieto
4.5.6 Findings from WaterCo: Within-case analysis

The WaterCo case narrative demonstrates how social entrepreneurs adjust their core business model during impact investment processes. To succeed in an impact market and raise funds from impact investors, the entrepreneur needed to change the service offering, the deal size and scope of the business model by integrating three pilots as well as wastewater treatment in the investment proposal.

The fundraising effort of WaterCo may be divided into three stages. The first stage encompassed the company’s participation and selection in an acceleration program which enabled the development of the investment project and presentation to impact investors. In the second stage, WaterCo interacted with investors receiving feedback in three aspects: Size of the deal, type of beneficiaries of the solutions (i.e., water consumers or formal job seekers) and lack of experience with BoP markets. Finally, the third stage demarcates the adjustment of its product and investment project in size, still lacking experience in the target market amongst BoP customers, to present it again to impact investors.

WaterCo partly incorporated the feedback from impact investors. In order to reach a larger potential investment deal size, they adapted the system to not only increase the impact on communities but also the number of jobs created as compared to the initial model. However, WaterCo had not yet developed any larger Water Shop concept in a pilot community. Hence, they were declined by impact investors based on this new investment proposal due to lack of experience in the distinct solution that WaterCo would offer. Investors suggested seeking institutional funding from governmental and development agencies or finance a pilot project themselves. After further declines from institutions, WaterCo also feared to jeopardize the stability of the main company in case they would invest in a risky pilot at the BoP.

WaterCo learned significantly during the fundraising process. They modified their core business model by targeting BoP customers, providing a more systemic solution to the communities and, as stated above, increasing the size of the investment deal based on impact investors’ recommendations. However, the lack of experience and track record in the distinct BoP business became the critical factor for WaterCo struggling to receive impact investment. At the time of writing, WaterCo was still looking for impact investment funding.
4.6 EnerCo Case

4.6.1 Early developments

The energy crisis in the U.S. market in the 1970s led to the creation of Energy Service or Savings Companies (ESCO). ESCOs developed and implemented operational, administrative and commercial solutions for energy saving and efficiency. While these businesses had been established in the United States over the last thirty years, they were just beginning in Latin American countries. In this context and after a long career as an entrepreneur in hotel businesses and hospitals in southern Florida (USA) and the Colombian Caribbean, Arturo Romero identified the lack of ESCOs as an emerging opportunity for energy efficiency in Latin American markets.

4.6.2 Company founding, market and technology

In 2003 Arturo Romero founded EnerCo US in Miami, Florida (USA), and a subsidiary four years later in Colombia, EnerCo.

“EnerCo is an energy efficiency company that seeks to generate savings to their customers through studies, analyses and more efficient equipment installations. For us it is important to support the sustainability and protect the environment. We are a company using equipment and solutions to improve the energy conditions and reduce emissions of greenhouse gases in Colombian and Latin American companies and households.”

– Arturo Romero

Starting in his hometown, Barranquilla (Colombia), Arturo Romero established a series of alliances with American and Colombian providers. Furthermore, he sought accreditations as well as national and international recognition for energy saving services and products. EnerCo US, for instance, was linked to various industry associations and government programs to promote energy efficiency under the United States Green Building Council, Florida Power & Light, and Energy Star.

After starting his business in Colombia its sales reached USD 350’000 in the second year. The market was responding well but not as fast as expected. EnerCo offered customers three payment options to purchase their products and services:
First, a full payment by customers who kept all savings of energy efficiency to themselves, second, a periodic payment by customers in accordance with the estimated savings from the service, or, third, a combination of the two preceding procedures. Most of its sales were the result of the two latter options, that is, involving a form of customer finance to purchase EnerCo products. Accordingly, its business model required significant capital resources in order to support client payments and reach the intended growth targets.

4.6.3 Acceleration and advisory

In 2009, Arturo Romero participated in a call for applications from an acceleration program, which offered to support environmental companies seeking impact investment. Although he had gained experience in carbon finance through the Clean Development Mechanism under the Kyoto Protocol, Arturo Romero was not familiar with impact investing as a means to invest for financial returns and environmental impact. Despite this lack of knowledge, he was attracted by the possibility of presenting EnerCo to investors and eventually become a portfolio company of an international and reputable investment fund.

So far EnerCo’s customers were medium and large companies because the transaction costs to serve low-income people were too high. It was cheaper and faster to sell to a few big clients than to provide services to many small customers – yet, the total market size was larger in the low-income segment. Impact investors, Arturo Romero thought, could support the development of this promising market that had still been unexplored by EnerCo. The acceleration program, i.e. Green Accelerator, seemed to provide promising access to the impact investing community. Finally, EnerCo was selected to the acceleration program out of more than 100 participating companies.

“EnerCo’s business model can foster energy reconversion processes that are much needed in Colombia. This, together with the experience of Arturo Romero as an entrepreneur, is a winning formula for investors who have already expressed their interest in companies in the energy efficiency sector. For this reason we selected EnerCo.”

– Carolina Mendéz, Co-Director of the Green Accelerator Program

As part of the support process following the successful participation in the acceleration program, Arturo Romero developed an investment case. Although his investment advisors recommended decreasing the required investment size and
valuation, the entrepreneur maintained his expectations. The proposed investment size exceeded USD 2.5 million for 30% of the company having had generated USD 350’000 in revenues in the previous year. Most of the capital was supposed to finance inventory that would subsequently be sold to customers. Despite advisors’ doubts, Arturo Romero proceeded with this investment proposal. The potential market seemed large enough and he could not imagine growing the business with a smaller investment. Only with the requested amount would EnerCo be able moving beyond the current customer base to reach smaller and poorer client groups. He pursued sharing this risk together with impact investors “As far as I see it, if they are impact investors, they will understand the impact of my project and should invest in EnerCo.” – Arturo Romero

Although doubts remained, EnerCo’s advisors of the Green Accelerator Program decided to forward the investment proposal to their networks of impact investors, consisting at that time of twelve impact investment funds interested in Latin America.

### 4.6.4 Seeking investors

EnerCo was accepted to the Green Accelerator portfolio in 2009, which was exposed to these twelve potential investors. Subsequently, three investors expressed concrete interest in meeting with Arturo Romero – a new local angel investor association and two impact investing funds from Switzerland. He first met with representatives of the angel investors who invited him to enter their support program including investor pitches amongst business angels. However, Arturo Romero considered the additional workload with an unclear financing outcome as unattractive thus declining the business angel association’s offer.

During his meetings with a Swiss impact investment fund, the investors emphasized Arturo Romero’s advantages due to his vast personal and professional experience in the energy savings market. However, they also criticized the lack of experience in activities related to intended social or environmental impact.

“We seek a high social impact of our investments, particularly for the beneficiaries of the products and services of our invested companies. The solutions of EnerCo have been developed in the corporate market and we do not see the impact
orientation that we require for our portfolio ventures.”
– Investment Manager of one of the funds

The second Swiss investment fund explained that they were in an exploration stage to invest in Colombia and simply wanted to learn more about the company, but without any clear commitment at that time. As this was disappointing for Arturo Romero, the entrepreneur considered alternative routes of funding. For instance, he explored the possibility of customer finance provided by investors. Experts confirmed that the approach would effectively enable low-income households to purchase energy saving technology. Due to early declines, the initial concerns about the large investment size could neither be confirmed nor dispelled. EnerCo had not surpassed the first stages in the impact investors’ screening processes. Thus, instead of changing the investment case, Arturo Romero sought to approach other types of funding. In the U.S. market, public subsidies effectively lowered the risk of energy efficiency investments, thus making ESCOs bankable. However Colombia lacked public subsidy schemes for energy efficiency. Thus, EnerCo decided to approach private and multilateral development banks providing financing to their customers.

Both banks echoed Arturo Romero’s initial concerns in the low-income segment: How could the company reach high sales figures while maintaining low transaction costs? On one hand, officials from a multilateral development bank recommended EnerCo to establish agreements with industry associations supplying their associations’ members such as hotels and hospitals. Once these members had expressed their interest in EnerCo’s products, the development bank could finance EnerCo’s customers through agreements with the associations. On the other hand, a Colombian private bank suggested establishing an alternative customer finance product through a credit line for environmental conservations investments.

4.6.5 Next steps for EnerCo

Despite three years of promising, yet unsuccessful conversations with private banks and multilateral development banks, Arturo Romero was convinced to soon close a deal with a multilateral development bank as well as with the largest private bank in Colombia. Furthermore, an American impact investment fund had contacted EnerCo requesting an investment proposal for an energy conversion project for the low-income communities in the Colombian Caribbean.
EnerCo had adjusted its investment requirements during their growth process. Its conventional client base had grown slowly, but steadily. In 2012 EnerCo sales reached USD 1.5 million and projected sales for the subsequent year were USD 6 million.

"After three years looking for investment, today I prefer not to sell parts of our company to an investor. We are now seeking impact investors and banks for customer finance at the base of the economic pyramid.”

– Arturo Romero

4.6.6 Findings from EnerCo: Within-case analysis

The EnerCo case narrative allows exploring a learning process during fundraising from impact investors. Being led by an experienced commercial entrepreneur, EnerCo’s fundraising efforts demonstrated particular learnings with regards to the impact market. The entrepreneur’s main challenge was to identify the most appropriate type of growth financing in this sector, i.e. either funding the company or funding its costumers.

We identified three important moments in the process: Initially, EnerCo defined and presented an investment model to impact investors for which the company received declines. Then, the entrepreneur developed the organization for over two years independently from impact investors to access conventional investment opportunities. Finally, EnerCo reconnected with the impact investing community with a sustainable business case and a more suitable investment proposal. During this process, the social entrepreneur adjusted the investment case from traditional venture finance to a more innovative customer finance scheme in which impact investors’ funding was directly linked to the impact on low-income customers.

Initially, EnerCo had presented a traditional equity finance model to investors, since the company did not have any experience with BoP customers. They were not aware of these customers’ inability to make one-off payments for distributed energy efficiency products and services. Coming from a commercial ESCO-background EnerCo was familiar with customer finance catalyzing sales, but the entrepreneur did not consider it appropriate for start-up investors who he expected to invest via debt and equity-finance only. However, with the impact investment community still forming, various innovative financing models were prototyped. Customer finance was a successful element for several BoP-focused business models. Thus, despite a lacking customer finance scheme for energy efficiency
devices in Colombia, impact investors reacted positively to EnerCo’s funding proposal built around end customer finance. His experience in commercial sales for energy efficiency, together with the potential in BoP markets, provided an attractive funding opportunity for impact investors, while conventional investors backed-off due to the higher risk profile and their lack of knowledge in BoP-oriented business models. One of EnerCo’s contacts from the traditional investment community reconnected the entrepreneur with impact investors two years after initial declines and when the company had already reached breakeven with its core operations. This enabled EnerCo to reduce the investment amount and adjust the proposal to focus on customer finance instead of company debt- or equity finance. Impact investors reacted with strong interest and, though still uncertain, a positive investment decision seemed realistic at the time of writing the case study. EnerCo leveraged the learning during the fundraising process to adapt the model for the impact investment community and to develop a value proposition that combined value creation and value capture due to customer finance.

4.7 Findings across cases

The three portrayed social entrepreneurs shared the same advisor, participated in the same acceleration program and had access to the same impact investors. Furthermore, all three were early-stage Colombian for-profit companies led by social entrepreneurs seeking to generate positive impact in areas such as biodiversity, sustainable farming, water treatment and energy efficiency. Not surprisingly we found emergent themes that appeared akin during the fundraising processes.

Two themes appeared prevalent in all three cases, i.e., ‘pre-investment venture development’ and ‘positive impact requirements’. These two themes are discussed in more detail in the following subsections each providing propositions for further theory development.
4.7.1 Pre-investment venture development

During the fundraising process and prior to the investment decision, all three social entrepreneurs developed their ventures based on the support and learning that they experienced during the process.

**Pre-investment support.** The three social entrepreneurs benefited from significant support with regards to investment requirements of impact investors, company valuation, general management and negotiations. While venture capital literature offers a broad range of post-investment value-added activities of venture capitalists to entrepreneurs (cf. De Clercq and Manigart, 2007), impact investors as well as pro-bono advisors provided capacity building to the social entrepreneurs before the investment decision was actually made. ‘Pre-investment support’ through interactions with impact investors is a new construct adding to traditional venture capital finance literature. In particular, impact investors supported the entrepreneurs in financial and managerial matters (in case of FoodCo), with regards to BoP as a new market segment (in case of EnerCo), and an increased level of investment-readiness (for all three cases).

The case of FoodCo indicated how social entrepreneurs received substantial and free support from impact investors as well as from advisors and experts who were involved in the process. Due to their strong interest in investing in FoodCo, ImpactFund’s managers in Colombia wanted to increase the quality of the investment proposal. They were committed to making FoodCo ‘investment-ready’ for the internal proposal to hold the critical questioning from board members who would make the final decision. The relationship between ImpactFund’s investment managers and the social entrepreneurs changed from an evaluation into a collaboration whereby they, together, were trying to develop an investment case that would convince ImpactFund’s board. The fund’s support to FoodCo therefore included organizing financial documentation of past years, i.e., actually digitalizing sales receipts, teaching the entrepreneurs in company valuation and connecting them with pro-bono financial and legal advisors to represent them during due diligence and negotiation.

