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Fund managers acting as impact investors: Strategies, practices, and tensions

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Abstract

Using a multi case-study analysis, we shed light on the strategies, practices, and tensions of fund managers acting as impact investors. Results show that while some fund managers experience tension between the social and financial aspects of specific, although relevant, components of the business model, other fund managers experience challenges throughout the business model. The governance component emerges as the most relevant issue and this may help explain why impact washing is a key topic in the impact investing discussion. Relevant implications for practitioners and policy makers are also discussed.

KEYWORDS

business models, fund managers, greenwashing, impact investing, impact investors, impact washing, sustainable finance

1 | INTRODUCTION

Financial institutions are paying growing attention to corporate social responsibility (Cunha et al., 2020) and to the social and environmental impact of their investments (Matallín-Sáez et al., 2019; Nicholls et al., 2015). Fund managers, in particular, have developed a wide range of investment funds with different risk return profiles and varying degrees of proactiveness toward social and environmental impact (Cunha et al., 2020; Höchstädter & Scheck, 2015). In other words, alongside the mainstream market of responsible funds, a relatively small, but growing niche of market players have begun to launch impact investment funds (Höchstädter & Scheck, 2015). These funds deal with a broad category of investments known as impact investments.

According to the main literature, the intentionality of achieving a measurable social and environmental impact, the target level of financial return, and in turn, the investment criteria adopted are traits that distinguish impact investments from responsible investments (Cunha et al., 2020; Höchstädter & Scheck, 2015), and consequently, impact funds from responsible funds (Findlay & Moran, 2019). The primary goal of impact funds is to achieve a measurable social and environmental impact alongside a not-speculative financial return through investments in, generally unlisted, firms with a social or environmental purpose (Cunha et al., 2020; Höchstädter & Scheck, 2015). Responsible funds, on the other hand, seek financial return in line with the market benchmark, while screening investees according to some social, environmental, and governance criteria (Höchstädter & Scheck, 2015; Renneboog et al., 2008). The terminological discussions in Europe were recently improved by the nascent European regulations on sustainable finance. In particular, the Sustainable Finance Disclosure Regulation dictates greater transparency of sustainable investments, distinguishing, among others, funds that specifically target sustainability goals (article 9) from funds that consider sustainable or social aspects in their investment strategy, though not as specific objectives (article 8 funds). This process, however, is not yet complete given the timeline rescheduling for technical standard adoption (date postponed to 1 January 2023).

Compared to other impact investments, there is relatively little research published on impact funds (Chiappini, 2017; Findlay & Moran, 2019), although these financial vehicles are considered one of the market makers of the impact investment sector (Cetindamar &

Ozkazanc-Pan, 2017; Nicholls et al., 2015; Organization for Economic Cooperation and Development, 2019) and there is a call for a deeper analysis of this industry (Agrawal & Hockerts, 2019; Cetindamar & Ozkazanc-Pan, 2017). Research has paid much more attention to other impact investment products, such as social impact bonds (e.g., Broccardo et al., 2020; Fraser et al., 2018) and the related collaborative business models (La Torre et al., 2019). Similarly, the literature provides analyses on the business models of firms generating the impact, such as social enterprises and social ventures (e.g., Bandini et al., 2021; Lüdeke-Freund, 2020; Margiono et al., 2018; Peralta et al., 2019), b-corporations (e.g., Gazzola et al., 2019; Stubbs, 2019), and banks (Yip & Bocken, 2018), while no study has focused on the business models of fund managers acting as impact investors.

Therefore, this paper intends to shed light on the business models of fund managers acting as impact investors, by specifically investigating strategies, practices, and tensions of firms managing impact investment funds.

We adopt a multiple case study analysis (Yin, 2009, 2014) of Italian firms managing impact investment funds. The focus on Italian firms is relevant given the long social impact tradition in social entrepreneurship (Michelucci, 2016; Defourny, Nyssens & Brolis, 2021; Testi et al., 2017) and in social finance (Rizzi et al., 2018), and the growing relevance impact funds play in the Italian market (Bengo et al., 2021; Organization for Economic Cooperation and Development, 2019; Tiresia, 2019). Furthermore, the focus on non-Anglo-Saxon countries is highly encouraged (Michelucci, 2016) to provide increased knowledge on which factors drive the growth and efficiency of the impact investing industry in contexts characterized by low government commitment (Islam, 2021).

To the best of our knowledge, this paper provides the literature on impact investing and impact investment funds with the first analysis of the business models of fund managers acting as impact investors. Second, this paper contributes to the debate on the state of art of impact investing highlighting the relevance of tensions between the social and financial aspects in the fund managers' business models. Thus, this study may help explain the areas that originate impact washing.

