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# Managing Societal Performance of Impact Investing: An Action Research Inquiry

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# Managing Societal Performance of Impact Investing: An Action Research Inquiry<sup>1</sup>

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## Abstract:

Impact investments are emerging as a new asset class of social finance, sometimes driven by multinational enterprises as part of their strategic corporate social responsibility strategy. These investments intend to create positive societal impact beyond a financial return through the development of social enterprises. Scholars have highlighted the conflicting institutional logics that these later hybrid organizations must face when combining social welfare and profitability. Yet we lack in-depth insight into how impact investing funds are building their own accountability and legitimacy, and more specifically how they are responding to their investors' pressure to manage societal impact. This paper builds on a three year action-research program conducted with Schneider Electric, a multinational enterprise specialized in energy management. The company initiated and sponsored an impact investing fund targeting energy access ventures in Sub-Saharan Africa, alongside four Development Finance Institutions. Grounded in neo-institutional and resource dependence theories, the article analyzes the perceptions of the fund's managers and suggests a pattern of strategic responses. The fund initially conformed to the emerging values and practices of the industry motivated by a search for salient legitimacy. Then they turned to find a compromise when facing operational complexity, and negotiated the increasing number of requirements from their investors. The paper further provides recommendation for social innovation actors in adopting a performance-oriented approach for managing societal value creation.

Keywords: Impact Investing . base of the pyramid . Multinational Enterprises . Institutional theory . resource dependence theory . action-research . case study

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## 1. INTRODUCTION

Over the past decade, a new asset class of social finance has emerged. A recent study on 125 impact investing funds revealed a cumulative commitment of USD 46 billion of direct investments mostly in companies (78%) active in emerging markets (70%) (Saltuk, El Idrissi, Bouri, Mudaliar, & Schiff, 2014). Impact investments in social enterprises active in microfinance and financial services, energy, housing, food and agriculture, healthcare or education aim at tackling societal needs of low-income populations also referred to as the Base of the Pyramid (BoP). Such investments are promised to exponentially grow over the next decade, reaching at least USD 400 billion available for impact-oriented ventures (O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine, & Brandenburg, 2010). This constitutes a promising opportunity for both social enterprises that are currently undercapitalized, and policy makers aiming to boost their social and environmental sustainability commitments through economic development (Mendell & Barbosa, 2013). Multinational enterprises (MNEs) have also embarked among impact investors by launching corporate venture capital funds thus imitating government behavior. This is the case of Danone and Mars and their Livelihoods 3F fund, Engie and its Rassembleurs d'Energies fund, or Schneider Electric and its Energy Access Venture Fund. Aligned with their Corporate Social Responsibility (CSR) strategy, these funds help MNEs to further commit at the BoP by investing in external social enterprises and generate competitive advantage through innovative business ventures screening.

As a nascent industry, impact investing has not yet attracted much scholar study. A first common definition describes their investments as intended to explicitly create positive social and/or environmental impact beyond financial return (Höchstädter & Scheck, 2014). As such, impact investing differs from Socially Responsible Investments (SRI) in the sense that societal impact is a primary concern for investors, potentially inducing a tradeoff between financial (i.e. on the Internal Rate of Return . IRR) and societal (i.e. on Environmental, Social and Governance . ESG . criteria) expectations.

Similar to social enterprises or microfinance organizations in which they invest, impact investing funds can be described as hybrid organizations (Battilana & Dorado, 2010; Smith, Gonin, & Besharov, 2013). In that sense, they need to combine two potentially conflicting logics, namely a social welfare and a commercial logic (Jay, 2013). Standing in a shared value perspective (Porter & Kramer, 2011), impact investing funds are urged by their own investors and stakeholders at large to manage and report their societal performance alongside their traditional financial one. However, impact investing funds evolve in an institutional change within which values, beliefs, practices and rules are still structuring and

no standards exist yet (Greenwood, Suddaby, & Hinings, 2002). Examining the shared value commitment of the impact investing industry has not been systemically carried out. Therefore, the paper aims at understanding how impact investing funds are managing these combined commercial and societal performance objectives in order to build accountability and legitimacy within their value chain.

The paper is built on the in-depth case study (Eisenhardt & Graebner, 2007; Yin, 2009) of Energy Access Ventures Fund (EAVF), an impact investing fund aggregating total assets of \$54.5 million and targeting energy access ventures in Sub-Saharan Africa. The case is grounded in an action-research partnership (Rapoport, 1970) initiated in late 2011 with Schneider Electric. The company is a global leader in energy management that actually launched and sponsored the project in the context of its access to energy program targeting the Base of the Pyramid. This case study analyzes the design of the fund until the date of its closing in early 2015 and the negotiations that took place between the fund's managers and its investors, namely its corporate sponsor and four Development Finance Institutions (DFIs). While the fund's managers attracted the DFIs based on common beliefs and aspirations in impact investing, the latter enforced them to consider numerous requirements prior their investment in EAVF. Constraints such as a minimum internal rate of return, a limited share of organizational and management fees to support the investees or a high level of expectation to monitor societal benefits of each investment appeared potentially conflicting to the fund's managers. Pertaining to our research question on building impact investing fund's accountability and legitimacy, the article further aims at examining how EAVF is responding to these pressures and more specifically to manage its societal performance. Such inquiry would also provide MNEs the knowledge to apprehend the societal performance of their externally managed BoP activities or impact investing funds.

In order to study the EAVF managerial perceptions and strategic responses to these pressures we ground the case in neo-institutional and resource dependence theories, as initiated by (Oliver, 1991). Institutional theory has been well mobilized to study hybrid organizations such as social enterprises (Pache & Santos, 2010, 2013), microfinance organizations (Battilana & Dorado, 2010), and Social Responsible Investments (Arjalies, 2013). Early writings in institutional theory mostly predicted conformity to dominant norms (Meyer & Rowan, 1977). However, recent writings emphasize that factors such as agency, choice, proactiveness and self-interest can lead to a variety of more resistive responses (Jamali, 2010; Oliver, 1991; Tan & Wang, 2011).

In our case study, EAVF did not adopt blindly dominant norms as no explicit societal performance management standards were either shared within the impact investing industry or agreed between the fund's investors. The findings rather suggest that the fund conformed to the industry's values and emerging practices as a natural strategic response to gain legitimacy and anticipate its potential investors' expectations. In a second phase, EAVF searched for compromise when they faced the operational complexity of the procedure and negotiated the increasing number of requirements from its future investors. EAVF managers acknowledged their resource dependence towards the DFIs that somehow limited their bargaining power but permitted inter-organizational arrangements. The case study also discusses a potential risk for EAVF managers to avoid the DFIs' requirements. The findings suggest that periodic discussions and renegotiations of the DFIs' requirements would limit the risk to create a 'legitimacy façade'. Finally, the research findings reassert a potential conflict . or a delicate balance . between societal and financial value creation objectives. The fund's managers recognize that their newly established procedure embeds two logics that are potentially conflicting although not incompatible, while it could grant them legitimacy towards external rating and certifying bodies in due time.

The remaining of the paper is structured as follows. Section 2 provides a brief overview of impact investing and societal performance management and then presents relevant institutional and resource dependence theories that were used to guide the empirical part of the paper based on the framework of Oliver (1991). Section 3 explains the research context as well as the grounding of the paper in Action Research and the case study methodology. Section 4 derives the theoretical framework on the strategic responses from an impact investing fund to institutional pressures. Section 5 discusses the findings. Finally, Section 6 concludes this paper, provides recommendations for social innovation practitioners and suggests future research.

## 2. LITERATURE OVERVIEW

### 2.1. Social innovation, impact investing and societal performance

#### Social innovation and social finance

The 'social innovation' concept has recently regained corporate interest. Westley and Antadze (2010, p. 2) defined social innovation as being 'a complex process of introducing new products, processes or programs that profoundly change the basic routines, resource and authority flows, or beliefs of the social system in which innovation occurs. Such

successful social innovations have durability and broad impact. Social innovation encompasses terms such as social enterprise, social entrepreneurship, and social finance. One can witness the emergence of organizations that adopt commercial purposes to achieve societal objectives such as poverty alleviation, health and education provision or climate change resilience. For instance, multinational enterprises pursuing a corporate responsible strategy have embraced the possibility to find growth or strategic opportunities while contributing to poverty alleviation (André, 2014) through Base of the Pyramid (BoP) strategies (Prahalad & Fruehauf, 2004) or social business ventures (Yunus, 2008). In the meantime, relatively new actors such as social enterprises (Dacin, Dacin, & Tracey, 2011; Mair & Marti, 2006; Seelos & Mair, 2005) and microfinance organizations (Battilana & Dorado, 2010; Bédécarrats, 2013) have taken the lion's share among academia. Despite the diversity of these ventures that adopt practices from both for-profit and not-for-profit sectors, they all require financial resources to start-up, grow, and go to scale. However, small and medium-sized entrepreneurs in developing countries/economies have little access to finance and fall in the Missing Middle (Kauffmann, 2005). Their access to formal finance is poor as they rarely meet conditions set by formal financial institutions and are also, generally, too large for microfinance organizations. They find their main sources of capital in their retained earnings and informal savings which are often not secured and have little scope for risk-sharing.