The cases of EnerCo and WaterCo emphasized that, although impact investors had initially declined their proposals, both social entrepreneurs received valuable advice influencing their further developments. Similar to FoodCo, pro-bono advisory was accessible as professionals with finance, legal and accounting
expertise willingly supported the social entrepreneurs without charging any fees. Both EnerCo and WaterCo could leverage their social and environmental mission to motivate professionals in supporting them during fundraising. Furthermore, WaterCo was advised by an impact investor to seek government funding and the fund provided government contacts from its network. All three ventures participated in the Green Accelerator program in which they received technical assistance and connections to investors. Participation was free of charge, i.e., without giving away equity, as the accelerator was funded by donors and sponsors due to its environmental mission.

Based on the pre-investment support by impact investors, the social entrepreneurs had an increased understanding of debt, equity and customer-finance, they improved their business models and developed investment cases that could potentially meet impact investors’ financing requirements. There is not yet any venture capital research to the best knowledge of the co-authors that investigates the nature and effectiveness of pre-investment support from investors. Hence, proposition 1a goes as follows:

**Proposition 1a:** Social entrepreneurs who fundraise from impact investors benefit from the fundraising process as impact investors provide substantial support prior to the actual fundraising decision. Even in the case of decline, social entrepreneurs who have been in negotiations with impact investors perform better than do those who have not.

**Pre-investment learning.** Apart from direct support from impact investors, the social entrepreneurs learned significantly during the fundraising process. Despite different levels of experience in company building, venture finance and positive social or environmental impact activities, all three social entrepreneurs consistently emphasized their increased knowledge in the respective areas. FoodCo had never been in contact with any investor prior to meeting ImpactFund at an investment conference. Not surprisingly, they experienced a steep learning curve from the entire process. While they generally trusted ImpactFund to be an ideal investor for their growth plans, they learned that due diligence and negotiation processes could be cumbersome. In particular, they experienced and criticized the long duration of negotiations as well as the dominance of financial matters throughout the process. The social entrepreneurs were surprised that an impact investing process resembled what they perceived to be venture capital finance, i.e. a strong emphasis on the valuation and type of financing, rather than
on impact criteria and potential. Additionally, as stated above, they developed a much better understanding about venture finance and strategic management due to the close interaction with ImpactFund’s investment managers. As young social entrepreneurs in rural Colombia, their level of knowledge in venture finance had been very low prior to the investment process.

WaterCo realized during fundraising that their requested investment amount was too small for impact investors to provide capital. After better understanding the optimal deal sizes of investors, WaterCo increased the financial amount of their investment proposal. WaterCo also learned about the particularities of a new customer segment, i.e., BoP consumers. Based on investors’ feedback, the social entrepreneur realized that his existing experience was not yet sufficient to understand and serve BoP customers.

Finally, EnerCo learned that their perceived company valuation exceeded what the impact investing market was willing to pay. As an experienced entrepreneur, Arturo Romero was familiar with traditional equity finance models. He realized that in impact investing, there were a variety of financing possibilities, and that impact investors would not be willing to pay the level of valuation that he considered appropriate. Hence, he changed his investment proposal from a traditional cash-for-equity model to a more innovative customer finance scheme.

As social entrepreneurial business models and impact investing are still young concepts, there is a broad range of financing or investment options, respectively. Social entrepreneurs can learn significantly in the fundraising process as they reflect on the responses they receive from potential investors and integrate new types of financing mechanisms in their investment proposals.

Accordingly, proposition 1b goes as follows.

> Proposition 1b: Social entrepreneurs who fundraise from impact investors benefit from the fundraising process as they learn from the experiences that they make during fundraising. Even in the case of decline, social entrepreneurs who have been in negotiations with impact investors perform better than do those who have not.

### 4.7.2 Positive impact requirements

**Requirements with regards to value creation.** FoodCo’s business model included the sourcing of indigenous fruits for the production and sale of confectionary goods, jams and sauces. With every product sold, the company
increased the income of farmers and their incentives for sustainable farming that preserves the bio-diversity of the Amazonian rainforest. Hence, FoodCo’s financial performance was directly and positively correlated with the value creation for the farmers from whom they purchased the raw fruits at a guaranteed price (Grabenwarter and Liechtenstein, 2013). As the value creation addressed neglected, positive externalities for a marginalized group of Colombian society (Santos, 2012), FoodCo’s impact model was aligned with the requirements of impact investors.

In the second case, WaterCo aimed at reaching BoP customers by operating Water Shops in areas of low economic activity. However, impact investors declined WaterCo’s investment proposal as the company did not meet impact investors’ requirements with regards to the type of positive impact that WaterCo was pursuing. Mario Nieto presented WaterCo as a model providing potable drinking water to vulnerable communities without access to clean water, thus creating a health benefit to low-income households. While an international impact investor expressed its interest in the social enterprise, the investor was required to finance employment creation and economic development as a primary objective of its investment activity. WaterCo’s initial model would not lead to a significant increase of jobs for the low-income population. The social enterprise thus experienced a mismatch between its own impact model and the model that was required by the impact investor.

In the third case, EnerCo sold energy efficiency devices reducing carbon emissions and energy consumption of private households. Whereas the initial business model was not focused on vulnerable communities, the company would still achieve a measurable environmental impact. After first declines, the entrepreneur grew his venture independent from impact investing and started integrating customer finance in his strategy for BoP segments. As the experienced entrepreneur knew from conventional ESCO markets, providing financial support to clients was an important catalyst for sales of energy efficiency devices. By building a customer finance scheme and by requesting investments to provide loans to poor customers, EnerCo presented an investment opportunity with which the financing of impact investors would be directly beneficial to low-income households. When Arturo Romero reconnected with impact investors in Colombia at the time of writing this case study, impact investors expressed their interest to invest in EnerCo due to the direct correlation between customer finance, benefit for low-income households in the BoP segment and environmental value creation.
In addition to known criteria for venture capital finance (Zacharakis and Meyer, 1998), the three case studies demonstrate the special requirements of impact investors with regards to the type of value creation as well as the correlation between their investment and value creation (Grabenwarter and Liechtenstein, 2013)

*Proposition 2a: Social entrepreneurs who meet impact investors’ specific requirements for the type of value creation are more likely to receiving investments than those who score high on other criteria but do not match the investors’ requirements for type of value creation.*

**Requirements with regards to past experience.** Despite all three ventures being early-stage companies, they differed in their level and type of experience. In the first case, FoodCo had already built up a track record with the particular business that they wanted to grow when they initiated conversations with impact investors. Although their accounting and administration practices, amongst others, did not meet the requirements of impact investors, ImpactFund’s managers were able to track past sales figures, analyze the data and build projections from stored documentation. The investors were convinced that they could support FoodCo in administrative and managerial tasks. The social entrepreneurs already had running operations and a functioning supply chain working with small-scale farmers in the Amazonian rainforest. They could present their products placed in local supermarkets and they had a network of business contacts in the region. Despite their early stage and their missing experience in general management, their track record in the particular impact model convinced ImpactFund to approve the investment.

The lead entrepreneurs of EnerCo and WaterCo had much more business experiences than FoodCo’s founders. However, their experience was limited to their past core business of serving middle- and upper class clients with energy efficiency devices and water treatment technology, respectively. Their investment proposals for impact investors targeted BoP markets, in which they had not yet gained any experience. Impact investors declined their proposals due to the lack of experience in doing business with BoP consumers.

When Arturo Romero changed EnerCo’s investment proposal from equity-finance to low income customer finance, he created a more convincing case to impact investors as he had significant experience with customer finance in his prior business. Despite still not having a track record in BoP markets, Arturo Romero
could then leverage his experience in an important financing mechanism for BoP customers: Ability-to-pay was a key impediment of technology advancement amongst BoP citizens (Miller 35) and impact investors acknowledged EnerCo’s track record in customer finance as an opportunity for positive value creation. WaterCo, on the other hand, did not have any experiences, neither in the BoP customer segment nor in the particular business of water shops in traditional markets. As a newcomer to the business model and the market, Mario Nieto lacked the required level of experience particular to social entrepreneurship. Consequently, he could not secure any impact investment. Impact investors suggested WaterCo to look for government funding instead.

**Proposition 2b:** Social entrepreneurs who have experience in their particular type of value creation are more likely to receiving investments than those who score high on other criteria but do not have experience in the type of value creation.

The following Figure 9 summarizes the emerging conceptual model based on our exploratory case study.

**Figure 9: Factors influencing fundraising processes and outcomes**
4.8 Summary of findings and conclusion

Access to finance is a necessity for social entrepreneurs to grow their efforts for positive value creation. In regions of low economic activity, start-up and growth financing from business angels, venture capitalists and conventional banks do not exist. Business models that target customers at the Base of the economic Pyramid (BoP) and/or that focus on value creation beyond the boundaries of the venture organization (Santos, 2012) have a high-risk investment profile and often imply limited potential for growth, value capture and thus successful equity exits or debt and royalty payments. In this context, social entrepreneurs look for impact investors to secure start-up and growth finance. This study aims to explore the fundraising processes of early-stage social entrepreneurs seeking investment from impact investors. We were particularly interested in the factors that influence decision-making in the fundraising processes. Yet, we kept an open mind for other themes and constructs to emerge (Siggelkow, 2007).

The study presents three narratives of early-stage social ventures in Colombia. Using both within- and cross-case analyses, we explored two constructs that seem relevant during the fundraising process of social entrepreneurs vis-à-vis impact investors.

4.8.1 First emergent construct: Pre-investment venture development

Social entrepreneurs are rarely investible as they approach impact investors. Between their first point of contact and the investment decision, they significantly need to develop their social enterprise and gain critical experience. Although a formal start-up infrastructure including an active venture capital sector may not exist in many contexts of social entrepreneurship, social entrepreneurs have exceptional access to pro-bono support from investors and advisors. They can leverage their intention for positive value creation to attract professional experts working for free who would presumably question their pro-bono support in case the main intention of the start-up was private value capture instead of public value creation.

Furthermore, social entrepreneurs can learn significantly during the fundraising process. While this is not surprising, we gained two insights that appeared new to what we know from existing venture funding literature: First, the level of basic
management and finance knowledge as well as experience with the particular impact sector may be relatively low and thus requiring distinct capacity building. Second, impact investors might have realized this lack of knowledge and therefore engage stronger with the potential portfolio ventures in order to develop the ‘investment-readiness’ of the prospective portfolio company. Due to the infant stage of the sector, impact investors themselves learn during fundraising and investment processes, respectively. Assuming a longer time for screening, due diligence and negotiation compared to traditional venture capital, impact investors might learn from distinct investment processes whose duration enables several feedback loops. We developed two propositions covering the notion of learning and support during the fundraising and investment process that can be advanced in further research. For example, scholars may analyze the effectiveness of different degrees of pre-investment support provided by impact investors and venture capitalists, respectively. Further questions may include

- Are those social entrepreneurs who received pre-investment support more likely to receive an investment from other investors than do those who did not receive pre-investment support?
- What type of pre-investment support is more effective under which conditions or for what kind of start-up?
- How much pre-investment support is ideal (from the start-up’s as well as the investor’s perspective)?

4.8.2 Second emergent construct: Positive impact requirements

Impact investors have requirements with regards to the type of positive impact that they finance. Most impact investors have pre-defined goals such as pursuing positive environmental or social impact, creating employment and economic development, serving a marginalized group of society or improving conditions in a distinct geographic area. Based on the three fundraising processes outlined in this paper, we explored how social entrepreneurs’ fundraising experiences depend on whether or not they meet these impact requirements with their business and impact model. Hence, in addition to the right technology, stage, geographic region and financial return potential (Petty and Gruber, 2011), social entrepreneurs also need to be aligned with investors regarding which impact is generated for which beneficiaries or environmental issue. While this is not surprising in general, it still surprised us that impact investors decline investment opportunities that only partly
deviate from their impact requirements despite the fact that nearly all impact investors suffer from lack of high quality deal flow. As the impact investing sector is still in its infancy, one could expect investors to be less rigorous on the type of value creation that potential investees pursue (Saltuk, El Idrissi, Bouri, Mudaliar and Schiff, 2014).

Furthermore, prior entrepreneurial experience is a key determinant for investors to invest in start-ups. Entrepreneurs who can demonstrate a track record in the particular industry they seek to build their start-up in have higher chances to acquire capital than those who cannot (Franke, Gruber, Harhoff and Henkel, 2008). What our exploratory study demonstrates with regards to experience is to understand the distinct type of experience important to impact investors. WaterCo and EnerCo both had substantial prior knowledge in selling water treatment and energy efficiency devices respectively. However, neither one had already developed a track record in the BoP market segment. FoodCo’s founders, on the other hand, had less experience as professional entrepreneurs but they already had a track record in the particular impact area that they were fundraising for.