The paper is organized as follows. After the Section 1, the Section 2 analyzes the main literature, the Section 3 describes the research design, while the Section 4 presents and discusses the main findings. Finally, the Section 5 concludes underlining the policy implications, paths for future research development, and the main limitations of our study.

2 | LITERATURE REVIEW

2.1 | Impact investing in a nutshell

Since the institutionalization of the term impact investing in 2007 (Islam, 2021), the interest around this topic has grown significantly, also thanks to the commitment by a set of national and international organizations, such as the Social Impact Investment Taskforce, the related National Advisory Boards promoted by the G7 countries, and among others, the establishment of the Global Impact Investment Network. Alongside the interest of market actors, the assets under management (AUM) have grown over the years (see for instance the annual survey promoted by the GIIN[1]). The expansion of the industry was, however, heterogeneous across the countries and mainly driven by a set of market enablers. For instance, while the government plays a relevant role in fostering the United Kingdom impact investing industry, in other countries, like Italy, the growth was mostly due to a combination of forces by non-profit and for-profit organizations (for an in-depth review, see Islam, 2021).

The academic literature reviews (e.g., Agrawal & Hockerts, 2019; Höchstädter & Scheck, 2015; Islam, 2021) reveal an evolution in the streams and approaches of research, as well as a set of relevant fields. One of the most relevant topics of discussion was the conceptualization of impact investing, since misinterpreting the concept was immediately recognized as a potential limit to market prosperity. Höchstädter and Scheck (2015) specifically note that "a fuzzy concept jeopardizes the credibility of the entire idea, as well as that associated organizations […]. Second, a lack of definitional, conceptual, and terminological clarity may hinder the market growth and broad adoption of impact investing [..] since it makes it difficult for mainstream investors to understand what it is and form an opinion about it".

Beyond the conceptualization of impact investing, a recent literature review by Islam (2021) identifies four main research streams, tackling some more or less original themes: factors affecting the investment decision process, impact evaluations, structure of the industry, and a novel research field focused on behavioral characteristics of investors and investees. Literature reviews, thus, do not specifically identify financial instruments used to realize impact investing (e.g., social bonds, green bonds, or investment funds) as one of the mainstream topics, although more specific reviews recognize, for instance, social impact bonds as a relevant channel and field of study (for a review, see Broccardo et al., 2020).

2.2 | Impact investment funds

The literature on impact investment funds, fund managers or a set of them, such as venture capital impact investors, is still scarce (Barber et al., 2021), however, three main phases of research development may be identified. In a first phase, a longitudinal review of studies (Chiappini, 2017) identified 21 contributions on impact investment funds, including single case study analyses (e.g., GIIN, 2012; Vecchi et al., 2015), multiple case study analyses (e.g., Clark et al., 2013; Rodin & Brandenburg, 2014), and industry overviews (e.g., Cambridge Associated & GIIN, 2015; Mudaliar & Barra, 2015) published in reports, book chapters, and in a handful of academic articles. The main research streams identified by the review concern the conceptualization of impact funds, the role played in the mainstream impact

[1]The GIIN annually promotes a survey providing comprehensive overview of impact investments. For details, see the 2020 report (GIIN, 2020).

investment market, factors that foster the success of impact funds, and a mere description of financial performance.

Then, a second phase of research has seen the emergence of the impact washing theme. The studies by Chiappini (2017), Cetindamar and Ozkazanc-Pan (2017), and Findlay and Moran (2019), although using different conceptualizations of impact investing, overall conclude that impact washing is high risk for the impact fund industry, thus mandatory regulation protecting investors and fostering market growth is desirable.

In a third phase of research development, studies address a larger variety of issues, sometimes connected with the theme investigated during the early phases, using mainstream research methods. For instance, Holtslag et al. (2021) compare the roles played by impact-oriented venture capital funds against traditional venture capital funds in driving a sustainable market transformation, while Geczy et al. (2020) shed light on impact fund contracts, demonstrating that the higher the target financial return, the higher the complexity and stringency of prescriptions on both social and financial aspects. In addition, the research by Barber et al. (2021) points out that financial performance may represent a potential issue, limiting the investments of mainstream investors. Indeed, their analysis, comparing the performance of social impact venture capital funds with traditional venture capital funds, reveals the lower profitability of social impact venture capital funds. Finally, the research by Chiappini et al. (2021) adds to the emerging field of behavioral research investigating factors that potentially limit impact washing and foster stringency of market practices. Findings on an international panel of fund managers reveal that impact leaders with prior experience in blended finance may contribute to strengthening the strategy of impact funds and balancing financial returns with social ones. However, the previous experience of fund leaders does not appear to play a role in the stringency of impact measurement practices.