A new class of social finance actors has emerged in order to answer the specific needs of social innovation ventures (Moore, Westley, & Nicholls, 2012). Social enterprises are no longer solely tied to grants and contracts from government agencies or foundations as primary sources of financial support. In between the traditional philanthropy and mainstream investing, social investments are pursuing a blended value creation that combines both an attention to financial return and a focus on social/environmental outputs or outcomes (Nicholls, 2010, p. 76). Among the different terminologies covered by social investments, impact investing emerges as a powerful and promising opportunity for social enterprises that are currently undercapitalized, as well as a boost to economic development committed to social and environmental sustainability around the world (Mendell & Barbosa, 2013, p. 2).

### Impact investing

Impact investing is a nascent industry which has not yet attracted much scholar study. A first academic review performed by Höchstädter and Scheck (2014) highlights the absence of a uniform definition and a clear understanding. Nevertheless, a high level of agreement anchors impact investing around two core elements: non-financial impact, typically in the form of social and/or environmental impact, and financial return, which requires at least the

preservation of the invested principal but can allow for market-beating returns+ (Höchstädter & Scheck, 2014, p. 12). It is noteworthy that non-financial impact . i.e. societal impact . is meant to be intentional, that is to say, not an incidental side-effect of an investment. On the debate about the balance between financial and societal returns, the strategy of impact investors are considered to be at their own discretion, while a segmentation could classify them as finance-first or impact-first investors (Freireich & Fulton, 2009, p. 31; Joy, de Las Casas, & Rickey, 2011, p. 11). In that sense, impact investing differs from . or %goes beyond+ . Socially Responsible Investment (SRI) by the fact that it is more proactive to solve social or environmental stakes, and that it primarily targets small and medium enterprises that are not publicly listed (Höchstädter & Scheck, 2014).

Impact investors are quite diverse and can range from Development Finance Institutions (DFIs), foundations, or diversified financial organizations and banks (Saltuk et al., 2014). Recently, MNEs have launched their own impact investing fund, adopting a corporate venture capital approach in order to support the development of innovative social enterprises. Asset classes and financial instruments mobilized by investors appear to be diverse, with a predominance of debt, equity, guarantees, and deposits (Höchstädter & Scheck, 2014). Impact investments will focus on ventures, mostly in emerging or developing countries, active in a wide range of sectors including agriculture, clean technology and energy, education, healthcare, financial services and microfinance, housing, or water. These investees appear to be predominantly in a post-venture stage (i.e. growth or mature stage), therefore testifying for a proven track record that shall limit the risks for their investors (Saltuk et al., 2014).

The objective of delivering societal impact from such investments appears critical for accountability. Impact investors require their investees to track and measure this new type of value creation at the operational level. However, an often cited and important limitation of the industry lies in the fact that there is a %lack of internationally agreed accounting standards for such capital flows+(Nicholls, 2010, p. 93).

### Measuring impact performance

Social impact measurement has gained interest among social innovation practitioners. Social enterprises are specifically questioned on this topic to update their boards of directors in the achievement of their social mission, to appease their investors willing to control the use of the funds, or to guide their management team concerned by improving their activities (Stievenart & Pache, 2014). Despite the proliferation of hundreds of competing methods for

calculating social value<sup>2</sup>, social enterprises struggle to put them into practice (Mulgan, 2010). The concept of impact monitoring and evaluation primarily emanates from development aid in humanitarian and public sectors. The term *impact* is defined as the *positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended* (OECD, 2002, p. 24). More recently, social impact evaluations have regained interest through the promotion of experimental techniques such as randomized control trials (RCTs) (Duflo & Kremer, 2003). However, such impact evaluations are expensive in nature, and require significant time and skilled human resources to be implemented. As such they appear to be unbearable by social enterprises (Hulme, 2000), or even incompatible with a business mindset. Some authors rather advocate for the development of on-going performance monitoring approaches aimed at understanding the induced social changes through quantitative approaches. In this line of thought, Mair and Marti (2006, p. 42) urge *to develop useful and meaningful measures that capture the impact of social entrepreneurship and reflect the objectives pursued.*

Coming back to impact investing, the industry is also developing new impact measurement systems. The aim is to improve the reporting & transparency of social investees' performance, to enhance funds' accountability towards their stakeholders, and to make better capital allocation decisions (Antadze & Westley, 2012). Impact investors are therefore adopting emerging approaches such as rating systems (e.g. Global Impact Investing Rating Systems, GIIRS), certification or assessment systems (e.g. BCorp) or performance management systems (e.g. Impact Reporting & Investment Standard, IRIS) (Mendell & Barbosa, 2013; Olsen & Galimidi, 2008). The agreement on standardized performance impact metrics has been reported by practitioners as an important factor to develop the impact investing industry (Saltuk et al., 2014). As such, the Global Impact Investing Network (GIIN), a not-for-profit organization dedicated to increasing the scale and effectiveness of the impact investing industry, promoted the use of the IRIS database. IRIS is defined as a *catalog of generally-accepted performance metrics* (GIIN, 2015). It describes short to mid-term societal *outputs* or *outcomes* rather than long-term social *impact* in different sectors of activities. In that sense, Geobey, Westley, and Weber (2012) argue that building such meaningful and multidimensional measures represents an incremental innovation for investors while still having the potential to create transformative outcomes. The survey of Saltuk et al. (2014) on 125 impact investing funds reports for a large adoption of IRIS, promising the tool to become a standard (Bouri, 2011), aligned with the business-oriented practices of the industry.

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<sup>2</sup> See further the TRASI database, which references close to 200 approaches to social impact assessment. <http://trasi.foundationcenter.org/>

Adopting a double financial and societal objective require impact investors to develop new societal performance methodologies as a mean to build their accountability towards their stakeholders, while not hindering financial returns. The following part provides a theoretical perspective on the way such actors surface conflicts and compatibilities among these two different institutional logics.

### 2.2. Institutional and resource dependence perspectives on pressures

#### Hybrid institutions and organizations

Institutional theory argues that relationships among organizations and the fields in which they operate are influenced by their institutional environment. An institution can be defined as "relatively widely diffused practices, technologies, or rules that have become entrenched in the sense that it is costly to choose other practices, technologies, or rules" (Lawrence, Hardy, & Nelson, 2002, p. 282). The act of integrating taken-for-granted institutional logics will in turn protect the organization from having its conduct questioned. This would help organizations gain legitimacy, that is the recognition of a socially desirable, proper, or appropriate status (Suchman, 1995). Multiple institutional logics might influence organizations simultaneously (Thornton & Ocasio, 2008). These multiple logics can co-exist and sometimes compete, leading to complexity (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). Competing institutional logics tend to lead to arrangements between firms to ensure their operations (Tan & Wang, 2011; Westermann-Behaylo, Berman, & Van Buren, 2014). Co-existing logics might also give birth to a new hybrid version of the previous dominant logics (Arjalies, 2013; Thornton, Jones, & Kury, 2005).

A "hybrid" organization is an organization that embodies multiple institutional logics. Recently, researchers mobilized an institutional perspective to examine social innovation (Dacin et al., 2011). Several scholars describe social enterprises as hybrid organizations in the sense that they combine social welfare and commercial logics (Battilana & Dorado, 2010; Pache & Santos, 2010, 2013; Tracey, Phillips, & Jarvis, 2011). Battilana and Dorado (2010) describe specifically microfinance organizations as hybrid entities that "combined two previously separated logics" a *development* logic that guided their mission to help the poor, and a *banking* logic that required profits sufficient to support ongoing operations and fulfill fiduciary obligations. Most of the cited authors describe the simultaneous combination of conflicting logics. Developing collaborative relationships helps to manage the rivalry between these competing logics (Reay & Hinings, 2009) and lead to the creation of new institutions (Lawrence et al., 2002).

Pertaining to our organizational field, we argue that impact investing funds are hybrid organizations, similarly combining a development logic and an investment logic. While the impact investing industry has been structured from a predominantly investing institution, its proponents such as the Global Impact Investing Network (GIIN) strongly advocate for its societal purpose through common beliefs and strategy (O'Donohoe et al., 2010). This professional association further promotes the adoption of societal performance monitoring tools such as the IRIS catalog of impact metrics (Höchstädter & Scheck, 2014). Mobilizing neo-institutional theory, Nicholls (2010) highlights the multiple, contradictory, or ambiguous institutional norms and pressures that different types of social investors are facing. However, the author does not further detail how social finance actors manage their position in between a financial- and a societal-maximization perspective.

### Theoretical perspectives on responses to pressures

Institutional theory focuses on the external logics being exerted on the organization. Earlier neo-institutional theorists emphasize the coercive, mimetic, and normative pressures of an institution that shapes somewhat predictable business practices. Such pressures to conform to norms could be overcome by organizations through decoupling (Meyer & Rowan, 1977). When decoupling, firms give only ceremonial or symbolical commitment to institutional pressures without adopting their required practices. This permits organizations to keep their values and beliefs unchanged. More recently, studies attempted to predict the responses of organizations facing multiple conflicting logics (Reay & Hinings, 2009). Studies focusing on the social innovation field such as microfinance organizations (Battilana & Dorado, 2010), social enterprises (Tracey et al., 2011), or social integration enterprises (Pache & Santos, 2013) highlight a combination or an adoption of both intact logics rather than decoupling. According to Battilana and Dorado (2010), having no prior experience with a logic would be a prerequisite in an organization for blended hybridization.