Having experience in the distinct impact area is important to emphasize as more and more conventional entrepreneurs knowledgeable in commercial operations focused on value capture try to enter the domain of social entrepreneurship and impact investing (Battilana and Lee, 2014). Scholars may build on these insights to shed more light on social entrepreneurs’ key feature of positive value creation (Santos, 2012).

- How do traditional commercial entrepreneurs compensate for lack of experience with value creation in a particular impact area as they turn to social entrepreneurship?
- What happens if existing portfolio companies need to pivot their business model affecting the type of value creation?
- How do we facilitate evaluation of fit between impact investors and social entrepreneurs (e.g. by developing a business model framework that includes positive value creation)?

4.8.3 Additional themes

Finally, we found three additional themes that derived from the case narratives potentially motivating scholars for further research. First, FoodCo’s case
demonstrated the relevance of trusted relationships between social entrepreneurs and investors. Although known from prior research on decision-making in venture capital (Shepherd and Zacharakis, 2001), we assume building a trusted relationship is even more critical in social entrepreneurship. Social entrepreneurship often occurs in areas of neglected positive externalities for less advantaged segments of society (Santos, 2012). Frequently, social entrepreneurs are active around institutional voids (Mair and Martí, 2009) targeting BoP markets (Yunus, Moingeon and Lehmann-Ortega, 2010). Impact investors are likely to be headquartered in other parts of the world that are far away from the locations of social entrepreneurs, e.g. in cities like Geneva, New York, London, Singapore and Zurich. FoodCo’s social entrepreneurs and ImpactFund’s regional investment managers developed a strong personal relationship that was enabled, as they stated, by their similar personal background coming from the same region. Both the entrepreneurs and investment manager emphasized how important personal relationships are in the Colombian context – including several meetings just to get to know each other. In social entrepreneurship, the physical, cultural and institutional distance between social entrepreneurs and impact investors appear relatively larger as compared to traditional entrepreneurship, even when considering cross-border venture capital (Guler and Guillen, 2005; Wuebker, 2009). Hence, building a trusted relationship between social entrepreneurs and investors in addition to contracts that might be difficult to enforce may have even stronger significance in social entrepreneurship than in traditional entrepreneurship. We would like to motivate further research to develop and test hypotheses around trust and relationships in social entrepreneurship fundraising.

Second, our narrative echoes and extends Petty and Gruber’s (2011) hypothesis that the current situation of the venture fund has an influence on its decision-making with regards to distinct deals. We found that the timing and outcome of the FoodCo deal was highly dependent not only on the general state of the fund (e.g. being currently fundraising), but also to the micro-events happening on the investment team’s side. Exceptional workload due to portfolio companies requiring support while making several deals at a time had an effect on the process and outcome of the FoodCo investment. This notion of micro-developments outside the scope of the entrepreneur offers an interesting route for further research not only in social entrepreneurship but also in entrepreneurial finance in general.

Third, we observed a lack of financial instruments in the Colombian impact investing landscape, i.e. a ‘missing-middle’ in the impact investment sector. That
is, between the pre-seed stage in which entrepreneurs can bootstrap their early business development and the scaling phase where professional investors provide capital, start-up companies face a ‘Pioneering Gap’ (Koh, Karamchandani and Katz, 2012). Investors seek deals in a certain stage based on two main factors.  
1) Depending on the commercial orientation (i.e. for-profit, hybrid or non-profit), institutional impact investment organizations are bound to their fund economics. Paid by a percentage of the invested capital they tend to invest in larger deals and often define a minimum deal size below which the effort per deal would not be economically viable.  
2) Even if some investors are less dependent on fund economics (e.g. private business angels, non-profit / subsidized investors), they still favor investment opportunities with a proven track record, e.g. whereby unit economics of the sold services or products are already clear. However, start-up companies with high investment costs for piloting, e.g. business models based on water treatment technology for entire communities, may be underfunded to develop a prototype. Furthermore, innovative service-based start-ups with existing prototypes may still need a long period to show that their products and services can be sold on a newly created market. Between early bootstrapping and later growth financing there remains a financing gap in the impact investing landscape between approximately USD 50’000 and USD 500’000. In their report from a study of ten years of the Acumen Fund portfolio, Harvey Koh and colleagues state that the ‘Pioneering Gap’ does not only exist within emerging markets but also in developed economies. Future research may investigate the nature of this ‘Pioneering Gap’ per country, region or industry, thus informing not only fund managers but also policy-makers of where interventions may be needed to develop a thriving social entrepreneurship and impact investing market.

4.8.4 Limitations and conclusion

To conclude, this study provides in-depth insights into the fundraising processes of three for-profit social entrepreneurs seeking impact investments in Colombia. We offer testable propositions and we derive novel themes that can be further developed into hypotheses. Naturally, the study is not without limitations. First and

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6 Thanks to the reviewers for emphasizing this notion.
foremost, the exploratory design limits its generalizability. We cannot generalize our findings to hold true for all social entrepreneurs and impact investors, but they may be generalizable to theoretical concepts in social entrepreneurship and impact investing. Furthermore, our sampling was not purely motivated by theoretical considerations. Although we aimed for a high level of comparability while being able to investigate diverging fundraising processes and outcomes, the sampling was also informed by our exceptional data access to all three cases as well as by a research conference agenda of ‘Managing Strategies to Scale Up Sustainable Social and Environmental Projects in Colombia’.

With our exploratory case study we hope to offer a valuable contribution to the emergent theories of social entrepreneurship and impact investing and, ultimately, to improve the collaboration between social entrepreneurs and impact investors in order to better finance the scaling of positive social and environmental impact.
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5 Making hybrids work: Aligning business models and organizational design for social enterprises (Paper IV)

By Filipe Santos, Anne-Claire Pache and Christoph Birkholz

Abstract

‘Hybrid organizations’ pursuing a social mission while relying on a commercial business model have paved the way for a new approach to achieving societal impact. Although they bear strong promise, social enterprises are also fragile organizations that walk a fine line between achieving a social mission and living up to the requirements of the market. This paper moves beyond generic recommendations about managing hybrids and highlights a typology of social business hybrids, discussing how each of the four proposed types of hybrid organizations can be managed in order to avoid the danger of mission drift and better achieve financial sustainability.

5.1 Introduction

Welcome to a world where business requirements meet increasing societal demands. Many executives have become keenly aware over the last decades that the business of their business may have to be more than business, since they are asked to address an ever stronger set of societal expectations. Some demands originate from local and central governments in the form of new regulations. Other demands stem from activist groups expecting from corporations an increased environmental or social focus, or from consumers who have increasing access to information about companies and can boycott those that they perceive as engaging in corporate misbehavior. Finally, rising societal demands also originate from employees who feel attracted and are more loyal to companies perceived to be good corporate citizens.

Luckily, addressing societal issues is often good business in itself – socially-oriented products may increase sales and pricing power, sustainability initiatives often increase the efficiency of the value chain, CSR projects can create good-will
in the communities in which companies operate, and addressing the needs of low-income populations may open up new profitable markets (Prahalad, 2004). However, at some point, difficult decisions may emerge for which business leaders need to weigh in the value capture for the company against value creation for society (Santos, 2012). How best to frame and deal with those issues? One approach is to treat these goals as a trade-off and make a choice between profit and societal impact, looking at the abovementioned societal demands as constraints on how the business should operate. Another approach is to treat these societal demands as signals of the future and fundamentally re-think the business model of the company – the way activities are organized and how stakeholders are engaged – so that the trade-offs can potentially become win-win situations (Porter and Kramer, 2011). Developing innovative ways of doing business that align profit and societal impact is a key challenge for corporate leaders in the 21st century.

At the forefront of addressing this challenge are social businesses hybrids, often also called social enterprises – organizations that run commercial operations with the goal of addressing a societal problem, thus adopting a social or environmental mission. While social business hybrid models can be traced back to the 19th century, with legal forms such as cooperatives or mutual companies\(^8\), they have grown in numbers and visibility in the last decades due to the blurring of the boundaries between social and commercial sectors. They are present in a wide variety of sectors, such as education, with examples as the Khan Academy which develops low cost online education; financial inclusion, with microfinance organizations such as the Grameen Bank that develop commercially viable models of providing loans to the very poor; or the environment, with organizations such as South Pole Carbon Ltd. which is the global leader for developing emission-reduction projects. Organizations, such as these, have developed valuable experience in attempting to combine financial and societal value since they need to be effective in both their social and commercial activities if they are to grow and fulfill their mission.

At a macro-level and in terms of impact, social business hybrid organizations in different sectors have proven effective in addressing longstanding societal issues.

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\(^8\) Friedrich Wilhelm Raiffeisen introduced cooperative banking in the 19th century. He is often referred to as an early “social entrepreneur”. An even earlier example would be Thomas Aquinas (11th century).
Microfinance institutions, for instance, have allowed 91 million people living in poverty to access USD 81bn in small loans, thereby contributing to their economic prosperity (Convergence, 2014). Fair trade organizations, which aim to provide small producers mostly in developing countries with fairer trading conditions have generated 4.8 billion in sales worldwide in 2011, thereby improving the economic conditions of 1.4 million small producers on a global level (Fairtrade International, 2011/2012). On a national scale, work integration social enterprises (WISEs) in France, which are organizations that aim at helping long term unemployed people get back to an employment situation by hiring them for two years to produce goods and services sold on the market, have contributed by offering jobs to 15’000 long term unemployed in 2012, with 47% of them finding a permanent activity (job or training) upon graduation (Dares, 2013).

Despite the evidence of societal impact, research suggests that hybrids are fragile organizations that run the risk of internal tensions and mission drift (Battilana and Dorado, 2010) due to holding incompatible goals (Westley and Vredenburg, 1996), and may find it difficult to achieve financial sustainability (Tracey and Owen, 2006). Identifying how leaders of social business hybrids are able to address these challenges, through design structures, governance mechanisms and performance management systems, may allow us to understand how companies can better align the generation of profit and societal impact.

The key insight of this paper is that not all hybrids are born alike. Our extensive academic and practical experience with social business hybrids in different sectors suggests that the nature and specific characteristics of the work that they do give rise to different types of hybrid organizations that need to be managed in different ways. This article therefore develops a typology of social business hybrids with the goal of deepening our understanding of the challenges of hybridity and informing the management of these organizations. More broadly, we also aim to shed light on the management of any organization or initiative that aims to embrace multiple and competing yet potentially synergistic goals, as is increasingly the case in modern corporations. Indeed, corporate leaders are bringing their CSR activities closer to the core of their business (Porter and Kramer, 2006) and many multinational companies are developing base of the pyramid (BoP) businesses to serve low-income customers in developing countries in a sustainable way (London and Hart, 2010). In order to effectively develop these new business initiatives, corporate leaders need to better understand the nature and management of hybrid organizations.
5.2 The rise of social business hybrids

In the last decades, ‘hybrid organizations’ pursuing a social mission while relying on a commercial business model have made the headlines and paved the way for a new approach to achieving societal impact (Battilana, Lee, Walker and Dorsey, 2012). In addition to the abovementioned mature hybrid fields of microfinance and fair trade, examples of prominent social business hybrids in other domains include Delancey Street (in the United States) which hires former inmates and trains them as employees for commercial home and office moving service, or Dialogue in the Dark (initiated in Germany) which developed a global franchise of museum experiences in complete darkness where visitors are guided by blind people. Neither profit maximizers nor charities, neither capitalists nor social activists, social business hybrids primarily use commercial means to achieve a social or environmental mission and adopt different legal forms depending on their regulatory context (e.g., associations, cooperatives, community interest companies in the UK, benefit corporations in the US, for-profit companies owned by non-profits in France, or charitable limited companies in Germany). Social business hybrids attempt to combine the best of both worlds: Create value for society in areas where markets and governments are failing (Santos, 2012), while developing financially sustainable operations that leverage commercial contracts and enable reaching scale.

Are social business hybrids the solution to the failings of our economic system, providing guidelines and inspiration for a new and, perhaps, more advanced model of capitalism? Although they bear clear promises, social business hybrids are also fragile organizations that walk a fine line between achieving their social mission and living up to the discipline of the market. A few prominent examples, such as SKS Microfinance and the debacle of commercialization of microfinance in India, have shown that hybrids may, over time, prioritize financial performance over social performance and thereby drift from their core social mission, sometimes with dramatic consequences for the beneficiaries that they were supposed to serve (Polgreen and Bajaj, 2010). Alternatively, social business hybrids that prioritize social performance over financial performance and fail to build a business model that ensures the financial sustainability of the organization may find it difficult to survive and grow, also resulting in potentially negative consequences for beneficiaries. The bankruptcy of the British social enterprise
Aspire is a well-documented example of such challenges (Tracey and Owen, 2006). Organizations that are able to master these trade-offs and prosper offer important lessons for all of us.