2.3 | Business model for sustainability and impact investing

How firm business models integrate sustainability practices (Lozano, 2018; Schaltegger et al., 2012; Stubbs & Cocklin, 2008), developing a sort of business model for sustainability (BMfS) represents a prominent field of study. The large body of literature that theoretically frames and empirically investigates the BMfS (Schaltegger et al., 2012; Stubbs & Cocklin, 2008) draw inspiration from the common understanding of business models—how firms do business (Beattie & Smith, 2013; Zott & Amit, 2010) or the "set of choices an organization makes about policies, assets and governance - and their associated consequences – [..] that "determine the logic of the firm, the way it operates and how it creates value for its stakeholders" (Casadesus-Masanell & Ricart, 2010, p. 201). The value proposition, value creation and delivery, and value capture are also taken from the main components of business models (Richardson, 2005).

A BMfS "help describing, analyzing, managing and communicating (i) a company's sustainable value proposition to its customers and all other stakeholders, (ii) how it creates and delivers this value, (iii) and how it captures economic value while maintaining or regenerating natural, social and economic capital beyond its organizational boundaries" (Schaltegger et al., 2016, p. 268).

Furthermore, in line with the Stakeholder theory (Freeman & Reed, 1983), a BMfS aims to consider the broad interest of internal and external stakeholders, not only to create the economic value, but also social and environmental value (Pedersen et al., 2018).

The studies on BMfS have grown significantly with research spanning different sectors, such as energy (Rossignoli & Lionzo, 2018), circular economy (e.g., Centobelli et al., 2020; Fraccascia et al., 2019), food and beverage (Long et al., 2018), fashion industry (Pedersen et al., 2018), financial industry (Yip & Bocken, 2018).

Research has also been done on the BMfS of several firms along the impact investing value chain. Valuable examples of studies on business models for sustainability that target players of the impact investing value chain can be found in those focused on social enterprises and social ventures (Gold et al., 2020; Margiono et al., 2018), b-corporations (Gazzola et al., 2019; Stubbs, 2019), and banks (Yip & Bocken, 2018). In fact, the BMfS can be seen as a relevant issue not only for sustainable or social enterprises, but also for the firms providing financial services. Stubbs (2019) analyzes "strategies, practices and tensions" of a b-corporation offering financial services toward non-profit firms. On the other hand, Yip and Bocken (2018) identify archetypes of BMfS for the banking industry and note the innovative power of sustainable financial products and the related archetype of Business Models. The supply of products such as green bonds, crowdfunding, responsible funds and impact investing is recognized as an important innovation for banking business models. Scholars have also focused analyses on collaborative business models realized around social impact bonds (La Torre et al., 2019), which are one of the most innovative financial instruments in the field of impact investing (Scognamiglio et al., 2019).

There is a lack analyses targeting the innovative BMfS of fund managers acting as impact investors. While a broad range of studies analyzes social venture capital firms (Miller & Wesley, 2010; Scarlata et al., 2016) and tensions related to maintaining the promises of social impact (Cetindamar & Ozkazanc-Pan, 2017), fund managers offering impact investments have received little attention to date. Additionally, the related literature on socially responsible fund managers appears to have few of such investigations, other than a few aspects of fund management practices—such as non-financial disclosures (e.g., D'Apice et al., 2021; Sciarelli et al., 2020). Thus, an in-depth and transversal analysis of strategies, practice, and tensions of firms managing investment funds is currently missing and would offer relevant data to better understand the rationale and practices driving impact funds operationalization.

3 | RESEARCH DESIGN

3.1 | Method

To better understand the business model of fund managers acting as impact investors, we have analyzed four Italian cases by adopting the multiple-case study approach (Yin, 2009, 2014). Multiple-case study analysis is very useful for understanding unknown, complex and messy phenomena (Yin, 2014) and for building a new theorization of the phenomena (Edmondson & McManus, 2007). We considered this qualitative approach as the most appropriate since we do not aim to establish a relationship among causes and effects, but to explain the main characteristics of a specific business model (Yin, 2009).

Although not frequently used in financial research, case studies are a source of "well-grounded, rich descriptions and explanations of processes" occurring in specific contexts (Lee & Tan, 2011) and may be useful in helping align practices in finance to sustainability issues (Lagoarde-Segot, 2019). In particular: "A practical understanding of the functioning of organizations, and an increased awareness for sustainability issues among finance researchers [...] would certainly help the discipline rise to the challenge of sustainability by blending theory and practice in a continual spiral of transformative learning." (Lagoarde-Segot, 2019, p. 8).