In parallel, resource dependence theory (RDT) rather suggests that the influence of these pressures are also linked to the control that its proponents have over the resources of the organization (Greenwood et al., 2011). This line of thought is based on the notion that ~~all~~ all organizations critically depend on other organizations for the provision of vital resources, and that this dependence is often reciprocal (Drees & Heugens, 2013, p. 1667). Recent writings have also highlighted that passive conformity to rules and standards might have been exaggerated and that factors such as agency, choice, proactiveness and self-interest can lead to a variety of responses to institutional pressures (Jamali, 2010; Oliver, 1991; Tan & Wang, 2011). In their meta-analysis of 157 articles on RDT, Drees and Heugens (2013) validate the theory that was initially formulated by Pfeffer and Salancik (1978): organizations



conditions that make this conformity necessary. Organizations will try to conceal their nonconformity, buffer themselves from institutional pressures, or simply escape institutional rules and expectations. A more active response, **Defiance**, refers to an explicit rejection of at least one of the institutional pressures. Organizations achieve this by dismissing or ignoring specific institutional logics, by challenging the rules and requirements, or by explicitly attacking or denouncing the institutional values and its promoters. Finally, **manipulation** refers to the most active attempt to change or exert power over the requirements that the institutions express and enforce. Manipulation tactics include co-opting the source of the pressures, influencing the definition of the norms through lobbying, or even controlling the organizations that are the sources of the pressure.

### Five institutional antecedents

In order to characterize the institutional contexts and conditions under which organizations will embrace or resist institutionalizations, Oliver (1991) outlined five antecedents. These predictive dimensions include the Cause, Constituents, Content, Control and Context of the institutional pressures. Table 1 illustrates the degree of each of these institutional antecedents as a prediction of strategic responses adopted by organizations.

Table 1: Institutional antecedents and predicted strategic responses (adapted from Oliver, 1991)

Predictive Factor	Acquiesce	Compromise	Avoid	Defy	Manipulate
<b>Cause</b>					
Legitimacy	H	L	L	L	L
Efficiency	H	L	L	L	L
<b>Constituents</b>					
Multiplicity	L	H	H	H	H
Dependence	H	H	M	L	L
<b>Content</b>					
Consistency	H	M	M	L	L
Constraint	L	M	H	H	H
<b>Control</b>					
Coercion	H	M	M	L	L
Diffusion	H	H	M	L	L
<b>Context</b>					
Uncertainty	H	H	H	L	L
Inter-connectedness	H	H	M	L	L

L = Low, M = Moderate, H = High

**Cause** of institutional pressures typically answers why they are being exerted. It studies the rationale or intended adequacy of the organization with a social legitimacy and an economic efficiency. Institutional **constituents** identify who is exerting the pressures. It examines the

multiplicity of the actors imposing the pressures as well as the dependency of the organization on them. The **content** captures what these pressures are. It considers the consistency of the pressures with the organizational goals and the discretionary constraints imposed on the organization. **Control** clarifies how or by what means pressures are exerted. It looks at both the legal enforcement and the voluntary diffusion of norms. Finally, the institutional **context** explains where the pressures occur. It explores the uncertainty and the interconnectedness of the environmental context within which institutional pressures are exerted.

Pache and Santos (2010) mobilize Oliver's typology of strategic responses to study institutional pressures that are exerted upon hybrid organizations. However their study does not carefully track the variations in the ten dimensions of Oliver's antecedents. They argue that the predictive power of Oliver's model is quite low when it comes to specifying responses to conflicting institutional logics exerted on the hybrid organization (Pache & Santos, 2010). We aim at opening the discussion one stage further. Our paper considers that the co-existing logics faced by impact investing funds are no longer necessarily antagonists. Relying on Greenwood et al. (2011, p. 352), the objective of our study is a first step to learn whether organizations experiencing enduring and stable institutional complexity develop blended hybrid arrangements that, over time, become institutionalized *within* the organization and thus uncontested settlements. In other words, we aim at understanding how emerging impact investing funds are managing their shared value creation by balancing financial and societal performance requirements.

### 3. RESEARCH CONTEXT AND METHODOLOGY

#### 3.1. The case of Energy Access Ventures Fund

##### Schneider Electric Access to Energy program

This case focuses on an impact investing fund that emanates from Schneider Electric, a leading French multinational enterprise in energy management. The company evolved to position itself as a solution provider for utilities and infrastructures, industries and machine manufacturers, non-residential buildings, data centers and networks, and the residential sector. The company employs more than 150 000 people worldwide, reaching a turnover of 24 billion Euros in 2013, for which developing economies represented 43%. Inscribed in the company's strategy, the Sustainable Development direction initiated an Access to Energy program in 2009 (André & Ponsard, 2015). This Base of the Pyramid (BoP) initiative aims

at promoting access to energy for low-income populations in Africa, India and South-East Asia (Vermot Desroches & André, 2012). The Access to Energy program combines three business and philanthropic approaches:

- An impact investing fund, Schneider Electric Energy Access (SEEA), financially supports the development of small and medium enterprises (SMEs) in the field of access to energy and job integration;
- An offer creation team develops a specific portfolio of products and solutions. A business development team deploys them to commercially meet the means and needs of BoP populations that lack access to modern energy;
- A training team sponsors the creation of vocational training, through the financial support of the company's Foundation, in order to develop long-term regional competencies in electricity trades.

Since its launch, the Access to Energy program testifies for having invested in twelve SMEs; provided energy to more than 2.3 million households; and created almost 40 training programs in energy management reaching more than 62,000 people (Schneider Electric, 2015a).

### Energy Access Ventures Fund

In late 2011, Schneider Electric capitalized on its experience with the SEEA fund to initiate the creation of a second bigger impact investing fund, called Energy Access Ventures Fund (EAVF). EAVF stipulates in its legal document that it has a unique positioning in the energy sector: between Traditional pure private equity funds, targeting high investment returns and mainly investing in emerging markets; and Venture philanthropists and foundations, prioritizing social impact over financial return (EAVF, 2015, p. 3). It further positions itself as a hybrid organization and defines itself as being an impact private equity fund with a double objective: (i) generate a financial return for its investors between 6% and 10% net of management fees and (ii) complete investments with a measurable social impact on local communities (EAVF, 2015, p. 3).

While SEEA cumulated total assets of " 4 million and invested in 12 companies in late 2014, EAVF succeeded in aggregating a total of " 54.5 million at the date of its closing in early 2015 (Schneider Electric, 2015b). Schneider Electric . the sponsor company . invested 30% of the total assets of EAVF alongside four Development Finance Institutions (DFIs): the UK's CDC Group (30%), the European Investment Bank (EIB . 18%), the French Global Environment Facility (FFEM) and PROPARCO (12%), and the OPEC Fund for International Development (OFID . 9%). EAVF is composed of three entities: the Energy Access Fund

that receives the capitalization, its management company Aster Capital Partners, a portfolio management company specialized in private equity, and the advisory company Energy Access Ventures, in charge of the screening, the due diligence, the monitoring and the exit of investments. Figure 2 depicts the organizational structure of EAVF at the date of its closing in February 2015.