Research in management has started to explore the specific challenges associated with the management of hybrid organizations and has identified some best practices for hybrids management (Battilana and Lee, 2014). What these studies fail to acknowledge, however, is that there are in fact different types of hybrids that face different types of challenges, which, in turn, may require distinct business models, organizational structures and management practices. Our goal in this article is to move beyond general recommendations about managing hybrids to focus on the essential nature of the work that they conduct, in order to identify key challenges and point to the specific organizational structures and business models that allow hybrid organizations to become more effective and sustainable.

We argue that the central challenge of social business hybrids is to align the activities that generate profit with the activities that generate impact. To be clear and allow comparability, we define profit as the value captured by the organization for its owners (shareholders in a public company, or partners in a partnership model, or members in a cooperative model) and define impact as the value created by the organization for society in the achievement of its mission, which can include environmental benefits and social gains. While commercial organizations are expected to prioritize value capture for their owners, subject to a set of societal constraints, and social sector organizations are expected to prioritize value creation for their beneficiaries, subject to mobilizing enough resources to continue operating, social business hybrids have to deal with and attempt to reconcile competing expectations of both value capture and value creation, and have to do so in a systemic way instead of focusing on the needs of one dominant stakeholder (Santos, 2012).

In order to increase the understanding about the alignment of value capture and value creation, we adopt the concept of business model as a central unit of analysis for the functioning of hybrid organizations. The business model, defined as the combination of resources and activities that allow an organization to create, deliver, and capture value (Zott, Amit, and Massa, 2011), is a key design lever in which hybrid organizations can innovate to better promote coherence and focus among competing goals. We describe some of the business models that allow
social business hybrids to operate effectively in the different and complex transaction contexts that we identify. The paper starts by discussing the specific context and distinct rationale for the existence of social business hybrids. In essence, we argue that social business hybrids are likely to be superior to commercials firms in situations of market or government failure created by the specific transaction characteristics of the societal problem that is being addressed. Based on these transaction characteristics, we develop a typology of four hybrid social enterprise models, which we call Market Hybrid, Blending Hybrid, Bridging Hybrid, and Coupling Hybrid. We describe each of these hybrid models, identify the specific challenges faced by managers in each of them, and explain which management structures, models, and practices can be deployed to address these challenges. Our goal is to offer a testable and actionable framework for organizational design and sustainability of hybrid organizations, one that also allows us to draw inspiration for corporate management.

5.3 The role of social business hybrids in capitalism

Commercial models can be highly efficient in solving societal problems, when compared to government interventions or non-profit models, due to the strong discipline of the market in aligning business actions with client value, as well as the dynamics of competition that promote increased efficiency of operations and continuous innovation in the delivery of products and services. In certain market conditions, which include low barriers to entry and the ability of customers to make informed buying decisions, the invisible hand of capitalism will largely align the profit seeking behavior of self-interested actors with societal welfare. In this context and with appropriate regulation that prevents the abuse of dominant positions and the prevention of negative externalities, commercially-driven models have proven their effectiveness in creating both economic growth and social prosperity. A striking example of this positive dynamic is the successful commercialization of mobile telecommunications amongst the lower-income populations of Africa (Aker and Mbiti, 2010), which has arguably been an effective tool for economic empowerment and growth. Mobile services in Africa work as a fully commercial proposition because consumers value the service and exercise
choice, while the economies of scale possible in mobile telephony allow for a low enough cost to meet the ability to pay of low-income customers. Although market outcomes in these situations tend to be efficient, they are rarely fair, as the initial distribution of resources and capabilities greatly determines the welfare of different segments of the population. In order to address this problem, governments, in addition to providing public goods\(^9\) and performing a regulatory function, also assume a redistributive function through tax collections that fund a social welfare system and often subsidize the work of social sector organizations. In this system, charities and traditional non-profits assume the complementary role of helping disadvantaged populations that are not served by markets and are neglected or not easily reached by governments.

In this structure of the modern capitalist system, what is the role, if any, of hybrid organizations that combine social missions with commercially driven models? We argue that social enterprises have distinctive advantages over focused commercial firms in sectors or domains that exhibit at least one of two key characteristics: 1) the production and delivery of products/services have potentially significant value spillovers that go beyond the transacting partners; and 2) transaction obstacles prevent the market from operating efficiently. In these contexts, and as we detail below, markets tend to lead to weaker societal outcomes if providers are subject to strict commercial goals, leading to unrealized opportunities for value creation in the economy. We argue that social business hybrids are organizations deploying business models that can deliver value to society in domains with these transaction characteristics. By doing so, and as long as they can become sustainable and their solution can scale, social business hybrids may perform an important economic and social role. Next we investigate more deeply each of the above transaction characteristics and their implications for efficient organizing.

\(^9\) In economics, a public good is a good that is both non-excludable and non-rivalrous in that individuals cannot be effectively excluded from use and where use by one individual does not reduce availability to others. Examples of public goods include fresh air, knowledge, lighthouses, national defense, flood control systems and street lighting. Public goods that are available everywhere are sometimes referred to as global public goods (from Wikipedia accessed on March 30\(^{th}\) 2014).
5.3.1 Dimension #1: Contingent value spillovers

The notion that market-based transactions lead to societal welfare rests on the premise that the value from a transaction accrues mostly to the transacting parties and that value spillovers, which are the increases or decreases in value to economic agents outside a specific transaction (usually called externalities in economic language) are small or would not significantly change the terms of the transaction if internalized. For example, selling a DVD of a blockbuster movie is a commercial transaction in which the price at which the transaction happens signals the amount that the client is willing to pay given the value that he or she assigns to the movie. Since there are little positive or negative value spillovers in consuming this movie beyond its entertainment value for consumers, a competitive market system will lead to a level of consumption of this good that is correct from a societal welfare point of view. Commercial firms tend to focus their attention on maximizing the value created for the transacting partner (the client) so that they increase the clients’ willingness to pay for the product or service and thereby increase the firms’ ability to capture value from the transaction. Managing any potential value spillovers (by trying to reduce the negative spillovers or increase the positive spillovers for other stakeholders) is usually outside the domain of the commercial provider, unless there is a legal or ethical requirement to do so, in which case this becomes a necessary cost of doing business.

However, some transactions may have significant value spillovers beyond the direct value generated to the customer. For example, if a family in a rural village in Sub-Saharan Africa that is not connected to the electricity grid buys a kerosene lamp to obtain light, that commercial transaction has strong negative spillovers to society in the form of carbon emissions, safety hazards, and health issues due to the inhaling of kerosene fumes that clients may not be aware of. For that family, the adoption of a LED based rechargeable lamp would create significant positive value spillovers in terms of reduction of carbon emissions by replacing kerosene burning, lower societal health care costs from not inhaling kerosene fumes, and improved educational outcomes due to a better reading light for children to study. This is the value proposition for society of the social enterprise Nuru Energy that commercializes renewable energy lamps for low-income populations in East Africa (Santos, 2013). While a commercial enterprise focuses on the value to the paying customer and either ignores or does not manage the value spillovers, a social business hybrid, such as Nuru Energy, may take a systemic view as a basis for
business decisions and focus on the total value created for society – which is the value for the client plus the positive value spillovers for society minus any negative spillovers that may occur.

Value spillovers are thus a fundamental concept to understand the role of social business hybrids in society. In domains or activities where the positive value spillovers are important and happen automatically just by the fact of providing the product or service, then profit is strongly aligned with impact and the business model can be simpler and closer to commercial models. This is the case of the above example of access to light from Nuru Energy – by replacing kerosene with a rechargeable lamp the suggested spillovers will happen automatically without the need for additional interventions. However, in some situations, value spillovers do not happen automatically and require additional effort from the organization providing the service. For example, in the case of microfinance, providing a loan to a low-income entrepreneurial woman in Bangladesh has benefits for the client in accessing finance but this activity by itself brings only limited spillovers. The greatest spillover comes from the good use of the surplus income generated by entrepreneurial activities financed by the loan. When the surplus income is used for buying food for the household, house renovations, or for allowing children to go to school, significant spillovers for society happen. If the money was used for alcohol or gambling, for example, the societal impact of microfinance could actually be negative. This means that, to achieve their social mission of poverty alleviation, microfinance institutions (MFIs) may need to engage in significant mentoring activities with their clients to help them develop successful entrepreneurial activities and make the best use of surplus generated.

To be clear, all businesses, social or commercial, may generate value spillovers for society from their activities beyond the central value delivered to customers. Social businesses hybrids tend to operate in domains which exhibit particularly strong potential value spillovers, where markets are likely to fail in achieving societal good due to perceived lower profitability or business complexity of these activities. In some situations these value spillovers are an automatic result of the commercial activities, while in other situations the value spillovers are contingent.

Yet, the decision of the social entrepreneurs and investors to invest time and capital in this social business is still based on the fact that these spillovers exist, which is aligned with their social mission. A focused commercial firm would probably decide to invest in other domains with higher expected profitability.
on the development of additional interventions because they are not a direct outcome of commercial activities. This distinction between automatic and contingent value spillovers is the first key dimension of our model since it is critical for the societal effectiveness of commercial models. In contexts of contingent value spillovers, providing these additional interventions (that may take the form of training, awareness raising, mentoring, etc.) will be required for the generation of social impact, yet it will add additional costs and complexity to the organization. We will discuss in the next section, after describing the second key transaction characteristic, how social business hybrids can ideally combine commercial activities and these additional interventions.

5.3.2 Dimension #2: Transaction obstacles in the relation with customers / beneficiaries

The effectiveness of commercial models relies on customers being able to engage in the transaction and being willing to pay a price for the product or service that is above the cost of delivering it, allowing for value to be captured by both transacting parties. A key driver of success for commercial companies is thus to increase their clients’ willingness to pay since it is largely assumed that, if clients are willing to pay, they are also able to pay. However, in the case of excluded, disadvantaged, or low-income populations, these populations would often greatly benefit from using new products or services but they have difficulty in doing so because they may be: 1) unable to pay, 2) unable to access the offering, or 3) do not value it enough to intend to purchase it. In these situations, pure commercial transactions may fail and social businesses hybrids need to develop business models that allow these transactions to happen despite the existing obstacles, by lowering costs and/or providing novel means of access. The nature of these business models may depend on the specific transaction obstacles:

1) Inability to pay: If the obstacle lies in the inability to pay for a product or service, a potential solution is the re-design of the production value chain with a focus on target costing. An example of such a model is David Greene’s AuroLab which lowered the cost of intra-ocular lens by more than 10 times making it more widely accessible (Herbst, 2003). This process of target costing usually involves the re-design of the work through the use of technology to automate certain tasks and the integration of production to reduce the margins of intermediaries. It may
also rely on a more specialized role division that leverages locally abundant resources. An example is Lifespring Hospitals which re-engineered maternal care in India with the use of IT, and reduced the scope of the doctor’s work (an expensive and scarce resource) while increasing the role of expert nurses (a cheaper and locally abundant resource). This enabled to lower the cost of maternal health care by 50-70% compared to the average cost of maternal care in India without reducing the quality of care. These innovations made maternal care affordable to a large segment of the low-middle-income population. Lifespring Hospitals currently operates a chain of 12 hospitals and has ambitious plans for growth (Tung and Bennett, 2014).

2) Difficulty of access: If the obstacle to the transaction is the difficult access to customers (such as populations in remote villages), models of micro-franchisees (locally-based networks of individuals or micro-stores as retailers) may allow reaching potential customers in a more cost efficient manner than traditional distribution methods, in particular when coupled with automated micro-payment systems that allows for cheap and scalable ways of monitoring the micro-franchisees and collecting the fees. This is the model that earlier mentioned Nuru Energy is deploying to reach hundreds of thousands of families that do not have access to electricity. An alternative or complement to micro-franchise models are models of customer involvement in the production process at the local level that help resource mobilization and generate economies of aggregation. An example is the US-based venture One-Acre Fund which empowers hundreds of thousands of very small-scale farmers in Kenya, through selling supplies of seeds, providing knowledge and training as well as facilitating access to markets (Turow, 2013).

3) Unwillingness to pay: In other cases, the transaction obstacles may be due to an unwillingness to pay of clients due to a value perception mismatch. This means that potential clients would greatly gain from the offering but they do not know about it or do not recognize its value. In these cases, business models bundling together products that customers want with products that customers need, may lead to a better alignment of customer’s choice with societal impact. An example is the organization Boond.com which sells mosquito nets that people need to protect their family from malaria (but are not willing to pay for because they do not recognize the value) bundled together with renewable lamps that people want to buy to light their houses. This is a type of transaction obstacle for which traditional investments in marketing and advertising for social impact oriented products may be warranted.
By implementing these types of business model innovations, social business hybrids may fulfill their social mission while transacting with their target beneficiaries as customers. However, despite these and other business model innovations that aim to align profit and impact by allowing valuable transactions to happen, there are situations in which it may be difficult to lower the costs or change the offering enough for the target segment to be able to afford, access or want the product/service. While commercial enterprises would simply not serve these customers, hybrid social businesses are attracted by the high potential value spillovers of these transactions and want to serve these customers despite the difficulties.