3.2 | Case selection

For the purpose of this study, we select four Italian asset managers acting as impact investors. A four case study analysis is appropriate for the exploratory stage when there is limited theoretical development or empirical evidence and the cases included in the research are able to provide rich information and theoretical insights about the phenomena under investigation (Eisenhardt, 1991). Italy is an interesting case for this type of investigation given its strong tradition of social entrepreneurship and social finance (Defourny et al., 2021; Michelucci, 2016; Spear & Bidet, 2005), also seen in the pioneering regulatory framework of social entrepreneurship, benefit corporations, equity crowdfunding, and microcredits (e.g., Nigri et al., 2020; Taskforce on Social Impact Investments, 2014).

The Italian impact investment market, however, is still far from fully developed thus, an analysis of the factors supporting market development would provide valuable insight.

To select the fund managers operating in the Italian impact investment market, we perform an initial screening of the ones intentionally seeking a measurable social impact and a financial return using the most relevant industry reports (e.g., European Venture Philanthropy, 2019; GIIN, 2020; Tiresia, 2019) while eliminating funds that adopt any sort of screening strategies related to responsible finance. Second, to confirm the validity of our case selection we conducted 2 h in-depth interview with three key informants: the director of the Italian Association for the Promotion of the Culture of Cooperation and of Nonprofit (AICCON), representing the most important network of social enterprise in Italy; one of the European Venture Philanthropy Association (EVPA) funders; and the National Advisory Board Community Manager at the Global Steering Group for Impact Investment (GSG), who was previously the Secretary General of the Italian National Advisory Board on impact investing.

Third, according with the information provided by these key informants, for the purpose of this work, we include any investment vehicle that pools capital under a contractual or firm scheme, that is working under the European Securities and Markets Authority regulation, and investing exclusively in Italian ventures. The country-specific view of our study led to the decision of selecting only legal entities investing in Italy.

In the end, our sample (Table 1) includes three fund managers of European Venture Capital Funds (EuVECA) and one fund manager of impact investment funds. The EuVECA funds are established under the EuVECA Regulations (Regulation EU No 345/2013) that aims to facilitate cross-border fundraising through a common rule settings and the reduction of costs associated with authorization and compliance.

The fund managers involvement in the impact investing industry have taken different paths. While one fund manager has a lot of experience in the traditional private equity and venture capital market (Case A), the other fund managers have some experience in impact and social investing thanks to the launch and management of impact funds in emerging markets (CASE B), the support of social firms through an incubator/accelerator (CASE C), and the final one has experience linked with the management of an ethical firm working on impact investing (CASE D).

3.3 | Data collection

The analysis was based on two primary sources of information: (i) in-depth semi-structured interviews of the four asset management companies conducted in July–September, 2020; (ii) a wide range of publicly available materials from the four asset managers' website and company reports collected in October, 2020. Additional publicly available information on the managerial team (average age, education, previous working experiences) were gathered from social media (e.g., LinkedIn) and the company website. The interview participants were the chief executive officer (CEO) or the investment manager of the selected asset manager companies. The interviews ranged from 52 to 88 min in length, with an average interview length of 66 min. Due to the Covid-19 pandemic, all interviews were conducted using an on-line platform (Google meet or Zoom).

The semi-structured interview protocol contained 15 open-ended questions that had been previously discussed with a panel of impact investments experts to identify the main issues of the impact fund industry. The semi-structured nature of the interviews allowed the participants to discuss any other issues that they felt relevant.

Finally, all interviews were digitally recorded and then transcribed to maintain the validity and reliability of our findings.

3.4 | Data analysis

To analyze and summarize the large amount of data collected from the interviews and secondary sources, such as company websites and reports, we developed a coding scheme according to the main characteristics of the business model (Table 2). Two researchers (one senior and one junior) independently performed the coding, while a third researcher validated the final code structure.

TABLE 1 Overview of cases

Case	Year of launch	Legal entity	Duration	Brief description
Case A	2010	SICAF EuVECA S.p.A.	10 years	The first Italian fund investing in Italian companies that builds innovative solutions with a broad social impact and concrete benefits for people and the community. It offers financial support in various areas. It actively participates in the strategic management of companies, with long investment periods and a co-entrepreneurial approach.
Case B	2019	SICAF EuVECA S.p.A.	10 years	An impact fund that provides investment, management and technical support to enterprises that improve the lives of low-income people to bring patient capital to urgent social needs.
Case C	2020	SICAF EuVECA S.p.A.	10 years	An investment vehicle that supports the development and growth of SMEs and innovative startups that have the mission of generating a positive social, environmental and cultural impact on the community.
Case D	2018	LTD	10 years	The fund offers financial and non-financial support to Small and Medium Enterprises (SMEs) with a clear and measurable social and environmental objective. It supports operations of business expansion, consolidation or reorientation of activities, mergers and acquisitions, in particular, for social enterprises.

Note: The launch year is the year the fund manager began operating as an impact investor. The year of formal authorization as a financial institution is earlier: 2006 for case A, 2019 for case B, 2018 for case C and 2016 for case D.
Source: Bureau Van Dijk (2021) AIDA.