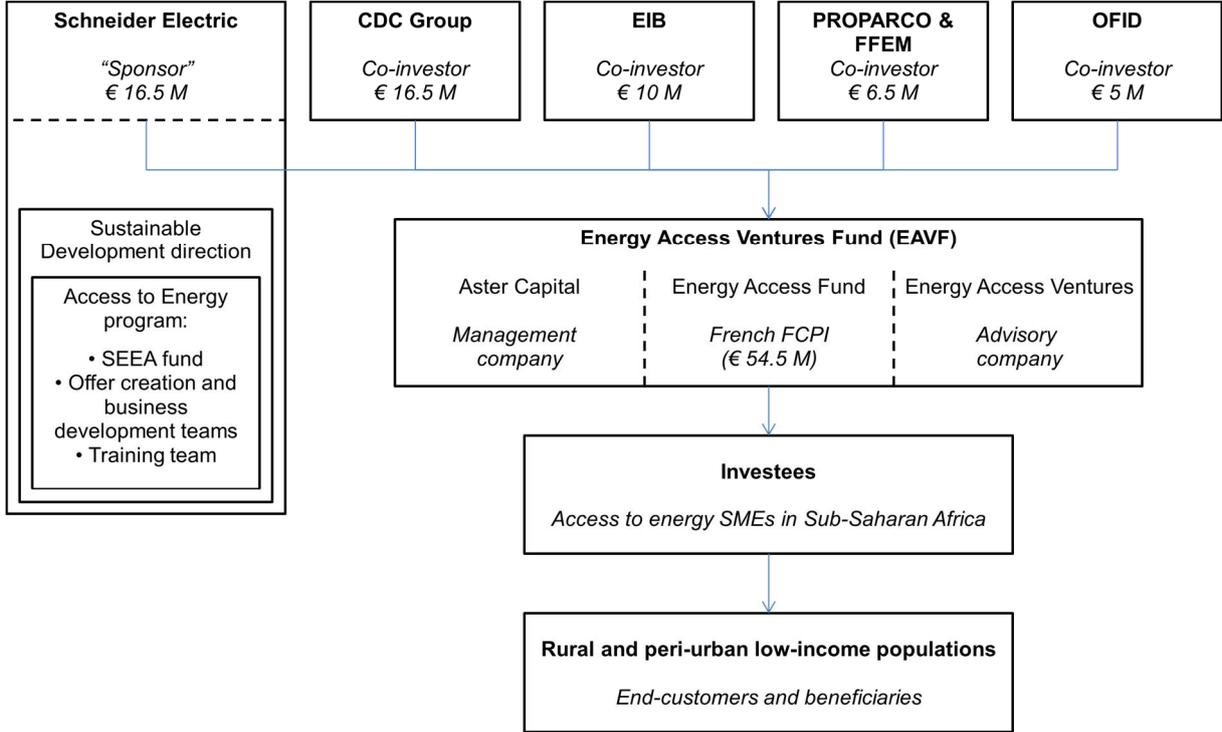


Figure 2: Organizational structure of EAVF as of February 2015

The strategy of EAVF can be described following the framework for impact investors provided by Höchstädter and Scheck (2014). On the **demography and geography** dimensions, the fund will focus on ventures targeting low-income (i.e. BoP) populations in Sub-Saharan Africa. The fund will start in East Africa before expanding to other African countries (EAVF, 2015, p. 3). On the **organizational processes** dimension, the fund intends to create economic and societal value for the beneficiaries through the investees' business operations. The **sector** dimension of the fund is primarily addressing off-grid rural electrification. Targeted ventures will be involved in manufacturing, distributing, selling, renting, installing, maintaining, financing or owning power generation systems, micro-generation infrastructures, energy kiosks, fleet of batteries, or any other activities linked to electricity. On the **impact objective** dimension, EAVF clearly plans to provide reliable electricity access to at least 1,000,000 low-income beneficiaries, in rural and peri-urban

areas+(EAVF, 2015, p. 3). On the **financial and organizational structure** dimension of the recipients of the investments, the fund will primarily target non-listed small and medium size enterprises (SMEs) that are recognized as falling in the **missing middle**, lacking access to traditional finance. Finally, on the **asset classes and financial instruments** dimensions, EAVF will **mainly** invest in equity, quasi-equity or, to a lesser extent, long term debt instruments+(EAVF, 2015, p. 4). EAVF intends to be a minority shareholder investing up to 33% in the investees with investments ranging from " 500K up to " 4,000K per company.

EAVF undergoes both an institutional pressure, combining societal and profitability performance requirements due to its status of impact investing fund, and a resource dependency with its own investors, namely Schneider Electric and the four DFIs. The later imposed requirements on EAVF to develop procedures and tools to specifically manage its developmental impact.

### **Societal Management Procedure of EAVF**

EAVF developed a triple bottom line accountability procedure in order to better understand the changes and impacts related to its interventions towards its portfolio companies and their environment. This Societal Management Procedure (SMP) is composed of two parallel methodologies as depicted in Figure 3. First, an Environmental, Social and Governance (ESG) management system aims at assessing and mitigating risks. Secondly, an Impact Performance Monitoring (IPM) system aims at understanding, capturing, and improving the social and environmental value creation of the investeesq activities. Those two parallel approaches, embedded in every steps of the investment procedure, lead to the definition of specific technical assistance provided to the portfolio companies. The DFIs which invested in EAVF also committed an additional " 2.4 million to support technical assistance.

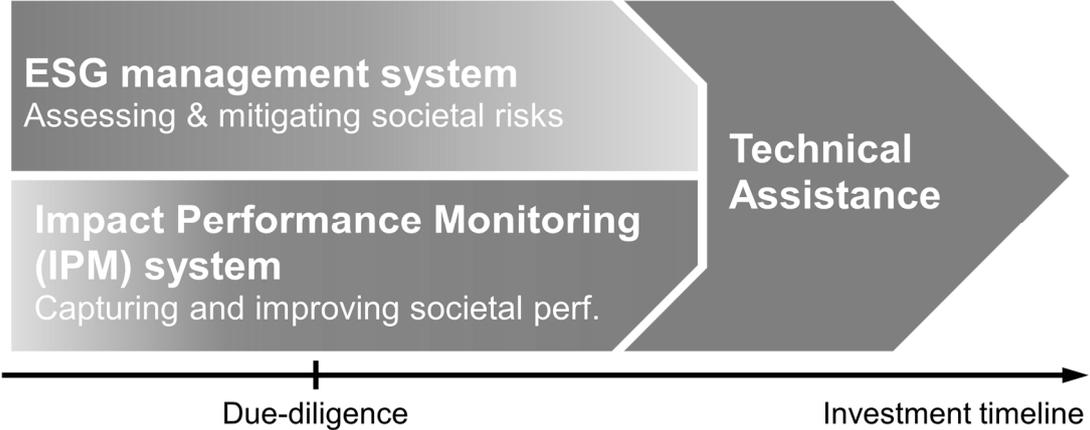


Figure 3: Societal Management Procedure (SMP) of EAVF

Screening Environmental, Social and Governance criteria has been popularized by the Socially Responsible Investment (SRI) industry. EAVF adopted the CDC Group toolkit for fund managers (CDC Group, 2010), which is recognized as a reference standard for investment funds active in developing countries. ESG management systems review each investeesq social criteria (e.g. working conditions, H&R management, impact on local communities), environmental criteria (e.g. visual impacts and noise, waste and effluents, air emissions, energy efficiency, water consumption), and governance-related criteria (e.g. business integrity and good corporate governance).

As for the Impact Performance Monitoring system, the fund had to develop its own methodology as no explicit tools were available neither in the impact investing industry nor in the energy access sector. The requirement to adopt a societal management procedure implies that the EAVF team must dedicate a significant amount of time in assessing, reviewing, and reporting the societal performance of its investments. Meanwhile, the EAVF team raised some operational limitation concerns based on their previous experience in impact investing. All those aspects were negotiated with their investors prior to the final closing of the fund and is presented in the case study.

**3.2. Action Research and case study methodology**

The research question of how an impact investing fund is building its accountability and societal legitimacy towards its stakeholders originates from a doctoral collaboration with Schneider Electric. In September 2011, the author initiated an applied research with the Sustainable Development direction, which focused on the company's concern about managing extra-financial benefits of its %Base of the Pyramid+ initiative. At that time, the

Access to Energy program was already running the SEEA fund. A few months later, the company took the decision to build a second external impact investing fund that would become EAVF. The research collaboration permitted to the author to share his time with the team and thus develop an *insider* position (Brannick & Coghlan, 2007). In that sense, I benefited from an *active member* status and assumed *a* functional role in addition to the *observational role* (Adler & Adler, 1987). My position facilitated building *trust* and acceptance of the researcher (Adler & Adler, 1987) and gave me the ability to get into the organizational system, to take part in the meetings, and to influence decisions related to the research partnership. A governance mechanism aimed at avoiding a potential interpretation bias related to the insider position of the researcher, who is said to have an underlying social, economic, or even ideological motivation. Twice a year, a steering committee of the research partnership was permitted to review the progress of the research, to discuss its learning, to adapt research activities, and to validate the next steps.

On the methodological side, the paper is grounded in an action-research. A common definition has been provided by Rapoport (1970): *Action research aims to contribute both to the practical concerns of people in an immediate problematic situation and to the goals of science by joint collaboration within a mutually acceptable framework* (p. 499). As a researcher, the author contributed to generating the phenomenon that is intended to be analyzed through his research activities. The action-research collaboration with the Sustainable Development direction followed the cyclical process described by Susman and Evered (1978). The cycle was aimed at understanding and defining the answer to pressures of adopting societal management procedures of the new impact investing fund. It started in January 2013 and lasted two years until the closing of the fund. Figure 4 depicts the cyclical process of the action-research.