One solution to sustainably engage in these transactions is to develop business models in which there is a client segment that is able and willing to pay for the service or product and which is different from the intended beneficiary. Serving this paying client segment enables to reach the intended beneficiaries through cross-segment subsidies, in which the margin from the segment that is willing and able to pay is used to subsidize the client segment that cannot afford to pay. An example is Aravind Eye Hospitals in India, which provides high-quality cataract surgeries at market prices to affluent and middle-class clients in order to gain a margin that allows offering cataract surgeries to low-income populations who would not afford to pay and are being neglected by the public health systems (Natchiar, Robin, Thulasiraj, and Krishnaswamy, 1994). Aravind has so far performed close to four million surgeries using this cross-segment subsidy model.

A different approach is to develop models where some stakeholders are willing to pay for the product or service, such as individual donors, foundations or governmental entities, although they are not the ones who directly benefit from the service (for instance, disadvantaged or low income populations). Examples are “adopt a child models”, or outcomes-based contracts and subsidies from foundations or governments, in which payments are provided to hybrid social enterprises in exchange of measurable outcomes. These mechanisms make the business model more complex, particularly when multiple stakeholders or government agencies are involved, as payers and/or regulators11.

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11 This is particularly true for social business hybrids with environmental mission, not only due to regulation and subsidies, but also the difficulty of managing multiple stakeholder relations (cf. Hall and Vredenburg, 2003).
Particularly complex are business models where the social business hybrids build a dual offering for a paying customer segment which is not the beneficiary segment. An example is Work Integration Social Enterprises (WISEs), an industry that has developed worldwide over the last 30 years. These social enterprises hire long-term unemployed people for a limited period of time (usually between one and three years) and employ them to produce services such as recycling, gardening, catering or cleaning. However, the spillover to society comes not from hiring these people since other more productive people could be hired in their place, but from the social support given to these long-term unemployed people to allow them to create work routines, be able to present themselves well and, critically, be able to find a regular job after their tenure in the WISE, thereby ensuring their integration in society. But this desired outcome requires that these social business hybrids also engage in commercial transactions in the market. WISEs thus need to develop a business model that combines commercial activities with a supplemental set of activities focused on achieving the social mission of the organization (such as, for instance, training on job search techniques or social counseling to address health or administrative issues).

Building upon the analysis of these transaction obstacles, we propose that the degree of overlap between clients (i.e. those who pay for the product or service) and beneficiaries (i.e. those who benefit from it according to the social mission) reflects, albeit partially, these transaction obstacles and shapes in important ways how social business hybrid may be able to overcome them. A critical issue is that when the payer is not the direct beneficiary, a fundamental market discipline disappears: The clarity of feedback provided by paying clients, who have the choice to opt for competing products, which leads to sustained focus and innovation among competing companies. In these cases where clients and beneficiaries are different groups, social business hybrids need to serve both groups, which leads to more complex business models that are harder to manage and scale. Moreover, these models may be associated with a stronger danger of mission drift since hybrid organizations may be tempted to focus on serving the needs of their paying clients (who provide them with resources) rather than those of their beneficiaries (as informed by their social mission). To take this key factor into account, we focus on the degree of overlap between clients and beneficiaries as the second key dimension in our model.
In the next section we draw upon these two dimensions to develop a typology of hybrid models, and propose that each type requires a distinct organizational structure and management practices.

5.4 A typology of hybrid models

By analyzing the distinctive aspects of the work of social business hybrids and their value creation process, we have outlined two key dimensions of hybrid models. The first dimension differentiates between instances of automatic value creation from spillovers (e.g. a cataract surgery from Aravind that cures blindness and thus brings strong spillovers over the long-term) and instances where value spillovers are contingent upon additional interventions (e.g. social and professional counseling are required to allow beneficiaries of microfinance loans to use the initial cash flow wisely and use well the eventual surplus from entrepreneurial activities). The second dimension is the degree of overlap between clients of the commercial transaction and beneficiaries of the social mission: We differentiate between cases in which these two largely overlap (e.g. microfinance) and cases where they may be distinct (e.g. work integration social enterprises), which increases the complexity of hybrid management. By plotting these two dimensions in a matrix we derive a typology of four social business hybrid models that we call Market Hybrids, Blending Hybrids, Bridging Hybrids, and Coupling Hybrids (see Table 5:146). It should be noted that despite our use of discrete outcomes in the matrix, both dimensions could be measured as continuous outcomes. For example, the first dimension can be measured by the estimate of value spillovers that are automatic compared to the total potential spillovers. The second dimension can be measured by the percentage of revenues coming from beneficiaries versus the total budget. Therefore, we will often discuss these dimensions as low versus high and recognize that there may be a significant grey area. Yet, despite this grey area, executives of social business hybrids may be able to recognize the type of hybrid their organization belongs to.

We describe each of these hybrid types and analyze the key challenges that they face in terms of mission drift and financial sustainability. We summarize these propositions in Table 5:146.
Table 5: A typology of social business hybrids

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Clients = Beneficiaries</th>
<th>Clients ≠ Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automatic value spillovers</strong></td>
<td><em>Market Hybrid</em></td>
<td><em>Bridging Hybrid</em></td>
</tr>
<tr>
<td></td>
<td>Examples: BoP initiatives for access to basic services (energy, health)</td>
<td>Examples: Integrated business models with job matching for people with disabilities</td>
</tr>
<tr>
<td></td>
<td>Risk of mission drift: LOW</td>
<td>Risk of mission drift: INTERMEDIATE (lower risk for more integrated models)</td>
</tr>
<tr>
<td></td>
<td>Financial sustainability: EASY</td>
<td>Financial sustainability: MODERATELY DIFFICULT</td>
</tr>
<tr>
<td><strong>Contingent value spillovers</strong></td>
<td><em>Blending Hybrid</em></td>
<td><em>Coupling Hybrid</em></td>
</tr>
<tr>
<td></td>
<td>Examples: Microfinance, integration models that require regular support or change of behavior for value to be created</td>
<td>Example: Work integration social enterprises that require a dual value chain that serves both clients and beneficiaries</td>
</tr>
<tr>
<td></td>
<td>Risk of mission drift: INTERMEDIATE</td>
<td>Risk of mission drift: HIGH</td>
</tr>
<tr>
<td></td>
<td>Financial sustainability: MODERATELY DIFFICULT</td>
<td>Financial sustainability: DIFFICULT</td>
</tr>
</tbody>
</table>

We then discuss how these challenges may be addressed through specific management arrangements. We focus on four specific managerial levers which were highlighted in prior research as having a strong relevance for dealing with the specific challenges experienced by hybrids (Battilana and Lee, 2014): Organizational structure, board governance, human resources strategy and performance management.

**5.4.1 Market Hybrids**

*Understanding Market Hybrids.* Market Hybrids are designed in such a way that beneficiaries are clients who pay for a product or service for which the value
spillovers happen automatically without requiring additional interventions. Such hybrids are close to pure commercial models with the difference that the organization adopts a social mission and takes upon itself the challenge of opening up and serving new markets in difficult business contexts due to the societal impact that can be created by providing this new offering (because of the high potential value spillovers). Examples of such hybrids are base of the pyramid models where companies provide access at low cost to basic products or services with strong spillovers, e.g., water, sanitation, health care, energy, communications, and insurance. In these models, products are designed in such a way (e.g., packaged in smaller quantities, produced with basic quality, built upon technological innovation, etc.) that they can be produced and sold for an affordable price to poor clients. In turn, access to these products or services generates automatic value spillovers in terms of health benefits or economic development for clients. In these situations, the more products are sold, the more societal impact is generated, thereby closely aligning profits with societal impact. Market Hybrids can thus focus their attention on commercial activities, because perfecting and scaling these activities will not only generate revenues (and potentially profits), but also directly contribute to societal impact as well. An example is the abovementioned Nuru Energy venture which aims to bring energy to the 800 million people in Sub-Saharan Africa and Asia that do not have electrical grid access, focusing specifically on the people living under USD 2 per day. The company created a market-driven model in which the end-consumer buys a LED lamp from a village micro-franchisee and pays a few cents to recharge the light, a task performed by the micro-franchisee by pedaling on a bike that converts human energy to electricity.

As organizations for which social impact is directly derived from commercial activities targeted at segments of the population that are underserved by traditional commercial offers, Market Hybrids are relatively unlikely to experience mission drift. By focusing on commercial performance, Market Hybrids simultaneously enhance their social performance. While minimal, the risk of mission drift nevertheless exists if an organization chooses to maximize its revenues at the expense of its social impact by progressively focusing on clients with higher ability to pay, thereby neglecting the more disadvantaged clients. Given their market-focused model, Market Hybrids may not find it too difficult to achieve financial sustainability to the extent that they are able to find paying clients for their offering. However, as discussed before, this requires the development of
business model innovations that are capable of keeping the cost of the offering accessible to clients that are priced out of the regular commercial market and may be difficult to reach.

**Managing Market Hybrids.** Given the strong alignment between social and economic activities, Market Hybrids are the least challenging hybrids to manage. To avoid the risk of mission drift that could come as a consequence of overemphasizing economic performance, Market Hybrids need to structure their governance in such a way that all board members demonstrate a sound understanding of business principles combined with a clear focus on the social mission. The board should monitor client segmentation on a regular basis in order to avoid prioritizing more affluent or less excluded clients. In addition, and more broadly, given the required emphasis on commercial activities, the board should periodically check the organization’s theory of change (which is the articulation of how the company creates societal value) in order to ensure that the delivery of commercial services still generates the desired social impact without the need for additional interventions.

Since they focus on one activity only (the sale of product or services that have automatic value spillovers), Market Hybrids are best designed with a uni-functional organizational structure centered on commercial activities. This structure may suffice to focus the organization’s attention on the necessary processes and develop the required operational expertise. A specificity of this type of hybrid is that all permanent staff should be focused on commercial operations. Despite differences in the activities these members may execute, they work towards the achievement of similar goals. Thus, when it comes to recruitment for Market Hybrids, staff with operational business expertise should be prioritized. The accomplishment of the social mission being synergistic with the provision of commercial products or services, it is important to seek the highest level of operational business expertise. This ensures operational efficiency which leads, in turn, to higher social performance. An advantage of this recruitment pattern is that it allows for the development of a homogeneous culture in the hybrid organization, with organizational members adhering to similar logics and norms of behavior, thus lowering internal tensions and the potential for conflict.

Finally, given the alignment between social and commercial operations, the monitoring of performance in Market Hybrids requires the development of key operational performance indicators monitoring the efficiency of the commercial operations, while tracking the profile of customers served to anticipate and avoid
the risk of mission drift. Periodic external reviews are important to validate the impact of the model and reinforce the theory of change.

5.4.2 Blending Hybrids

**Understanding Blending Hybrids.** Blending Hybrids are organizations that, similarly to Market Hybrids, serve paying clients who are also the beneficiaries of their social mission. However, for Blending Hybrids, achieving the desired societal impact requires blending commercial offerings with additional interventions (such as, for instance, training or community outreach) upon which positive societal spillovers are contingent. This type of hybrids includes microfinance organizations and other organizations, particularly in education and social inclusion, which require changes in behavior on the part of clients for impact to happen. Since the creation of societal value requires a dedicated socially-oriented intervention (which constitutes in effect a parallel social value chain that needs to be developed in addition to the commercial value chain), the risk is that, over time, the organization will increasingly focus on the activities that generate revenues (i.e., the commercial activities) in detriment of the activities that consume resources without generating revenues (i.e., the additional social activities required to generate social impact) thereby exposing Blending Hybrids to an intermediate risk of mission drift (e.g., higher than for Market Hybrids). As discussed earlier, an illustration of mission drift happened with the commercialization of microfinance in India, when social business hybrids, such as SKS Microfinance, increasingly focused on commercial goals in detriment of social goals, focusing on rapid growth in lending without care for the value being created for clients or how they were using the funds received, leading to over-lending and the near collapse of the industry (Polgreen and Bajaj, 2010).

Similarly to Market Hybrids, Blending Hybrids rely on a steady stream of revenues from clients (who are also beneficiaries) to ensure their financial sustainability. Yet, in contrast to Market Hybrids, they need to perform additional interventions for social impact to occur. As such, they incur additional costs (required to implement these additional interventions) which makes it more challenging for them to achieve financial sustainability.
**Managing Blending Hybrids.** As social business hybrids whose beneficiaries are also customers, Blending Hybrids are relatively focused organizations. However, in contrast to Market Hybrids, they need to undertake additional interventions to generate value spillovers and allow societal impact to occur. In terms of governance and due to the danger of mission drift, the boards of Blending Hybrids should focus, even more than those from Market Hybrids, on monitoring the profile of clients served: Their business model may lead them to prioritize clients with the higher ability to pay and neglect disadvantaged clients/beneficiaries requiring the most additional interventions. The board should also monitor the quality and effectiveness of the social interventions. To achieve that, the board of Blending Hybrids should be composed of members with a combination of business and social expertise, including one or more champions of the social mission who can provide management with clear objectives regarding the provision of additional impact interventions and monitor the achievement of these objectives to avoid the risk of these interventions being neglected despite their role in driving societal impact.