TABLE 2 Coding structure

First Order Code	Second Order Code	Aggregate Dimensions
Social, financial, blended Mission	Mission	Value proposition
Social, finance, blended background	History	
CEO experience	Governance	Value creation and delivery
Impact committee or Chief Impact Officer		
Managerial team experience	Managerial Team	
Gender		
Impact-theme	Investment Strategy	
Target investee - Legal entity		
Target investee – Life cycle		
Financing instruments		
Stake		
Investment criteria		
Social-driven investors	Investors	
Financial-driven investors		
Blended driven investors		
Social impact measured and disclosed	Social Impact	Value Capture
Social impact evidence-based		
Financial return in line with market returns	Financial Return	
Not speculative returns		
Returns linked with a social aim		

The first order code identifies and classifies the topics discussed during the interviews and relevant aspects in fund manager webpages and reports, while the second order code grouped the first order codes under uniform categories (Stubbs, 2019). Finally, the third order code reconciles the coding with the aggregate dimensions of business models: value preposition, value creation and delivery, plus value capture (La Torre et al., 2019; Schaltegger et al., 2016; Yip & Bocken, 2018).

The value proposition represents the statement of impact value the fund manager drafts, so it corresponds to the fund mission and its (social, financial or blended) history. How the fund manager creates and delivers value is described in a plurality of aspects ranging from the governance and managerial team to the investment strategy and the types of investors. Finally, the value capture comprises the two main values of impact funds: social impact and financial returns (Table 2).

The following is an example of coding. Discourses around the target impact theme, target investee (legal entity and life cycle), financing instruments, stake, and investment criteria (first order code) were categorized given their similarity in "investment strategy" (second order code), and finally, aggregated in value capture, together with other second order codes representing the dimensions of value creation and delivery.

To guarantee the validity and reliability of our findings, following Stubbs (2019) we maintain the databases of our coding steps and notes on development. All the materials are available upon request.

4 | FINDINGS AND DISCUSSION

4.1 | Value proposition

The value proposition of asset managers acting as impact investors mainly emerged from their mission. As suggested by Cetindamar & Ozkazanc-Pan (2017, p. 261), the mission represents the "normative identity" of a fund manager, shaping "the goal, direction, strategy, motivation, and resource distribution." With the exception of fund manager A, the fund managers used their mission statements to emphasize the instrumental role of finance to support social purpose organizations or more in general, their social and environmental impact: "we provides patient capital investment, technical and management support to social enterprises that improve lives of low income people" (Case B); "we promote the development and growth of innovative SMEs and start-ups whose mission is to generate a positive social, environmental and cultural impact on the community" (Case C); "we invest intending to generate, beyond financial return, a measurable social and environmental impact" (Case D).

Fund manager A, although balancing traditional finance purposes and social impact, seems to prioritize venture capital activities when stating the mission: "venture capital: we invest in each phase of development of the company and assist in the various financing rounds; social impact: we invest in companies that develop solutions to provide concrete benefits for individuals and for society as a whole [..]." This approach was confirmed during the interview where the fund manager A noted the importance of "generating financial value that is equitably distributed between all the stakeholders, consumers, workers and shareholders."

The mission, and more specifically the role attributed to social and financial objectives, seems to reflect fund managers' history, or the origins of the asset management company. Indeed, while fund manager A has many years of experience in venture capital, the other three took their first steps in the social sector. In other words, Cases B, C, and D seem to reflect the initiative from the "bottom"—the promotion of a finance vehicle emerged from organizations experiencing social needs—, while case A represents the impact funds that originate from the "top": impact funds are established by "enlightened fund managers who recognize an evident and increasing demand of investments generating financial return alongside social impact" (Chiappini, 2017, p. 57). On this point, fund manager C declares "we moved the first steps as a start-up incubator. When we understood that providing managerial expertise may be not sufficient for impact start-up, we decide to create an impact fund to provide them also capital."

Thus, to summarize, the analysis of the value proposition has brought to light a fund manager that seems to prioritize financial considerations while investing in social projects and a group of fund managers that prioritize social impact, taking in consideration financial return. Furthermore, these aspects are strictly connected with the fund history.

4.2 | Value creation and delivery

Then we investigate a set of features that, together, represent the way fund managers create and deliver value (Table 2). The first element considered is the governance of fund managers. Looking at CEO experience, we find one CEO with a background in finance (Case A) who argues for both the absolute relevance of financial expertise and the subsidiarity role of social investments, one CEO who is a social expert (Case C), and finally CEOs with a blended profile that combines financial and social experiences (Cases B and D). Our findings are consistent with the research demonstrating that social background is prevalent in philanthropic venture capital funds (Scarlata et al., 2017).