## Managing Societal Performance of Impact Investing

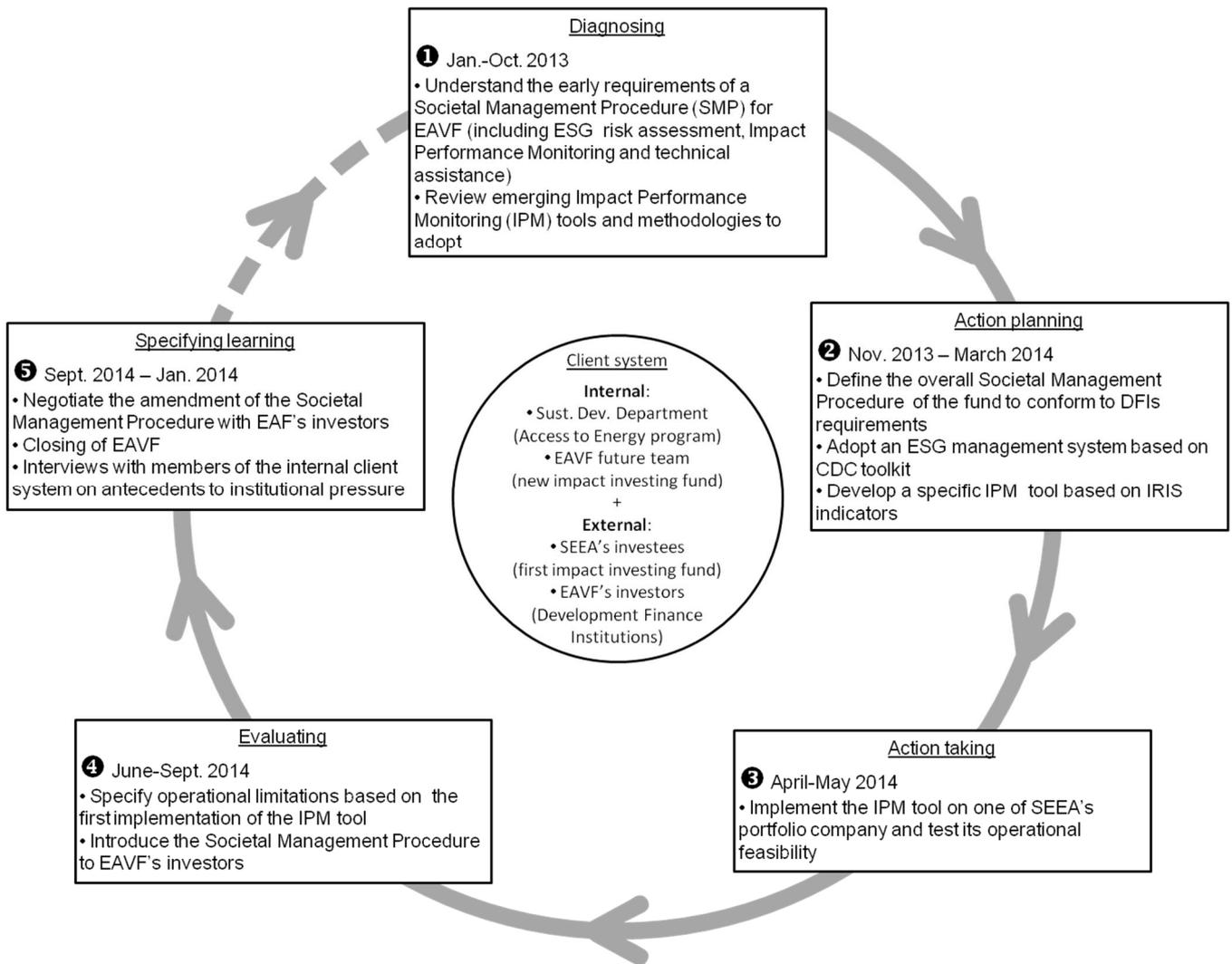


Figure 4: cyclical process of action-research

The cyclical process of the action-research started with the understanding of the need for a new impact investing fund to integrate a Societal Management Procedure within its investment procedure. This preliminary question rose with the anticipated requirements from Development Finance Institutions (DFIs) that could become the co-investors of the fund alongside Schneider Electric. A review of the stakes for an impact investing fund to manage its societal value creation highlighted the requirement to adopt an ESG management system and to develop a specific Impact Performance Monitoring (IPM) system related to the mission and the sector of the fund. The IPM tool would permit the investment managers to estimate ex-ante the societal benefits of a potential investee, to track the fund's societal performance from its actual investment until the exit and to report to their own investors and community at large. Once the IPM tool had been designed, a first experimentation was conducted with one of the portfolio companies of the first fund, active in Uganda. Based on the theoretical

methodology and the learning of the experimentation, the fund managers presented the overall procedure to its potential investors. Negotiations started from this point in order to take into account the requirements of the fundsq potential investors while remaining operationally pragmatic for the future managers of EAVF and for its investees.

The remaining of the paper is built on an in-depth case study methodology (Eisenhardt & Graebner, 2007; Yin, 2009) that focuses on the perceived antecedents from EAVF on the strategic responses to the institutional pressures to conform to societal performance management. The case study is exploratory (Yin, 2009). Hypotheses and data were either directly obtained or created through exchanges with the client system (Susman & Evered, 1978). Throughout the different phases of action-research, methods of data collection included the study of internal documents, the production of research notes and presentations, and the development of EAVF procedures. An important time was dedicated to informal exchanges with members of both the Sustainable Development direction and the EAVF future team and for which minutes were written down in a research logbook. The methodology also relies on participatory and deliberative meetings gathering members of both the internal and external client system. Each meetings purpose was structured and submitted ex-ante to participants and the discussions were synthesized and collegially shared ex-post. These notes aimed at generating knowledge with the client system, especially during the negotiation phase. Finally, five semi-structured interviews were conducted with managers or directors related to EAVF, which allowed for the completion of the analysis based on Oliver's framework. The semi-structured questionnaire is depicted in Appendix. A literal transcription of the recorded interviews permitted a consistent use of the data.

#### **4. RESEARCH FINDINGS**

The following part describes the managerial perceptions of institutional antecedents of adopting a Societal Management Procedure. All participants of this research adhered to a combination of adopting an existing ESG management system from the CDC group and developing a specific Impact Performance Monitoring system mainly based on the IRIS catalog of indicators. Table 2 summarizes the characterization of each of the five antecedents and their predictive factors.

Table 2: EAVF Managerial perceptions (in bold italics) of institutional antecedents of SMP

Predictive Factor	Acquiesce	Compromise	Avoid	Defy	Manipulate
<b>Cause</b>					
Legitimacy	<b><i>H</i></b>	L	L	L	L
Efficiency	H	<b><i>L</i></b>	<b><i>L</i></b>	<b><i>L</i></b>	<b><i>L</i></b>
<b>Constituents</b>					
Multiplicity	<b><i>L</i></b>	H	H	H	H
Dependence	<b><i>H</i></b>	<b><i>H</i></b>	M	L	L
<b>Content</b>					
Consistency	H	<b><i>M</i></b>	<b><i>M</i></b>	L	L
Constraint	L	<b><i>M</i></b>	H	H	H
<b>Control</b>					
Coercion	<b><i>H</i></b>	M	M	L	L
Diffusion	H	H	<b><i>M</i></b>	L	L
<b>Context</b>					
Uncertainty	H	H	H	<b><i>L</i></b>	<b><i>L</i></b>
Inter-connectedness	<b><i>H</i></b>	<b><i>H</i></b>	M	L	L

L = Low, M = Moderate, H = High

#### 4.1. Perceptions of cause: legitimacy and efficiency

**Legitimacy** . The participation of EAVF in a Societal Management Procedure seems mostly and primarily driven by salient legitimacy. Directly linked with its inner societal mission, a respondent stipulates that %the fund has been created to get an impact+and that it is %clearly for this reason that DFIs came as co-investors+. Tracking, reporting and improving its societal impact aim at validating the fund's societal objective and at promoting its credibility. In the words of one of the managers interviewed, %alignment with this procedure first helps us to make sure that our investees have a positive impact. Then we can report to our own investors that are quite cautious about the developmental role of their assets.+ Another participant stipulates that %his procedure will help us to objectify our capacity to deliver societal returns.+Reputation, status, or image has not been stated as a primary concern for EAVF managers. However it is noteworthy that at the origin of this project, Schneider Electric . the sponsor of the fund . inscribed EAVF in the continuity of its CSR strategy and its existing Access to Energy program. In that sense, an investment manager recognized that %his impact investing fund has been identified by Schneider as an innovative tool to contribute to the development of populations and to position itself as a leading actor in the energy access space+.

**Efficiency** . The majority of the interviewees questioned the explicit contribution of the SMP to economic gains or economic rationalization. While they have no track record yet to testify

for such economic benefits for the investees . and therefore the fund . we might notice two possibilities. On the one hand, societal management systems might imply serious costs and time for the portfolio companies in the short term. One manager stipulates "These are complex procedures that could affect negatively the profitability of the ventures." On the other hand, portfolio companies could benefit from the SMP reports in the midterm, provided that they testify for a positive societal value creation. In that sense, one of the participants highlights that "access to specific developmental funding, grants or preferred loans will inherently contribute to the financial strength of the portfolio companies". Similarly, managing and mitigating ESG risks is acknowledged by most of the interviewees to increase the economic stability of the ventures in the long-term.

It is thus fair to characterize the perceptions of these institutional antecedents as high in relation to legitimacy and low in relation to efficiency as illustrated in Table 2.

### 4.2. Perceptions of constituents: multiplicity and dependence

**Multiplicity** The actors requiring for the fund to adopt a Societal Management Procedure remain relatively limited to the Development Finance Institutions that invested in it. One of the investment managers stipulates, "At the beginning there was a common aspiration between the DFIs to focus on social impact criteria rather than on the financial return." While there is no standard for ESG management systems, one of the DFIs suggested using its own toolkit, which diminished the multiplicity of demands from the others. In regards to the Impact Performance Monitoring, the proposal to use the emerging standardized indicators from the IRIS catalog has been well received by the funds' investors. However, most of the interviewees insisted on the diversified requirements in monitoring specific indicators from one DFI to another during the negotiation phase of the final Societal Management Procedure. Such a multiplicity on the number of compulsory indicators to report to each DFI presented some conflicting expectations in some of the domains of impacts that had to be measured. One of the participants states that "Every DFI has its own societal impact measures and indicators." He explains further that "There has been a huge work to harmonize each of their requirements and at the end, the reporting is quite heavy."