To fulfill their mission, Blending Hybrids need to develop two types of competencies: The operational expertise to perform their commercial activity as well as the expertise for the required intervention to achieve societal impact. Depending on the nature of the additional intervention required and its complexity, managers of Blending Hybrids may opt for 1) an integrated organizational structure with the same organizational members performing both the commercial activities as well as the social interventions with separate metrics for each, thus lowering the risk of inter-group conflict but also reducing specialization, or 2) a differentiated structure with different organizational members performing different sets of interventions. For example, a microfinance institution may find it more efficient to have organizational members perform both the loan servicing and the mentoring programs that enable beneficiaries to acquire business and life management skills, while a health care organization may find it more efficient to have a dedicated medical team and a dedicated social support team. In some cases, when the social expertise is difficult or costly to acquire, Blending Hybrids may rely on external partners to outsource those additional interventions. In some of these cases, social business hybrids may be created as a joint-venture between a corporation and social organization, a model that has been used, for example, by Grameen with different multinationals (London and Hart, 2004).
The choice of organizational structure, whether integrated or differentiated, in turn drives the profile of staff required to operate it. A Blending Hybrid with an integrated structure requires organizational members with hybrid profiles (i.e., individuals combining business as well as social expertise). Note that these hybrid members may either be recruited as such by the social enterprise, or may be recruited as “blank slate” without prior experience and be trained by the social business hybrid to become hybrid individuals (Battilana and Dorado, 2010). A Blending Hybrid with a differentiated structure requires a differentiated team with staff experts in business operations on the one hand and staff experts in the social intervention on the other hand. In this case, the benefits of specialization may be outweighed by the rise of internal conflicts between these two groups. Performance monitoring of Blending Hybrids requires a combination of operational and impact KPIs, since operational KPIs alone are insufficient to monitor the achievement of the social mission. Dedicated staff members should develop and oversee the impact measurement system separately from the financial accounting and using standard impact benchmarks that are comparable across the industry. This is important to continuously track and improve the management of the socially-oriented interventions.

5.4.3 Bridging Hybrids

*Understanding Bridging Hybrids.* Bridging Hybrids benefit in their business model from having a low level of contingent spillovers (which means they do not require a separate value chain to generate societal impact) but they need to attend to clients and beneficiaries who stem from different groups, therefore bridging the needs and resources of both constituencies. An example is earlier mentioned Dialogue in the Dark, a social enterprise that organizes exhibitions in complete darkness for paying clients. Blind guides who are comfortable operating in a dark environment guide exhibition visitors. This role reversal helps transform clients’ perception of disabilities and the model also creates meaningful employment for people with blindness. The challenge for this type of hybrid is that the business model needs to integrate clients and beneficiaries in the same intervention. A useful business model innovation to achieve this is complementary needs matching, with the social enterprise taking the role of a broker identifying a niche that matches well the needs of both clients and beneficiaries. This is the model
adopted by disability integration ventures, such as Specialisterne in Denmark and Auticon in Germany, which train people with autism and match them with qualified job opportunities in the IT sector. There is also the business model of cross-segment subsidy, in which a high-profit margin client segment subsidizes the offering to the low-income segment, such as the case of Aravind Eye Hospital mentioned earlier.

In the Bridging Hybrid model, the risk of mission drift is significant due to the danger of prioritizing the needs of the commercial clients over beneficiaries due to resource dependence patterns, particularly in the cross-segment subsidy models. In cases of an integrated business model that serves both segments, the risk of mission drift is lower. The challenge of achieving financial sustainability is intermediate, as the social mission requires serving the needs of beneficiaries in addition to the clients, while operating in a competitive market.

**Managing Bridging Hybrids.** As organizations that serve both clients and beneficiaries, and yet benefit from aligned commercial and impact activities, Bridging Hybrids face the challenge of satisficing two different types of constituencies and the danger, in the process, of neglecting their beneficiaries. An important design challenge for these organizations is thus to set up appropriate rules to ensure that beneficiaries are well served, in order to generate social impact.

Given the inherent risk of prioritizing clients over beneficiaries, the board plays an important role in monitoring the segmentation of clients and beneficiaries with the goal of ensuring the balance required to achieve the organization’s social mission. In order to remain attuned with the needs of beneficiaries and make sure to listen to their voices, it may be useful to invite beneficiaries’ advocates at the board level and to encourage processes at the organizational level (such as focus groups, advisory boards, etc.), which allow for these voices to be heard. The board, otherwise mainly composed of individuals with business expertise and a clear focus on the social mission, has to revisit the theory of change on a regular basis in order to ensure sustainability of the model and synergies between commercial activities and societal impact.

Given the alignment between commercial and impact activities, Bridging Hybrids require a uni-functional structure allowing the entire organization to focus on setting up and delivering the most efficient set of activities. Despite their need to serve two distinct groups (clients and beneficiaries), often through cross-subsidy
models, Bridging Hybrids should align as much as possible their commercial and impact operations in order to benefit from synergies and economies of scale. In terms of human resources, Bridging Hybrids need to mobilize staff with a clear expertise in delivering the service or product that they sell. The staff may, in addition, need to demonstrate learning skills since they have to adapt to the different needs of clients and beneficiaries. For example, staff members of Grameen Veolia Water, a social business that sells affordable drinking water in rural Bangladesh using a cross-segment subsidy model of selling water jars to businesses in the capital Dhaka, need to understand and adapt to the culture of rural beneficiaries who purchase water at lower prices, while being able to sell to corporate clients in the capital. Performance management processes should focus first and foremost on operational KPIs, since it is the commercial operations that are at the source of social impact. However, to monitor the risks of mission drift, it will be important for Bridging Hybrids to monitor the proportion of customers and beneficiaries served, as well as the quality of the service received. In the Grameen Veolia example cited above, an important KPI to follow is the number of regular rural clients, who avoid, as they drink the clean Grameen Veolia Water, the lethal risks of arsenic contamination or dysentery.

5.4.4 Coupling Hybrids

Understanding Coupling Hybrids. Coupling Hybrids are hybrid models in which clients and the beneficiaries are different, and where most value spillovers do not happen automatically, requiring distinct social interventions, alongside the commercial operations. An example of such hybrids are work integration social enterprises (WISEs) described earlier, that serve both their beneficiaries who are long-term unemployed and need dedicated social interventions (e.g., professional training, social counseling, etc.), as well as their paying clients who require a product or service with competitive levels of quality and price. Coupling Hybrids are the most complex hybrid type to manage: They not only need to serve two different types of constituencies (beneficiaries and customers), but their social impact is also dependent on additional interventions which are not included in the provision of their core commercial activity. Such business models are therefore quite demanding for organizational leaders because they need to
constantly balance competing demands on their attention and resources. The risk of mission drift is high because they may be tempted to prioritize clients over beneficiaries, as well as discard or reduce the focus on additional interventions which are resource consuming and do not contribute to the financial sustainability of the organization.

Reaching financial sustainability is thus difficult for Coupling Hybrids given the additional costs that they incur to perform the interventions required to generate impact. This sustainability challenge usually requires that governments or private donors subsidize the interventions that leverage the contingent value spillovers, which may depend on a strong regulatory framework defining the activities entitled to subsidy.

**Managing Coupling Hybrids:** Coupling Hybrids are the most complex hybrids to manage because they need to attend to multiple constituencies and perform multiple activities simultaneously. Like for Bridging Hybrids, the governance of Coupling Hybrids should ensure that beneficiaries are not neglected in favor of clients. Governance should, in addition, ensure the sustainable provision of the additional interventions required to generate impact. Therefore governance plays an important role in monitoring the segmentation of activities between those offered to clients and those offered to beneficiaries. The invitation of beneficiaries’ advocates at the board level may play an important role in ensuring that the managers remain attuned to the needs and constraints of beneficiaries, and that no decisions are taken that jeopardize the organization’s ability to achieve its social mission. In addition to beneficiaries, boards should also include a combination of business and social impact experts, in order to provide the organizations with the monitoring ability of both commercial and impact activities.

To make Coupling Hybrids work, we recommend establishing structural differentiation, so that the organization develops an internal capacity to perform both the commercial and impact operations with the highest level of expertise. In some cases, this may happen through the development of a separate legal entity. In contrast to the Blending Hybrid, we contend, however, that the impact activity should always remain under the control of the hybrid (instead of being outsourced to partners) because the Coupling Hybrid should not lose control over the relationship with its beneficiaries. If this happens, the focus on the social mission is seriously jeopardized and, over time, its hybrid nature may disappear and its potential for impact could be diminished.
Structural differentiation will require Coupling Hybrids to recruit differentiated staff, i.e., different groups of organizational members with expertise in commercial and social impact operations, respectively. To ensure the coordination between these structurally differentiated groups of organizational members, it will be important for these organizations to create coordination mechanisms and processes that can prevent the emergence of tensions between potentially conflicting demands from customers and beneficiaries.

To avoid mission drift and ensure the highest level of performance on both activities, performance management systems should rely on the monitoring of both operational (commercial) KPIs as well as impact KPIs.

Summarizing this section, we argue with our typology of social business hybrids that, independent of their sector or activity, managers of hybrid organizations need to look at two critical dimensions of the work that they do – the contingency of value spillovers and the overlap between clients and beneficiaries – to understand what type of hybrid they operate, and the management challenges they may face in terms of mission drift and financial sustainability. We also outlined the design and management choices that may allow hybrids to become more effective at achieving their social mission in sustainable ways. Table 6 summarizes our recommendations about the management of each hybrid type.

**Table 6: Organizational design for social business hybrids**

<table>
<thead>
<tr>
<th></th>
<th>Clients = Beneficiaries</th>
<th>Clients ≠ Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automatic value creation</strong></td>
<td><strong>Market Hybrid</strong></td>
<td><strong>Bridging Hybrid</strong></td>
</tr>
<tr>
<td>Structure: Uni-functional (commercial) structure</td>
<td></td>
<td>Structure: Uni-functional (commercial) structure</td>
</tr>
<tr>
<td>Governance:</td>
<td>- Board monitoring on client segmentation</td>
<td>- Board monitoring on client segmentation</td>
</tr>
<tr>
<td></td>
<td>- Regular board level checks of theory of change</td>
<td>- Regular board level checks of theory of change</td>
</tr>
<tr>
<td>HR: Staff with business expertise</td>
<td></td>
<td>- Invite beneficiaries advocates to board</td>
</tr>
<tr>
<td>Performance Management:</td>
<td>Operational KPIs only, with focus on customer segments served + regular validation of theory of change</td>
<td>Operational KPIs only, with focus on customer segments served + regular validation of theory of change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HR: Staff with business expertise</td>
</tr>
</tbody>
</table>
Blending Hybrid

Structure: Structure is either:
- integrated
Or
- structurally differentiated if the complexity of both functions is such that it cannot be mastered by the same individuals (potentially relying on external actors/partners to provide additional intervention)

Governance:
- Board monitoring on client segmentation
- Management monitoring of impact activities (because board cannot do it)

HR:
- Staff with Blended business expertise + impact expertise (if integrated)
Or
- Staff with business expertise + staff with impact expertise (if structural differentiation)

Performance Management: Operational KPIs + Impact KPIs

Coupling Hybrid

Structure: Multi-functional structure with differentiation for each value chain

Governance:
- Board monitoring on client segmentation
- Management monitoring of impact activities
- Invite advocates of beneficiaries at board level

HR: Differentiated: staff with operational expertise + staff with impact expertise

Performance Management: Operational KPIs + Impact KPIs

5.5 Discussion: Insights for the management of hybrid initiatives

Our framework for designing and managing hybrids offers useful insights for those who believe that commercial organizations with a social mission play an increasingly important role in modern capitalism. Although hybrids can play a critical role in addressing market failures and domains of government neglect, they face a fundamental challenge – creating value for society in the pursuit of their social mission while establishing a financially sustainable organization. In the pursuit of sustainability they may drift from their mission, while a rigid adherence to the social mission may prevent hybrid organizations from reaching sustainability. The solution often lies in innovations that more strongly align profit with impact. Because constraint is an excellent source of creativity, hybrid organizations have developed interesting and effective business model innovations that align low
costs with high quality and allow them to deliver value for society in sustainable ways. Cross-segment subsidies, micro-franchise system offerings, and complementary needs-matching models, are some of the business model innovations described in this paper that allow hybrid organizations to be competitive in areas where traditional commercial ventures feared to enter. As a general principle, the stronger the alignment between profit and impact in the business model, and the simpler the value chain that delivers these outcomes, the more competitive and sustainable is the hybrid organization. Despite these innovations, however, social business hybrids still face managerial hurdles in achieving impact, given the inherent requirements of their social impact model and the transaction obstacles that they face. Our typology offers a first attempt at identifying these specific challenges and the managerial structures required to address them.