Only one fund manager established an ethical committee to validate the social impact of each investee ex-ante and ex-post (Case D), despite the fact that the presence of an impact committee or, at least, a chief impact officer is a reasonably relevant corporate governance component for a fund manager acting as an impact investor (Chiappini, 2017; Geczy et al., 2020). The lack of a specific governance body able to address impact issues is partially balanced by the presence of an impact specialist on the management team (Case C) or by appointing at least one expert on impact measurement to the investment committee or the advisory board (Case B). Such experts, however, cannot fill the role of identifying a strategy toward social impact and do not oversee the overall impact measurement process, as an impact committee would be expected to do: they play an operational role in the organization, rather than in a strategic one.

Looking at the management teams, not all members have a blended financial profile. In particular, fund manager C appears to have highly contrasting views compared to fund manager A:

"Anyone of us has a blended finance profile. Our financial analyst complements his finance expertise with a huge social sensibility. Such sensibility is beyond social expertise, it involves the cultural and personal social value" (Case C).

"Our team is selected taking in consideration the financial expertise and a set of competences such as communication and marketing. We are not interested in social skills: they can learn about social sector working with us." (Case A).

Considering the gender composition of the management team, women represent less than a third (on average 30% of all managers), with a top management gender gap in line with the gap commonly found in the financial industry (e.g., Birindelli et al., 2019). One fund hired the first woman last year (Case C) and only one of the fund managers (Case B) specifically considers the topic of gender in the investment strategy: "gender's inclusivity is never enough: I am the only key executive woman, although I am the Chief Executive Officer and co-founder of the company"; "in our investment strategy we have a strong gender lens approach, as required by the GIIN Guidelines (2019)"; "we constantly look for females' talents and we always look for at least one woman the team of investees" (Case B).

Looking at the investment strategies put into place by the fund managers, a wide range of aspects is considered, though they do not always have a preferred impact theme: "we have no favourite impact-theme" (Case B), "impact theme do not influence our investment strategy, we rather look at the enterprises itself" (Case A and C), our fund is based on a multi impact-theme approach (Case D). Fund manager C is interested in investing in companies belonging to similar impact-theme (e.g., education, social finance) in order to foster positive social impact in one or more social sectors: "we are managing to create some kind of different sector clusters in order to stimulate synergies among our investees." One of the funds, instead of identifying an impact theme, details target beneficiaries: "vulnerable groups such as migrants, young people or women" (Case B). Supporting several or specific impact themes appears to be in line with previous literature on impact investment funds (Findlay & Moran, 2019; Roundy et al., 2017).

Beyond the impact theme, some fund managers target a specific type of investee, while others do not express any preference (Case B & C) tending "to be agnostic as to the legal form of investee" (Phillips & Johnson, 2021). Among the fund managers that do express preferences, one fund manager invests only in for-profit companies (e.g., stock companies, limited liability companies with impact) explaining that "social enterprises are not scalable or replicable" (Case A). On the contrary, one fund manager prefers social enterprises (specifically cooperatives) noting that they represent the great majority of their portfolio of investee organizations (Case D). The issue of scalability and replicability or social enterprises also emerges in relevant literature (Hazenberg et al., 2015) and relates to issues such as lack of managerial skills (Mendell & Barbosa, 2013) and difficulties in providing good returns for financial investors (Block et al., 2021).

Regarding the firm life cycle, fund managers invest in seed-phase and early-stage enterprises (Case A & B), more mature small and medium enterprises (Case D) or a wide range of social firms including mature investees such as those that have more than 30 years of experience (Case C). Whereas the financing instruments preferred by fund managers are equity and mezzanine finance.

The acquisition of a majority stake in the investee, however, is not a priority for two of the four fund managers (Case C & D), while one of the three fund managers linked such choice to the stage of investee (Case B). Finally, only one fund pursues an investment strategy that considers holding a majority stake in the investee (Case A). The choice of acquiring a minority position is motivated by the desire to leave the investees free to manage the business, without excessive intervention by the fund manager.

When deciding investment criteria, fund managers combine financial and social criteria. On the financial side, the investment criteria are mostly driven by financial viability, completeness of documentation and exit strategy, in line with finance practices and the main literature (Chiappini, 2017; Hazenberg et al., 2015). Fund manager A, in particular, stressed: "the investment criteria could not be different from criteria applied by traditional venture capital. We use the same criteria, but we invest in a different sector, the social sector." Furthermore, for fund managers A and C, the capabilities of the team are as relevant as the traditional financial aspects. In particular, fund manager A declares: "we recently identify another investment criteria: the professional experience of the team. From our practical experience, we understood that cannot evaluate only the project, we need to consider the professional capabilities of the team in which we may invest." This aspect is also in line with the recent findings by Phillips and Johnson (2021) on the financing of non-profit organizations through impact investing, but also with a recent work on screening criteria adopted by impact investors in Germany, Australia, and Switzerland (Block et al., 2021).