**Dependence** . It is clear that EAVF dependency to adopt a Societal Management Procedure is fundamental. The creation of a SMP that would meet the requirements of the DFIs appeared as a prerequisite to get their approval to invest in the fund. While there were no alternative solutions to complying with the DFIs requirements, this does not mean that EAVF team members did not discuss the final SMP. However, one manager admits, "we were in a process in which our capacity to negotiate was limited by our own willingness to close this

fund.+ Another participant states further, %Time will tell us if we solely must comply with the demands of the DFIs or if we can resist+. Nonetheless, the use of a sufficiently robust ESG management tool and standardized IRIS indicators is acknowledged by EAVF members as being an advantage in terms of legitimacy for future external certification and rating.

Accordingly, the respective perceptions of these institutional antecedents are characterized as low in relation to multiplicity and high in relation to dependence as depicted in Table 2.

### 4.3. Perceptions of content: consistency and constraints

**Consistency** . All the interviewees considered a Societal Management Procedure to be very consistent with the fund's impact mission. Most of them posited that conformity to this demand was a natural extension given the fund's social aspirations. The SMP is fully integrated in every step of the investment procedure, from the initial screening to the exit strategy through the due-diligence phase and the post-investment monitoring. Moreover, the participants acknowledge the consistency of a great majority of the IPM tool indicators with the business activity of their future investees. However, fund's managers considered that some of the requirements of the DFIs would lead to an encumbering procedure. As a consequence, societal performance monitoring could become counter-productive for the investees and potentially hinder their business development activities. One manager characterized it in these terms, %We don't want a venture to be drowning in demands it might consider absurd. As an example, asking a company to track the incomes of each of its customers might be typically infeasible or even ethically inappropriate.+ This is also why the SMP focuses on impact performance indicators up to the outcomes that can be directly measured by the investees rather than evaluating the long-term social impacts per se.

**Constraints** . Negotiations took place when EAVF team and its investors had to agree on the final Societal Management Procedure to adopt. The relatively standard ESG management system that was chosen appeared to be easily incorporated in the fund's activities. On the contrary, the Impact Monitoring Performance system had to be created. Discussions during the negotiation phase mostly focused on it. The fund managers agreed with their investors on a compulsory list of key performance indicators that would be assessed periodically for every portfolio company. However, it was agreed that more complex reporting requirements specific to each DFIs would remain at the discretion of the fund managers on a bilateral basis. EAVF team also managed to leave the financial and operational responsibility of thorough social impact studies to the DFIs, should they be willing to get more accurate long-term evaluations. As an illustration, one of the interviewee states: %We are impact investors. We invest in business ventures whose job is not to conduct

extensive sociological surveys on each of their customers+. Another participant explains that %the fund will not be accountable for social impact evaluations. The fund will rather provide an opened analysis field for the DFIs+.

Based on patterns of responses obtained, it is thus possible to characterize the perceptions of these institutional antecedents as moderate in relation to both consistency and constraints as illustrated in Table 2.

### 4.4. Perceptions of control: coercion and diffusion

**Coercion** . The compliance to the Societal Management Procedure, agreed during negotiations, is legally enforced through the contract signed between EAVF and its investors. EAVF team intends to apply and be accountable towards the DFIs for the overall application of the SMP within its day to day investment procedure. In the short to mid-term, the fund has an obligation of means in executing the SMP. It involves reporting on the activities of the investees and the fund respectively on a quarterly and an annual basis. In the long-term, the fund also has an obligation of outcomes, related to its both objectives of financial and societal returns. Not respecting those two obligations might be a reason for the DFIs to stop their periodic disbursements in EAVF when they would require additional assets to invest in new companies. One of the fund's managers compares the SMP as a %governance tool with all the means of pressures that goes with it, including potential sanctions for instance on our variable compensation.+

**Diffusion** . While the diversity of methodologies in both ESG and IPM remains relatively low, no regulations require impact investing funds to adopt specific practices. Nonetheless, ESG systems are acknowledged to be diffused in the similar Socially Responsible Investment industry and tend to be applied in the impact investing one. Similarly, the IRIS catalog of indicators is considered as a potential standard. One of the participants highlighted that the %diffusion of standards remain relatively low, especially in the access to energy sector.+ Dwelling further on the implementation of the SMP, he explains: %we will have to demonstrate its acceptability, we will have to diffuse our practices and by this way we will set a precedent which will serve as a reference for our industry.+ It is also in that sense that the investment managers intend to certify their application of the Principles for Responsible Investments (PRI) on the ESG side of the SMP, or to be rated through the Global Impact Investing Rating Systems (GIIRS) on the IPM side of the Societal Management Procedure.

Therefore, we might characterize the perceptions of these institutional antecedents respectively as high in relation to coercion and as moderate in relation to diffusion as depicted in Table 2.

### 4.5. Perceptions of context: uncertainty and interconnectedness

**Uncertainty** . The emerging procedures and standard indicators for both the ESG and IPM systems are acknowledged by the fund managers as being relatively stable. Most of the concerns about the uncertainty of the overall Societal Management Procedure remain on the IRIS catalog of indicators promoted by the GIIN. At the time of the final adoption of specific indicators within the IPM system, the IRIS catalog was in its third version. Most of the chosen indicators were slightly modified compared to previous versions of IRIS. One manager states that *the methodology today is not a standard but if it has to evolve it will never be a reconfiguration of our way of thinking.*

**Interconnectedness** . Inter-connectedness is a salient aspect for the context of the overall Societal Management Procedure of the fund. First, EAVF will always co-invest with other impact investors as defined by its investment rules. This will require aligning its societal management procedure with other funds that are also seeking to mitigate ESG risks and improve the societal performance of their investments. Second, EAVF team will have periodic exchange on the SMP with its investors, and specifically the DFIs. Third, the participants acknowledge that the impact investing industry is still a rather small community of diverse actors that gather around the GIIN consortium. An investment manager highlights that the adoption of a relatively stringent and demanding procedure constitutes an advantage for anticipating its next evolutions. He further explains, *We will have the capacity to participate in the discussions and influence what will become a norm thanks to our deep experience in the energy access sector but also thanks to the legitimacy that we get from complying to the high levels of requirements from the DFIs.*

Accordingly, the respective perceptions of these institutional antecedents are characterized as low in relation to uncertainty and high in relation to interconnectedness as illustrated in Table 2.

## 5. DISCUSSION OF FINDINGS

The research findings attempted to gauge managerial perceptions from EAVF team members to conform to a Societal Management Procedure as depicted in Table 2. Admitting that the qualitative answers to characterize each antecedent might be subjective, it was

nevertheless possible to detect rather low or high ranges based on the patterns of answers derived by the participants as well as on their precise rating of each dimension considered as low, moderate or high as illustrated in Appendix. Our research validates the theoretical framework of Oliver (1991) by challenging the central assumption of institutional theory that predicts passive conformity. They also complete the empirical work of Jamali (2010) by identifying empirical conditions under which pressures fail in their predicted effects.

### 5.1. From acquiescence to compromise with investors

Our case study reveals an evolution of EAVF strategic responses to institutional pressures, starting by acquiescing to conform to a societal management procedure and then trying to find a compromise. EAVF could not adopt any explicit standards that were neither shared within the impact investing industry nor agreed between the fund's investors, namely the Development Finance Institutions. The findings rather suggest that *acquiescence* appeared first to EAVF as a natural strategic response to gain legitimacy. EAVF managers initially adopted a societal management procedure as a mean to conform to their own beliefs and values into their social mission (i.e. high legitimacy), to their investors' expectations in terms of accountability (i.e. high coercion), and to the emerging practices of the impact investing industry through the IRIS indicators (i.e. low multiplicity).

EAVF had to develop an Impact Performance Monitoring system aimed at tracking the changes induced by an investment. Adopting the logics of the development sector, the tool focuses on the inputs, activities, and outputs/outcomes as defined by the OECD (2002). The IPM tool relies on a matrix of about a hundred key performance indicators gathered in a spreadsheet. Most of the indicators were chosen among the IRIS catalog as a mean to anticipate standardization and to facilitate reporting to the fund's investors and stakeholders. Figure 5 synthesizes the IPM tool developed by EAVF team during its acquiescence phase to conform to a societal performance management procedure. Included into the fund's overall investment procedure, the tool is first adapted to each portfolio company in order to better fit with the specificity of their activities. During the due-diligence process, a baseline assessment is performed to fill all the indicators. Then, an annual assessment of the investee's activities reviews their main social outcomes related to the promotion of access to energy as a basis for development; economic outcomes in developing local economic activities; and environmental outcomes related to the mitigation of the impact of the company on the environment.