This typology suggests that the type of hybrid organization that social entrepreneurs develop is not fully determined by the sector or domain of operation but it is also a function of the innovations in the business model. For example, an organization that is able to develop a very low cost delivery model, enabling its beneficiaries to pay for the service, can develop a Market Hybrid instead of a Bridging Hybrid that relies on cross-segment subsidies. This generates benefits for financial sustainability and simplicity of organizational design and management. In another example, organizations such as Dialogue in the Dark or Aravind Eye Hospitals that are able to develop an integrated value chain for both clients and beneficiaries, instead of operating two separate value chains for each, may be able to move from a Coupling Hybrid to a Bridging Hybrid. Interestingly, organizational evolution in the inverse direction towards higher complexity of hybrid management can also exist. As an example, Lumni Inc. provides student financing and mentoring across Latin American countries. Most of the students targeted by Lumni are the first ever to graduate from high school in their households and are offered to go to university with funding and mentoring from Lumni in exchange for a fixed proportion of their future incomes. In order to manage the total risk of its student portfolios, Lumni may include financing to students from middle-class families, thus moving from a Blending Hybrid towards a Coupling Hybrid. When such a change occurs, Lumni’s management may need to adjust its structure, governance, HR policies, and performance metrics. Depending on the student composition of their financing model, Lumni’s board needs to review the segmentation of students receiving financing and their respective socio-
economic background, so that the company maintains a focus on economically disadvantaged students and their families. Our typology thus anticipates the management challenges that social business hybrids may face as they navigate the dynamic endeavor of better aligning profit and impact. Overall, we argue that leaders of social business hybrids should first acquire a clear understanding of the type of hybrid organization they are building, given the nature of the work they do and the business model they are deploying, and also consider any transitions in the business model that they may be facing. In turn, this assessment allows them to understand the risks of mission drift and the challenge of financial sustainability, so that they can identify management choices and practices that enable them to create a more resilient organization. We hope that our framework offers useful management insights to the increasing number of managers choosing to tackle fundamental societal problems through commercial models.

5.5.1 Financing the growth of social business hybrids

Social business hybrids aim to maximize societal impact, just as traditional businesses aim to maximize value capture. Yet, they face the challenge of achieving scale and mobilizing the required resources to do so, in a context of weaker prospects of financial sustainability when compared to traditional businesses. An interesting addition of our model may be to clarify how different types of social business hybrids may be ideally suited to different growth financing mechanisms. As the field of social entrepreneurship has grown in the last few years, a new parallel field of social finance has also been emerging, with the development of new financing mechanisms, such as impact investing, venture philanthropy and social impact bonds (Social Impact Investment Task Force, 2014). Our different types of social business hybrids seem well aligned with specific financing mechanisms. Market Hybrids, being closer to traditional commercial models given the strong alignment between profit generated by serving clients and societal impact, are ideally financed by (venture capital-type) impact investing, a new investment approach that intentionally seeks to create both financial return and positive social or environmental impact by allocating capital against debt or equity in impact-oriented businesses. Indeed we see that Market Hybrids are typically either
financed by multinational corporations as new business initiatives, or by impact investing funds that expect a pay back of their investment through dividend payments, royalties or selling of equity stakes of their investee companies.

Blending Hybrids, which operate dual commercial and social value chains to capture contingent value spillovers do not have as strong an alignment between profits and impact as Market Hybrids. Equity investors, which pursue a financial upside, would not be a good match to finance this type of hybrid model as investors’ incentives would accentuate the danger of mission drift. Thus, the growth of this type of hybrid may be ideally financed by re-invested surplus and, in cases like microfinance or renewable energies where there is the need to allocate capital to clients or where larger capital investments in infrastructure or technology are needed, the financing could be done through fixed-return instruments (bank credit or traditional bonds).

Bridging Hybrids use commercial revenues to subsidize a segment of clients that cannot pay for the service. Their ability to generate a surplus is constrained by their own social mission, as they tend to allocate any extra surplus to subsidize a larger number of low-income clients. While Bridging Hybrids should try to reach financial sustainability in their business models, they are more likely to incorporate as non-profit models and use, to finance their growth, philanthropic funds such as Venture Philanthropy\textsuperscript{12} – the allocation of capital as a long-term capacity-building grant to a social enterprise, with zero (or very low) expectations of financial return but a strong expectation of impact measurement and return.

Finally, Coupling Hybrids often combine earned income from commercial activities with grant-based income from engaged stakeholders. These stakeholders support the social interventions that need to be deployed to achieve certain societal outcomes such as inclusion, employability, well-being, or environmental protection. Social impact bonds\textsuperscript{13} are an example of a recent financial innovation that aligns payments with outcomes and may help finance the scaling-up of Coupling Hybrids, allowing them to validate their solution at scale, build organizational capacity and

\textsuperscript{12} Venture philanthropy takes concepts and techniques from venture capital finance and business management and applies them to achieving philanthropic goals. From the European Venture Philanthropy Association website: www.evpa.com.

\textsuperscript{13} Impact Bond, also known as a Pay for Success Bond or a Social Benefit Bond, is a contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. The first Social Impact Bond was launched by Social Finance UK in September 2010. More information at: http://www.guardian.co.uk/society/2010/oct/06/social-impact-bonds-intractable-societal-problems.
then establish long-term government or philanthropic contracts to financially sustain their offering. However, social impact bonds are only effective when there is comparability of outcomes, i.e., when there is a consensus about how to measure the status quo situation, as well as the changes and attribution of outcomes of the intervention.

Table 7:158 summarizes our suggestions about the ideal financing mechanisms for scaling each type of hybrids.

**Table 7: Ideal financing mechanisms for scaling-up social business hybrids**

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Clients = Beneficiaries</th>
<th>Clients ≠ Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automatic value spillovers</strong></td>
<td><em>Market Hybrid</em></td>
<td><em>Bridging Hybrid</em></td>
</tr>
<tr>
<td></td>
<td><em>Examples: BoP initiatives for access to basic services (energy, health)</em></td>
<td><em>Examples: Integrated business model with job matching for people with disabilities</em></td>
</tr>
<tr>
<td></td>
<td>Ideal financing for scaling up: (venture capital-type) Impact Investing</td>
<td>Ideal financing for scaling up: Venture Philanthropy</td>
</tr>
<tr>
<td><strong>Contingent value spillovers</strong></td>
<td><em>Blending Hybrid</em></td>
<td><em>Coupling Hybrid</em></td>
</tr>
<tr>
<td></td>
<td><em>Examples: Microfinance or other models which require regular support or change of behavior for value to be created</em></td>
<td><em>Example: Work integration social enterprises</em></td>
</tr>
<tr>
<td></td>
<td>Ideal financing for scaling up is fixed-income credit products (loans and bonds) and re-invested surplus</td>
<td>Ideal financing for scaling up is outcome-based contracts, such as social impact bonds</td>
</tr>
</tbody>
</table>

The scaling of social business hybrids is a key bottleneck for the development of a vibrant hybrid sector at the interface of social and commercial sectors. Our proposed typology aligns with specific forms of growth financing and can help clarify what type of external financing is better aligned with the nature of each type of social business hybrid.
5.5.2 Why corporate executives should care about social business hybrids

As we argued earlier in the paper, rising societal expectations being imposed on the business sector suggest that corporate leaders can no longer ignore contingent value spillovers or large excluded populations. Doing so would mean that these companies do not align their profits with value creation for society in the long-term, which would at some point disengage employees and customers, upset regulators and policy-makers, and even turn away investors who are increasingly focusing on socially responsible investing. Companies that are able to more closely align profit and impact will strengthen their long-term sustainability and survival, as well as the sustainability of the societal context and communities which they depend on.

The growing importance of hybrid organizations also means that in areas where the potential for societal value creation is important, commercial companies are at risk of being placed in competition with social mission organizations that operate commercial models. While in the past, social business hybrids operated largely in domains neglected by commercial mission companies and underserved by governments, increasingly, the power of business models developed by social entrepreneurs is displacing established commercial companies. For example, Microsoft Encarta, a proprietary encyclopedia that was sold on CD or online, competed and lost against the social business hybrid, Wikipedia, which is an open source platform to share and organize the world’s knowledge. In another example, commercial banks offering microfinance services are, in some cases, competing head to head with non-profit microfinance institutions. Likewise, private health care providers are facing competition from community inspired health care models. And, in some countries, social mission oriented models dominate certain markets, as is the case of mutual insurance providers in France. In fact, the superiority of profit-maximizing models over social mission models may not be as generally applicable as most corporate executives believe. In this paper we elaborate on the domains in which, due to market failure and government neglect, social business hybrids are likely to emerge as effective at tackling the transaction obstacles that render pure commercial models either unsustainable or unable to achieve societal welfare.

With the growth of societal expectations about the role of business in society and the increasing presence of hybrid models, the issues we raise in this paper are of
increasing importance to managers. Understanding commercial firms’ advantages and disadvantages over social mission models, and leveraging areas of complementarity between the two types of organizations may be a key input for strategic thinking. Moreover, being able to identify and leverage value spillovers and engage with excluded segments of the population may be a key element for business model innovation or new market entries. For example, the pharmaceutical giant, GlaxoSmithKline, initiated a partnership with Barclays, the London-headquartered bank, to provide affordable healthcare and medicine in Zambia, alongside the necessary customer finance. Although the partnership delivers on a social mission, i.e., improving healthcare in African countries, it is also based on a commercial rationale for both companies in the region. As the project additionally aims to improve healthcare awareness and will be complemented with further innovations such as healthcare insurance, their executives can benefit from the recommendations that our typology offers as they may move from a Market Hybrid towards a Blending Hybrid model.

Importantly, learning from social business hybrids about how to align profits and societal impact may be a driver of long-term competitive advantage. Overall, the rising societal expectations on businesses and the growing number of hybrid initiatives and organizations being developed represent significant changes in the competitive landscape that business leaders cannot afford to ignore any longer. Socially-driven and environmentally-oriented companies are becoming serious competitors as well as attractive acquisition targets for multinationals, as was the case with The Body Shop acquired by L’Oréal and with Ben & Jerry’s acquired by Unilever. Unilever, with its Sustainable Living Plan and with changes on its reporting to financial analysts, is one of the leading multinational corporations integrating social business approaches into their strategy and practices.

In addition to helping managers consider their strategic positioning in contexts of increasing societal expectations, our model offers practical insights for managers engaged in initiatives creating shared value for their shareholders and for society. In particular, we point to four important levers (governance, organizational structure, HR processes and performance management systems) that may help managers jointly create value for society while capturing value for their shareholders. In terms of governance, our model suggests that the representation of societal stakeholders in the governance may allow organizational leaders to take the perspectives of these stakeholders into account and therefore better address their important demands. It further proposes that organizational structures
are important means to organize the complexity of the work required to achieve a combination of societal and financial performance. In addition, our model encourages modern companies to cope with the multiple demands by recruiting ‘advocates’ who can sympathize with the social and environmental claims coming from other stakeholders and who can signal authentic compliance of the company with those expectations. Finally, our model also proposes that modern performance measurement (and manager incentive) systems should include a combination of social and environmental key performance indicators (KPIs), instead of monitoring conventional financial KPIs on one side and CSR-reporting processes on the other.

5.6 Conclusion

Social business hybrids are becoming an increasingly popular organizational model that may have the potential to contribute to societal advancement. Our paper starts by explaining why such hybrids exist and what role they perform in the context of modern capitalism. Based on the essential nature of hybrids and the market failures that they address, we derive two key dimensions in which social business hybrids differ – contingent versus automatic value spillovers and degree of overlap between beneficiaries and customers.

This allows us to define a typology of hybrid models and provide concrete management advice that enable social entrepreneurs and managers of hybrid organizations to assess their situation, learn how to best design their social enterprises and organize for sustainable value creation. We thus go beyond generic recommendations about management of hybrid organizations into a more nuanced but very actionable framework for understanding and managing social business hybrids. With our model, we hope to have provided valuable insights for any economic agent committed to address pressing societal problems using commercial models and, ultimately, make the world a better place.
5.7 References


Tung, E. and Bennett, S. (2014) “Private sector, for-profit health providers in low and middle income countries: can they reach the poor at scale?” Globalization and health 10(1): 52.


6 Overall conclusion

6.1 Summary and discussion

Scholars and policy-makers place high expectations on the transformative potential of impact investing and social entrepreneurship to advance our current economic system (Harding, 2006; Santos, 2012; Social Impact Investment Taskforce, 2014). However, both phenomena are still small as compared to mainstream business and finance as well as philanthropy and social welfare, and many of their major protagonists are fragile organizations. With one foot in mainstream finance or commerce and the other one in philanthropy or social welfare, impact investors and social enterprises need to cope with institutional complexity, i.e. the simultaneous exposure to competing institutional logics.