On social impact side, one fund manager declares: "no impact, no investment!" (Case B), while another fund uses a comparative analysis of both social firms and their competitors to select high-impact investees: "We invest in social firms if they demonstrate to achieve social impact better than their competitors" (Case A).

Finally, regarding targeted investors, one fund manager mentions the need for a plurality of investors able to support the social aims of the fund (Case B). Another fund manager declares that the investor's purpose does not matter: "if investors provide capital, we will put the impact in the investments" (Case A). Fund manager A notes the strategic need for institutional investors for fund growth, although pointing out that this involvement may happen only when the financial return of the fund is aligned to investors' expectations. Thus, in impact investing spirit, fund managers seem to be mostly looking for financial-driven investors or a plurality of them, instead of socially driven investors. Indeed, impact investments aim at attracting for profit investments and not only donations, as philanthropy does.

4.3 | Value capture

Given that asset managers acting as impact investors plan on both social impact and financial returns, the business model has to reflect these aspects in the value capture. Only two fund managers have implemented a methodology to evaluate and measure social impact ex-ante, ongoing, and ex-post the investments phase (Case C & D). The in-house methodology also contributes to the optimization of costs. However, fund manager C declares "we rarely measure the social impact; mostly we measure a social outcome or social output."

Regarding financial returns, all fund managers have targeted financial returns in line with the market returns. Specifically, one asset manager argues: "We are an investment fund, so we need to obtain financial returns in line with market returns" (Case A). On the other hand, another fund manager points out that high returns cannot be prioritized in this market, since the target investments are not able to provide a speculative returns (Case D). The financial return, however,

TABLE 3 Fund managers business models: A summary of features

Aggregate dimensions	Second order code	Case A	Case B	Case C	Case D
Value proposition	Mission	Blended mission, prioritizing financial goals	Social mission with instrumental role of finance	Social mission, with instrumental role of finance	Blended mission, balancing return generation with measurable and environmental impact
	Fund manager history	Originated from a pioneering fund manager who recognizes an increasing demand of impact investing	Originated from organizations directly experiencing social needs	Originated from organizations directly experiencing social needs	Originated from organizations directly experiencing social needs
Value creation and delivery	Governance	Traditional governance (CEO with expertise in finance; absence of an impact committee…)	Governance paying attention to social impact (CEO with a DNA of a social entrepreneur; presence of an impact measurement expert in the advisory board…)	Governance paying attention to social impact (CEO with both finance and impact expertise; presence of an impact specialist in the management team)	Governance paying attention to social impact (CEO with both finance and impact expertise; presence of an ethical committee)
	Managerial team	Standard managerial team	Team with a blended profile	Team with a blended profile	Team with a blended profile
	Investment strategy	Multi impact-theme approach—Target: profit with purpose—early stage—majority stake	Multi impact-theme approach—Target: profit with purpose, social enterprises, hybrid—early stage—stake depends on target life cycle	Multi impact-theme approach—Target: profit with purpose, social enterprises, hybrid—mix of stage—minority stake	Multi impact-theme approach—Target: social enterprises, in particular, cooperatives—seed stage—minority stake
	Investors	Institutional investors	Plurality of investors, not only the main institutional investors	Plurality of investors, not only the main institutional investors	Plurality of investors, not only the main institutional investors
Value capture	Social impact	Evidence based	In-house methodology for impact measurement	In-house methodology for impact measurement	In-house methodology for impact measurement
	Financial return	In line with market returns	Not speculative financial return. There is a performance fee of key executives to social impact	Not speculative financial return. Financial return not linked to social impact, but some rewards are linked to social impact indicators	Not speculative financial return. Financial return not linked to social impact, but some rewards are linked to social impact indicators

Note: This represents with different colors the traditional finance, blended, and social attitude of impact funds practices. The legend of colors is provided here below.
Finance (or traditional).
Blended.
Social.

is never explicitly linked to the social return realized by the portfolio of investments, even if two of the funds put a premium on impact or a termination clause in the contract linked to social impact indicators (Case C & D):

Furthermore, in line with recent practices of the financial industry, one fund linked a performance bonus of key executives to the social impact achieved: specifically, the managers need to achieve at least 60% of planned social impact to receive the sum (Case B).

The emerging panorama from the value capture analysis of the Italian fund managers does not appear particularly different from what emerged at the international level (e.g., Findlay & Moran, 2019): social impact and financial returns are assumed as necessary, but they are still not integrated. A tailor-made approach to impact measurement is used and is justified by the specific nature of targeted impact-theme, investee organizations, and by the cost needed (and payable) to carry out impact measurement.