## Managing Societal Performance of Impact Investing

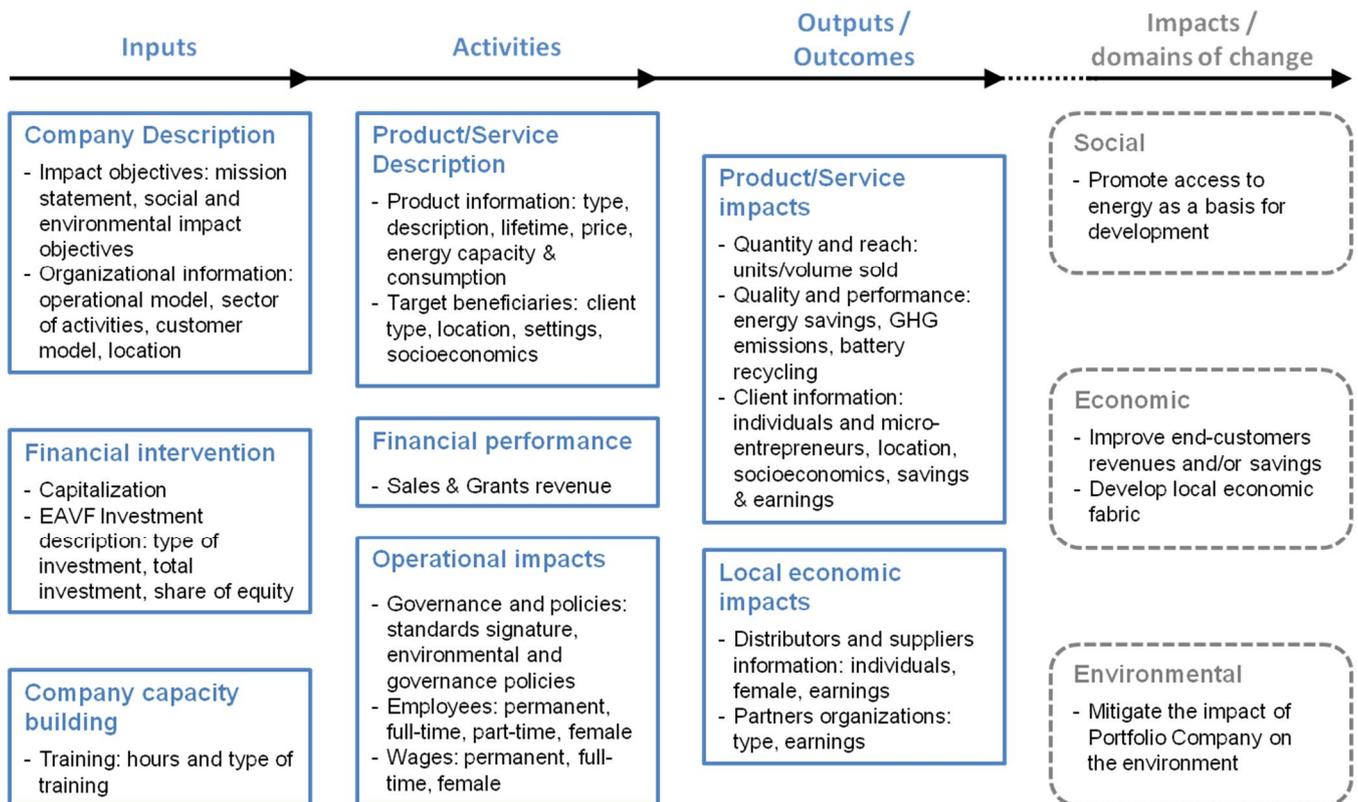


Figure 5: EAVF Impact Performance Monitoring tool

In a second phase, EAVF searched for a *compromise* as a strategic response to the DFIs pressures. The negotiations that took place between the fund and its investors led to inter-organizational arrangements focusing on the Impact Performance Monitoring (IPM) component of the SMP. The fund's managers discussed the relative complexity of the procedure based on their first implementation. They considered it could hinder the business development activities of the portfolio companies, thus potentially limiting the capacity of the investees to generate profits (i.e. low efficiency). The complexity to run the procedure could also imply an arbitrage in the time conceded by the fund's managers to support each of the investees (i.e. moderate consistency). The non-homogenous requirements from each DFI opened a space to negotiate what would be compulsory to report and at what periodicity (i.e. moderate constraint).

The initial Impact Performance Monitoring tool has been well received by the DFIs. Nevertheless, each of them imposed new indicators related to their own reporting requirements. Moreover, while the initial IPM tool was meant to capture the generic impact performance, some of the DFIs required that indicators would be developed for every product that the company might offer to their end-customers. It was agreed that this would be performed only for the products the most sold to limit the complexity. As per the robustness

of the impact performance analysis, two DFIs imposed that baseline assumptions would be documented through ad hoc field surveys if the portfolio company could not provide justification. The EAVF team pinpointed the high cost of such studies, for which the DFIs accepted to bear the cost. Finally, an exact list of indicators was agreed to be compulsory reported, adding a quarterly tracking of a limited number of indicator. While EAVF managers acknowledged their dependence towards the DFIs that somehow limited their bargaining power, they recognize that such a demanding procedure could grant them greater legitimacy towards external rating and certifying bodies. Table 3 describes the evolution of the Impact Performance Monitoring system agreed after the negotiation phase with DFIs.

Table 3: evolution of the IPM system after the compromise phase

	Acquiescence phase	Compromise phase
<b>IPM tool</b>	- Generic indicators to track the overall results of the portfolio companies	- <b>Indicators disaggregated by main products commercialized</b> by the portfolio companies - <b>New indicators</b> requested by DFIs (e.g. number of products returned for replacement, Levelized Cost of Energy, electricity capacity installed...)
<b>IPM system robustness</b>	- Estimation of the assumptions based on existing surveys and studies at the national or regional level	- <b>Documented proofs of the assumptions</b> , based on ad hoc surveys conducted on investees target customers (borne by DFIs when not existing) (e.g. income profile of end-customers, GHG emissions replaced)
<b>IPM procedure</b>	1. Baseline assessment during due-diligence 2. Annual assessments	1. Baseline assessment <b>with documented assumptions</b> during due-diligence 2. <b>Quarterly report</b> to DFIs on 5 key performance indicators (e.g. number of products sold, number of new access, poverty level and settings of customers, number of products returned for replacement) 3. Annual assessments

**5.2. A risk to avoid societal accountability**

Yet the findings also suggest that the contractual SMP procedure can blend in practice with different aspects of resistance . i.e. avoidance, defiance or manipulation. In a near future, there is a potential risk for EAVF managers to *avoid* the DFIs requirements, once they will have sufficient investments experience. As one of the managers stipulates, *Managing the societal performance of the fund requires a full time position that we cannot afford today. I believe that the reality of the field will impose us some shortcuts compared to an ideal*

implementation of the SMP. This could lead EAVF to adopt a symbolic conformity . or in other words to conduct decoupling (Meyer & Rowan, 1977) . by giving only ceremonial commitment to its societal performance monitoring and reporting requirements. The risk in such decoupling would be to impregnate the fund with a %social identity+ in response to institutional pressures from its investors and its stakeholders at large. This would be comparable to a %green washing+ attempt as pinpointed by Hamilton and Gioia (2009). Creating a %legitimacy façade+ increases the risk to enable the institutionalization of misconduct and precipitate a loss of external legitimacy (MacLean & Behnam, 2010). Nevertheless, the inter-organizational arrangements will continue to be discussed throughout the fund's lifetime due to the resource dependency with its investors. EAVF managers consider that the tradeoff between gaining legitimacy and keeping autonomy will be facilitated thanks to periodic discussions and renegotiations of the DFIs requirements.

### 5.3. Balancing societal and financial management

Finally, the research findings discuss the observation of incompatible institutional demands in social enterprises and hybrid organizations (Pache & Santos, 2010, 2013). We might indeed highlight a conflict . or a delicate balance . between profit and societal value creation objectives for the investment managers. Similar to the fund's hybrid logic, portfolio companies have to deliver both societal results and financial profitability. The Societal Management Procedure integrated within the overall investment procedure of the fund consists in a novel form of practices meant to handle such tensions. One manager explains, %We will have to dedicate significant amounts of time and money to ventures that do not deliver societal impacts. But these resources will never be as high as the ones we will have to dedicate to ventures that ensure the fund to reach its financial objective. Generally speaking, the profits you made on one side can compensate the losses on the other.+ In that sense, we could characterize EAVF managers as finance-first investors (Freireich & Fulton, 2009). Such a concern highlights a potential tradeoff from EAVF managers to support their investees either on financial or societal value creation. Nonetheless, the fund's managers recognize that they embed two logics that are potentially conflicting although not incompatible. As an illustration, one of the fund's managers explains, %honestly today as an impact investor, I am considered as a capitalist when I am discussing with NGOs and as an activist when I am discussing with venture capitalists. But we are a new category of players that are capitalists-activists, or the opposite, it's doesn't matter. In fact, those are not contradictory opposites.+ These findings reveal the actual development of %blended hybrid arrangements+(Greenwood et al., 2011, p. 352) within EAVF that can indeed face conflicting logics but not incompatible ones (Battilana & Dorado, 2010; Reay & Hinings, 2009).