In my dissertation, I explore and structure key elements of these hybrid organizations. In particular, paper I suggests that in young hybrid impact investors, operational-level practices shape strategy. In paper II, we elaborate on five organizational configurations for hybrid impact investors along three organizational dimensions, namely goal definition, people management and performance measurement. Paper III reports from three cases of social entrepreneurs’ efforts to fundraise from impact investors. We thus develop pre-investment support and alignment on the area of value creation as novel constructs to be further refined and tested. Finally, paper IV provides a framework for four types of social business hybrids depending on their transaction characteristics and their contingencies for positive value spillovers. In the following, I discuss key findings generated from conducting this PhD research. First, I critically reflect on my main research findings from each of the papers, thereafter follows a discussion on applying institutional theory to impact investing and social entrepreneurship, finishing with reflections on impact investing and social entrepreneurship in general.
6.1.1 Discussion of the findings

In young hybrid organizations, operational-level practices shape strategy. While this insight from paper I appears reasonable in the light of high ambiguity due to lack of clear institutional prescriptions, it needs to be further advanced for a general theory on hybrid strategizing. Rather than a pure bottom-up process, a combination of top-down analytical and bottom-up practice-driven strategy-making is more likely to explain the full scope of strategizing. Despite the lack of clear institutional prescriptions, executives of hybrid organizations still try to formulate a course of action or a primary domain to work in. However, once operational activities start, institutional complexity exposes organizations to unpredictable interactions with clients, suppliers, investors and other stakeholders stemming from different institutional fields and carrying competing institutional logics. Operational decisions become precedents for future decisions forming an image or identity of a hybrid organization in the eyes of organizational members and external constituencies. Executives are advised to reflect on ongoing operations as much as they try to predict the external environment in order to craft a strategy. Entrepreneurial approaches such as effectuation and lean startup are potential alternatives to traditional top-down strategizing in complex institutional environments (Ries, 2011; Sarasvathy, 2001).

Prior to investing in a social enterprise, impact investors often need to provide non-financial support to the targeted ventures in order to improve their investment proposition. The exploratory case study in paper III demonstrates how social enterprises may have a convincing model for positive impact, but they lack the expertise to fundraise for equity finance. Impact investors provide financial resources to social enterprises that are rarely based on financially scalable business models similar to those financed by traditional venture capital. Even in traditional venture capital, aggregate returns of investors are largely negative, depending on the respective region and timespan. In most cases, a small group of leading venture capitalists ‘pulls’ the market and attracts asset owners to invest in venture capital. Impact investors should refrain from merely copying the venture capital investment approach in order to finance social enterprises that, per definition, prioritize value creation over value capture. Rather than reproducing cash-for-equity investment techniques, impact investors should develop more innovative financing mechanisms. Outcome-based financing such as social impact bonds and collective investments like crowdfunding are two promising approaches
for financing societal value creation. Our conceptual papers II and IV provide frameworks to set-up and manage hybrid impact investors and social business hybrids. While these frameworks may facilitate hybrid organizing and motivate further research, the success of hybrid organizations still depends to a large degree on organizational members who, externally, have to secure access to resources and, internally, sympathize with colleagues who have been educated and socialized in different institutional environments. With increasingly present contexts of institutional complexity, this dissertation urges organizations to focus their recruiting on individuals who have been educated and socialized in more than one institutional field, i.e. recruiting ‘advocates’ or ‘hybridizers’ in theoretical terms (Pache and Santos, 2013). This also implies a career advice for business students and young professionals to gain experience not just in different (commercial) industries but also in entirely different institutional environments, such as startups and incumbents, non-profits and for-profits, public agencies and private family businesses.

6.1.2 Discussion of applying institutional theory to impact investing and social entrepreneurship

Institutional theory provides a useful lens to understand the set-up and management of impact investors and social enterprises. Applying the concept of institutional complexity, my research demonstrates the difficulty of impact investors and social enterprises to develop stable organizational models (Paper I-IV), craft strategies (Paper I) or secure funding (Paper III) while being exposed to institutional complexity. Our suggestions for organizational models include governance, goal definition, people management and performance measurement. In young hybrid organizations, operational practices shape strategy through, amongst other, the setting of precedents. And, finally, social enterprises need to be experienced and aligned with the area of value creation pursued by impact investing funds in order to secure investments. The concept of competing institutional logics embodied by organizational members help to comprehend many of the misunderstandings, outspoken or not, happening in and around hybrid organizations. Individuals tend to come to polarized conclusions when debating impact investing and social entrepreneurship. Especially those educated and socialized in traditional economics can rarely
sympathize with the idea of actors being motivated by value creation beyond their own organizational boundaries. Institutional complexity provides useful explanations for these diverging beliefs of people from mainstream finance or commerce and philanthropy or social welfare. Furthermore, institutional complexity may allow us to anticipate the route that impact investors take by prioritizing either mainstream finance or philanthropy. Admittedly, resource contingency theory seems equally appropriate to predict where impact investing fund organizations that aim to scale their assets under management are moving towards and why (Pfeffer, 1982; Pfeffer and Salancik, 1978). The world’s largest asset owners, i.e. pension funds and insurance companies, require fund managers to adhere to mainstream finance logics. Impact investors that aim to acquire capital from pension funds and insurance companies are thus pressured to reproduce organizational patterns of mainstream finance. While institutional theory helps to comprehend the current developments in impact investing and social entrepreneurship, it remains unclear whether impact investing and social entrepreneurship really demarcate new institutional fields or whether they would better be conceptualized as (temporary) phenomena within existing fields. While the growth of impact investing funds in numbers, the establishment of industry associations, and a common language are signs for field emergence, it is still unresolved whether or not impact investing becomes institutionalized as a new field. However, insights from the study of how fields emerge at the interstices of mature institutional fields still provide guidance to explain the current developments in impact investing and social entrepreneurship. In this sense, institutional theory is useful in this context even if impact investing and social entrepreneurship will eventually not constitute a new institutional field.

6.1.3 Discussing impact investing and social entrepreneurship

In order to stabilize and scale, impact investors, in the short term, almost inevitably orient themselves towards the financial sector with its comparatively large amount of available capital. Thus, they are increasingly required to professionalize in accordance to the logics from mainstream finance. Impact investors such as responsAbility and Bamboo Finance demonstrate this path as they position themselves as specialized investment firms rather than impact investors. responsAbility has already reached over USD 2bn in assets under management.
primarily raised from institutional investors that would not grant resources to venture capital-type impact investing organizations, but that are willing to invest in microfinance which in itself was a social entrepreneurial solution that became institutionalized as an asset class accepted in mainstream finance. When O’Donohoe et al. (2010) published the J.P. Morgan and GIIN report ‘Impact investing – an emerging asset class’, sector advocates called out that impact investing, in contrast to microfinance, is an approach rather than an asset class, and that the latter demonstrates an intent by mainstream finance to absorb impact investing through labeling it an asset class. From my point of view, impact investing and social enterprises may become mainstreamed within existing fields if their key actors strive for exploitation rather than continuing to explore novel ways of organizing. This may neither be good nor bad; yet, it demonstrates the fragility of entire concepts, not just the fragile state of individual impact investors and social entrepreneurship organizations.

Yet, institutional complexity is a source of not only fragility but also innovation and agility. By not transforming into an asset class of mainstream finance, impact investing organizations may keep blending practices from philanthropy, development cooperation, public welfare and venture capital in novel ways. In the aftermath of the financial crisis of 2007/2008 and referring to Albert Einstein’s famous quote that we cannot solve our problems with the same thinking we used when we created them, impact investing may indeed have the potential to contribute to tackling major societal challenges.

Social entrepreneurship is a broad concept with unclear boundaries and still to be agreed upon definitions. It is unlikely that the institutionalization of social entrepreneurship manifests itself in the creation of an industry. Rather, social entrepreneurship may become an approach as part of mainstream business, i.e. actors who prioritize value creation over value capture while competing with or becoming traditional business organizations. We can already observe how elements of social entrepreneurship are institutionalized in traditional business: In some countries, eco-fashion, renewable energies, and bio and fair trade standards in food have already grown to double-digit market share figures in the respective industries. As these sectors grow, emerging logics from social entrepreneurship blend with logics of traditional industries thus creating a new institutional logic of business beyond pure value appropriation. In the long-term, so is my hope, these developments may evolve into a new model of capitalism, whereby the role of economic actors is no longer value appropriation for their owners, but a
combination of value appropriation and value creation for society. This would create a new, more sustainable theory of economic organizations in society.

6.2 Limitations and suggestions for further research

As any piece of empirical research, this dissertation is limited in its generalizability. The two exploratory case studies (paper I and III) cannot be generalized statistically to the universe of impact investors and social enterprises. In a similar vein our conceptual frameworks developed in paper II and IV require further empirical research on hybrid organizations and contexts of institutional complexity. While we can generalize our insights to preliminary theoretical concepts, lack of generalizability is the main limitation of my dissertation.

Paper I is especially limited due to its single case study design. Based on the thorough investigation over two years, I gained a deep understanding of the practices happening inside the impact investing organization. However, the findings are biased towards this particular organization and might not be transferrable to other impact investing funds. I tried to mitigate this limitation by sampling one of the few global leaders in impact investing that, although atypical, has higher chances of being a role model for others. Paper III reports from a multiple case study whereby two cases were developed based on retrospective data and interviews that required the respondents to recall events dating back up to three years. Hence, the study may suffer from ex-post rationalization bias that we tried to mitigate by triangulating with documents from the incubation program in which the companies had participated.

The conceptual frameworks developed in paper II and IV are essentially shaped by the experiences and opinions from the co-authors. While our models are grounded in existing theory, the creative thought-process and conversations amongst the co-authors, other scholars and practitioners had an influence on the results.

For theory-advancement, both the exploratory and the conceptual papers require further testing. With regards to practice, the findings have been shared with the case study organizations, professionals from impact investors whom we refer to as examples in paper II, and with a broader audience through conference appearances and practitioner reports (e.g., Birkholz, 2013; Neaga, Valladares, and Birkholz, 2014). This has motivated impact investing executives to get in touch
with us, requesting further information and discussing our assumptions and results. Practical usefulness of my dissertation, however, still has to be proven. As the general recommendation for further research is rather broad, i.e. primarily testing our models and propositions, I would like to conclude with a few specific potential research ideas:

Based on paper I, future scholars may link the antecedents of strategic responses, e.g. HR composition (Besharov and Smith, 2014; Pache and Santos, 2010), to particular operational decisions and then to strategic responses, e.g. manipulating or defying institutional logics (Oliver, 1991). This approach would lead to a multi-level model from the manifestation of institutional complexity within organizations to their practice level and back to strategic responses on the organizational level (cf. Smets et al., 2012). For example, a highly diverse HR composition may lead to consistently different operational practices than does a relatively homogenous group of organizational members. These operational practices may then cause a consistently different strategy and strategic responses to institutional complexity.

Paper II is an invitation for further research on impact investing. Scholars may map all 250 impact investors along the five organizational configurations. A relevant sample should be accessible through the GIIN or, as a publicly available data set, one may start with the 50 impact investing organizations listed each year in Impact Asset’s IA50. Applying our framework to different years may grant the possibility to develop a dynamic model of field positioning and hybrid configurations under institutional complexity. Yet, even if tested for one year only, this approach would modify or increase the validity of our framework and offer interesting insights for managers of impact investing organizations. For example, a federated impact investor with a broad ‘umbrella goal’ may be encouraged to sharpen or narrow its goal in order to clearly ‘anchor’ its federated subunits towards one common goal rather than leaving too much space for exploration along potentially competing agendas of federated subunits. Naturally, further research may build on our model from paper II to develop more generalizable theory for hybrid organizations beyond impact investing.

Taking a key insight from paper III, scholars may shed light on the pre-investment activities of impact investors. While there are numerous studies on post-investment support from venture capitalists (for an overview see DeClercq and Manigart, 2007), we do not yet now which pre-investment activities are effective under which conditions. Such a research project could also inform policy-makers to introduce or improve publicly funded capacity building programs for social
Enterprises in order to facilitate investments and allow for market creation. Furthermore, this is not only an impact investing research agenda but may also inform venture capital scholars. Venture capitalists’ due diligence and negotiation processes could be supportive for the development of entrepreneurs rather than being a time consuming burden for them. Future research may develop a better understanding of how venture capitalists could add value to entrepreneurs prior to making a final investment decision.

Akin to paper II, we suggest leveraging our framework in paper IV to map social enterprises and refine the model. Future research could use the social entrepreneurs samples from fellows, awardees and members of Ashoka, Impact Hub, Schwab Foundation, Skoll Forum, Unreasonable Institute as well as portfolio companies of leading funds such as Acumen, Bamboo Finance, Ignia, LGT Venture Philanthropy, Quadia, responAbility or Vox Capital. There are sufficient cases out there to test the applicability and usefulness of our models.

If anything, I hope to inspire researchers, entrepreneurs and investors to look at institutional complexity as an opportunity rather than a threat. Thinking and acting in (institutional) silos has, in my opinion, brought us many of the major societal problems that we face today. Thinking and acting mainly in silos will not help us in the future. We require the audacity and empathy to collaborate and innovate across diverse sectors, disciplines and often competing institutional environments.
6.3 References


Curriculum Vitae

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Academic career

2009 – 2015 PhD, University of St.Gallen (St.Gallen, Switzerland)
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Since 2015 Global Impact Hub Network (global business development)
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2009 – 2012 Good Energies Chair for Management of Renewable Energies,
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2008 – 2009 RWE Innogy Ventures (intern, corporate student)
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Education

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