4.4 | Summarizing: Are fund managers acting as impact investors in a middle ground?

Table 3 provides a summary of the relevant characteristics in fund managers' business models. The analysis highlights that tensions between the social and financial aspects are already relevant and may be present throughout the business models or in some crucial components. On one hand, fund managers acting as impact investors present a value proposition in line with the mainstream vision of impact investing, though prioritizing the investment nature of funds and the need to meet financial goals and institutional investor expectations. Such fund managers seem to shape the overall business models around this value proposition. Thus, the governance, the managerial team, the investment strategy and the investor target appear in line with a conceptualization of blended finance that prioritizes the financial goals or with the conceptualization of traditional finance: the CEO and managerial team have unique expertise in finance; the impact committee is absent; the investment strategy prioritizes diversification of investments and profit with purpose companies; investors are mainly institutional ones. On the other hand, there are fund managers that explicitly prioritize social missions placing finance in an instrumental role or fund managers that balance the social and financial mission. In this case, tensions relate to specific components of the business model. In particular, while the governance somehow considers the social impact by appointing a CEO with a blended experience, the establishment of a social impact committee is rare. Thus, fund managers acting as impact investors still appear in a middle ground between good practices and areas of possible and desirable improvements.

5 | CONCLUSION

Our study provides an in-depth analysis of the strategies, practices, and tensions of fund managers acting as impact investors and provides important points of reflection. First, the value proposition of a fund manager, in its history and mission, may play a relevant role influencing the other two components of business models: value delivery and value capture. While the scope of our work is not to identify a causal relationship between the straightforward impact of fund managers' business models and their characteristics, our analysis seems to support the possibility of a certain coherence between fund managers' value proposition and the other components of their business models. In particular, when a fund manager comes from a finance background and has a blended mission prioritizing financial goals, the other components of the business model mostly reflect the common future of pure-finance organizations business models. This is in contrast to fund managers that come from the social sector and prioritize social impact. Thus, our analysis expands the current understanding of fund managers through the analysis of their business models, pointing out that an ideal business model has not yet emerged in the industry and different tensions still exist.

Second, our analysis provides possible suggestions for practitioners and investors as well. The social impact should not remain just as an issue of value proposition, but it should be carried throughout all the components of the business model. In particular, the governance and the managerial team should present some distinctive traits differentiating fund managers acting as impact investors from traditional fund managers. This could be the case for a CEO with blended finance experience or the establishment of an impact committee. The impact committee should be posed at functional level in the hierarchy to identify and oversee the opportune social impact strategies. Thus, strengthening the impact strategies should be a strategical issue and not simply an operative one. For this reason, the presence of an impact manager with specific skills in social impact, rather than a specific figure reporting to the CEO or the board of directors does not appear particularly different from what any type of fund managers do. In our opinion, such challenges somehow help explain why the theme of mission-drift (Bruneel et al., 2017; Cetindamar & Ozkazanc-Pan, 2017) is still relevant in impact investing and if addressed, it may push forward a concrete cultural shift.

Similarly, the investment strategy of fund managers acting as impact investors presents some constraints mostly linked with the investee readiness. Despite the long tradition of social businesses, social enterprises do not appear to be appealing enough for (impact) investors. They are not aware of the impact produced and not able to bear the cost of the impact measurement, even if tailor-made measurement practices are adopted. A key role could be played by universities, business school and incubators which can act to develop social and entrepreneurship skills of a new generation of social enterprises, and support social enterprises currently working in the impact investment sector. Although this issue is not completely new to either the Italian impact investment market or the rest of the impact scene (e.g., Mendell & Barbosa, 2013; Hazenberg et al., 2015), the ongoing debate demonstrates that it still represents a relevant and unmet need.

The public sector may also have a relevant role both as a direct or indirect partner and as a market developer. As underscored by different fund managers, the joint investment of institutional investors and government agencies may be positive to fostering the growth of impact funds, and through it, supporting the growth of the social impact sectors. Similarly, government bodies could play a crucial role in regulating the business areas of impact investing still searching for specific regulation. This may, in turn, bring about positive effects reducing the opacity of the market, which is highly recommended at the international level (e.g., Findlay & Moran, 2019).

The main limitations of this work are linked to its case study nature, which restricts the external validity of the results. Even so, the cases selected allow us to explore certain elements and dynamics within a constrained comparative approach.

Further investigations could focus on cross-country analysis to expand understanding of the prevalent business model in the impact investing market. Similarly, future research could also investigate the relationship between the fund managers' business model and the social and financial performance achieved, quantitively strengthening the evidence from qualitative methods.

Finally, future studies could expand our analysis by combining the investigation of impact-oriented and SRI-oriented business models of fund managers: what are the significant differences in their practices?

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