## 6. CONCLUSION AND FUTURE RESEARCH

The paper considers impact investing as a research stream within the social innovation field. As hybrid organizations, impact investing funds face two dominant and co-existing institutional logics, namely an investment logic and a development logic. Prior theoretical work and empirical observations on this shared value creation objective are lacking for this nascent industry in particular, and for MNEs corporate responsibility in general. The paper therefore builds onto an action-research partnership with Schneider Electric and mobilizes strong primary empirical data through a case study of the creation of its Energy Access Ventures Fund. Traditional prejudices against case study methods rely on the limited ability to generalize the findings. We acknowledge that they are tied to the impact investing fund we studied. The single case study method however allowed us to explore the phenomenon in-depth. It reveals the development of internal processes . taking the form of a fully integrated societal management procedure . that facilitates the balance between potentially conflicting logics that are no longer considered incompatible.

We wanted to understand how impact investing funds are building their accountability and legitimacy, and more specifically how they are responding to their investors' pressure to manage societal performance. The paper highlights the emergence of cycles of responses in a hybrid organization. The studied impact investing fund primarily consented to adopt emerging beliefs, values, norms and practices of its industry, motivated by a search for salient legitimacy. Building on the combination of institutional and resource dependence theory our findings provide empirical evidence for a more resistive answer to pressures beyond passive conformity. In a second phase, the fund's team faced the complexity to manage societal performance based on first field experimentations and on an increased number of reporting requirements from its investors. They considered it could hinder both the business development activities of the portfolio companies and the overall capacity of EAVF to support them. As a consequence, the fund's team searched for a compromise with its investors by negotiating a limited number of compulsory indicators to be reported periodically and an additional financial and skills support to conduct thorough impact evaluations. It is noteworthy that the fund's resource dependence with its own investors has greatly influenced . not to say prevailed over . the design of its societal performance management and accountability. The findings suggest that the control systems set by the DFIs over the lifetime of the fund appear as a watchdog for EAVF to avoidance of societal performance management.

The study of an impact investing fund during its creation phase helps us to draw some guidelines and recommendations for social innovation actors.

## Managing Societal Performance of Impact Investing

First, and generally speaking, any social innovation ventures are accountable for societal impact, and this has already become a trendy topic among practitioners. Our case study underlines the possibility to develop societal performance monitoring tools rather than long-term impact evaluations. This type of approach is less costly and seems to better fit with business mindsets and routines of ventures targeting social issues. Adopting a performance-oriented approach would also indirectly support the business development activities of the investees, thus limiting their risk profile. As an illustration, performing socio-economic customer surveys helps to better understand and answer to specific social contexts. In turn, the company will improve its marketing actions as a mean to simultaneously maximize its social impact and secure its financial returns.

Second and more specifically pertaining to the impact investing industry, our case study calls for the emergence of standard metrics shared between social enterprises and impact investors. We further highlight that the practical monitoring of societal performance will be highly dependent on the expectations and requirements of the organization that will provide the resources to grow. Discussing and negotiating with its main financiers or stakeholders might therefore help aligning the organization's reporting practices. This would decrease the entry-cost of monitoring societal performance and lower the work load required to report to their investors.

Third, emerging economies' governments and international development finance institutions have been asked since more than a decade to adopt result oriented approaches in documenting the impacts of their policies and investments. As such, the emerging practices of the impact investing industry highlighted in our case study demonstrate promising bridges between private and public sectors.

Fourth, MNEs are increasingly involving towards the base of the economic pyramid as a continuation of their corporate responsibility. As such they are similarly struggling to balance societal and financial returns of their internal BoP initiatives. The processes illustrated in our case study provide some guidelines for MNEs to embed a performance-oriented measurement of societal value creation alongside financial one. Our case study of Schneider Electric and its impact investing fund highlights the opportunity for MNEs to infuse innovation internally by benchmarking business models that successfully balance societal and financial returns. Becoming an impact investor also helped the company to generate extra-financial returns such as image improvement by increasing its intimacy with Development Finance institutions.

Finally, our paper provides some avenues for further exploration. We have highlighted the design and the adoption of societal performance monitoring tools and processes within

EAVFs' overall investment procedure. Further research might study their potential feedback effects on the combined objective of creating societal and financial value. A first step would be to look at the way EAVF or other impact investing funds have appropriated in time their societal management procedures, how they balance their search for legitimacy while keeping autonomy, and whether they have contributed to the evolution of the practices in the industry at large by communicating or interacting with their own investors, co-investors, and stakeholders. Similarly to what has been observed for the Socially Responsible Investing industry (Arjalies, 2013), we might question the risk for financial performance management to prevail over societal one. Secondly, and beyond managerial considerations, an important question remains on the capacity of these impact investing funds . and their portfolio companies . to actually generate simultaneously positive financial and societal returns. Such a condition would ensure impact investing to survive in time. Related to the Corporate Social Performance stream of research, organizational performance could be further studied, especially on the capacity of business models to create societal value, and on the potential trade-off between societal and financial returns. A starting point could focus on economics works studying the complementarities between the various components of societal responsibility and financial performance (Cavaco & Crifo, 2014). This would further enrich and discuss the findings of the first study performed by Evans (2013) on sixteen impact investors, which suggest that contracting strategies enable a strong financial performance without sacrificing impact.

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## APPENDIX

### Questionnaire on institutional antecedents

#### Introduction:

We argue that impact investing is evolving in two types of institutions: an **investing** and a **developmental** institution, which both entail pressures to adopt specific values, beliefs, norms, rules and practices.

Our research question is to examine **how an impact investing fund is responding to institutional pressures and more specifically to conform to a Societal Management Procedure (SMP)**. By SMP we refer to both the ESG management system and the Impact Performance Monitoring system.

To answer this question we will scrutinize the **antecedents** of the pressure related to societal performance monitoring. Oliver's (1991) framework describes 5 antecedents: cause, constituents, content, control and context.

You will be asked to discuss / dwell on 10 of the antecedents dimensions **and** to characterize them as being low, moderate or high.

#### Questionnaire:

##### Cause

Cause antecedent answers **why the fund is being pressured** to conform to societal management procedure rules or expectations.

- **Legitimacy** Please characterize this dimension as **Low, Moderate, High**

Implication of adherence to SMP for the fund's legitimacy, status, or image and prestige? for reputation and risk management in the short and long-term?

- **Efficiency** Please characterize this dimension as **Low, Moderate, High**

Implication of adherence to SMP for the bottom line in the short and long-term? for economic gains, economic rationalizations, technical goals/standards, and/or efficiency in the broadest sense?

## Constituents

%Constituents+antecedent characterize **who is exerting the pressure** on the fund.

- **Multiplicity**

Please characterize this dimension as **Low, Moderate, High**

Implication of adherence to SMP in terms of patterns of demands or expectation vis-à-vis your fund (i.e. clear expectations/prescriptions, coherent norms, compatible demands)?

Implication of adherence to SMP for patterns of interactions with different national or international actors (please provide example)?

- **Dependence**

Please characterize this dimension as **Low, Moderate, High**

Implication of adherence to SMP for your dependence on various external actors/organizations (e.g. certifying bodies, regulatory agencies, multilateral organizations)?

The discretion or ability afforded to comply with or resist the demand associated with SMP as well as the availability of other alternative standards?

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## Content

%Content+antecedent explains to **what norms or requirements** the fund is being pressured to conform.

- **Consistency**

Please characterize this dimension as **Low, Moderate, High**

The degree of fit between requirements/stipulations of SMP and internal fund vision/goals/interests/and aspirations?

The extent to which the expectations of SMP are compatible with internal logic of operations, technical and economic standards, stewardship goals/aspirations?

- **Constraint**

Please characterize this dimension as **Low, Moderate, High**

Implications of SMP for discretion, latitude and autonomy in decision making in relation to fund-environment relations?

The extent to which your fund has retained control in determining its decisions in key areas addressed by SMP?

## Managing Societal Performance of Impact Investing

### Control

%Control+antecedent clarifies **how or by what means** the pressures are being exerted.

- **Coercion**

Please characterize this dimension as **Low, Moderate, High**

The extent to which SMP is considered to be equivalent to the force of law?

The extent to which compliance with SMP is considered to be highly punitive and strictly enforced?

The extent to which compliance with SMP is scrutinized by regulatory agencies?

- **Diffusion**

Please characterize this dimension as **Low, Moderate, High**

The extent to which the norms and expectations of SMP are considered highly diffused, supported, and accepted?

The extent to which the social validity of SMP is by now largely unquestioned, and it has acquired a rule like status in social thought and action?

Views of the number and characteristics of other funds that have adopted SMP, and the extent to which "the contagion of legitimacy" is salient?

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### Context

%Context+antecedent explains **what is the environmental context** within which societal performance monitoring pressures are being exerted.

- **Uncertainty**

Please characterize this dimension as **Low, Moderate, High**

The extent to which the organizational field of SMP is considered highly uncertain, and changes in the field to be rapid and not entirely predictable?

The extent to which there is a perceived need for increased security, stability, and predictability in relation to SMP diffusion patterns and institutionalization?

- **Interconnectedness**

Please characterize this dimension as **Low, Moderate, High**

The extent to which funds adhering to SMP feel inter-connected by values, norms, shared information, relational channels, and coordination mechanisms?

The extent to which adherence to SMP requires coordination and negotiation, regular exchange, and inter-organizational linkages?