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Intentionality and Decision-Making in Impact Investing—Understanding Investment Motivation and Selection Criteria of Impact Investors

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Abstract: The opacity of the impact investment decision-making process is one of the main constraints hampering further growth in the impact investing ecosystem. This paper takes a differentiated view on why (investment motivation) and how (investment decision criteria) the major private impact investor types allocate funding to investees. We incorporate insights from 34 interviews with the five major impact investor types: social business angels, foundations, social banks, impact investment funds, and crowdvesting platforms. We find that motivation and decision-making significantly differ between the impact investor types, especially concerning strict vs. ambiguous impact definitions, active vs. passive investment approaches, and return requirements reaching from capital preservation to market-driven returns. By providing a differentiated overview of the investor type-specific motivations and most important investment criteria, our study offers social entrepreneurs a roadmap to identify the most appropriate impact investors for their business model.

Keywords: social entrepreneurship; social capital; impact investment-decision; investor motivation

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1. Introduction

Social enterprises focus on tackling societal and environmental problems that are given insufficient attention by the conventional public and private sectors [1–5]. As socially and sustainability oriented companies continue to emerge, the field of investors with a focus on such companies is constantly increasing, including business angels, philanthropic donors, impact investment funds, and social banks [2,6–8]. They generally deploy capital in small- and medium-sized social enterprises seeking social and financial returns [9–12].

Over the past years, the impact investing market saw a boost in overall market size, with assets under management (AUM) exceeding USD 1 trillion for the first time [13]. Having emerged as an en-vogue field, social entrepreneurship and impact investing now have considerable growth potential. However, that potential is still partly curtailed by the structural deficits typical of relatively young fields. Researchers and practitioners have identified two main constraints of the growth of the social entrepreneurship market: the lack of proven social business models and the opaque matchmaking process between impact investors and social enterprises [14–16]. Given that little is known about the investment processes of the different types of impact investors, social enterprises lack knowledge about which investor type might fit their respective business model or framework.

From a theoretical perspective, Agrawal and Hockerts [17] mention in their literature review that 'there are many definitional and terminological ambiguities [in recent works on impact investing]'. (p. 3). Furthermore, there seems to be a lack of conceptual research distinguishing impact investing from more conventional forms of investing, such as venture capital, SRI, or venture philanthropy [17]. In addition, Casasnovas and Jones [18] call for research to develop a more bottom-up understanding of impact investors' intentions drawn from investment motivation and decision-making processes.

To address this, a comparative study regarding the particular investment motivation and criteria of the different types of investors is essential to provide insights to improve the matchmaking process between social enterprises and investors. Moreover, a more nuanced understanding of how the different types of impact investors define 'impact' properly frames their investment scope. This information allows social enterprises to determine which investor type best suits their business model and impact focus. This study considers the investment motivation and criteria of all the major private impact investors, namely (1) social banks, (2) impact investment funds, (3) social business angels, (4) foundations, and (5) crowdinvesting platforms.

We engage with the research question of why different types of impact investors decide whether or not to invest in a company, how this investment decision is taken, and how both differ between the five major private impact investor types. Our study is based on data from 34 interviews with representatives of the five impact investor types. This study's aim and research contribution are twofold: First, we contribute to a nuanced differentiation between traditional venture capitalists, socially responsible investors, and impact investors by showing how the investment motivation and importance of 'impact' differs between the five investor types. Second, our study helps social entrepreneurs identify the most appropriate impact investors to approach.

The remainder of this paper is structured as follows: We first lay the theoretical foundation for a comprehensive understanding of the different actors in the impact investment scene. We then explain our methodological approach, followed by our main findings. We conclude with a summarizing overview of the investment criteria that each investor type regards as ultimately decisive.

1.1. Impact Investing and Main Actors

Over the past twenty years, there has been considerable research interest in social enterprises and their investors, namely impact or socially responsible investors. These investors generally deploy capital in small- and medium-sized social enterprises aiming for social and financial returns [9,10,12,19].

Impact investors' general investment motivation creates social and environmental impacts and a financial return [20–22]. Impact investors thereby focus on the active generation of measurable social or environmental impact alongside financial returns. On the other hand, socially responsible investors (SRIs) solely integrate ethical considerations into their investment decisions through positive or negative screening, aiming for competitive financial returns while adhering to ESG criteria [23]. Impact investors' placement on the investor and grant-giving spectrum lies somewhere between philanthropic donors and solely profit-driven venture capitalists [2,24–26]. Impact investors borrow from the logic of the two extremes of the investment spectrum. On the one hand, they place high importance on the general generation of impact or social value, as is characteristic of philanthropic donors [27–30]. On the other hand, as Höchstädter and Scheck [8] point out, impact investors, like their profit-driven counterparts, require a financial return. However, according to the literature, the extent of this financial profit appears to vary significantly, ranging from below-market returns to returns comparable to those generated by non-impact investments [10,31,32].

To further categorize the impact investment landscape, Michelucci [33] classified the investor types into two superordinate categories: direct investors and intermediaries. The former comprises investors such as social business angels and foundations, providing their funds for direct capital injections. Intermediaries include social banks, impact investment funds, or crowdvesting platforms; these entities function as facilitators between investors and social enterprises, pooling capital from various sources to invest larger tickets [34]. Table 1 gives an overview of the five categories, which we will discuss further.

Table 1. Impact investor types.

Category	Investor Type	Definition	Origin	Mission
Direct Investor	Social Business Angel	Experienced entrepreneurs or investors providing funds and knowledge to socially oriented enterprises [35].	Traditional angel investors; former social entrepreneurs	Combining social value creation with financial profits via own knowledge and funds [36].
Direct Investor	Foundation	Stewards of capital endowed to advance social and environmental value creation [37].	Philanthropic organizations	Establishing large and impactful organizations that can sustain long-term [38].
Intermediary	Social Bank	Financial institutions offering financial products and services to achieve equal financial, environmental, and social returns [39].	Traditional commercial banks	Matching social investors with social or environmental projects and enterprises [40].
Intermediary	Impact Investment Fund	Social and environmental cause-focused investment funds expecting financial and social returns [36].	Traditional investment or venture capital (VC) funds	Providing VC to support profitable social enterprises [41].
Intermediary	Crowdvesting Platform	Platforms enabling individual investors to invest equity or debt in social enterprises [42].	Crowdfunding and crowdgiving platforms	Provide social enterprises access to unbureaucratic and easily accessible capital [29].

1.1.1. Direct Investors

Social Business Angels

Usually drawing on their own financial means, angel investors can be allocated to the direct investor category [43]. Business angels are mostly seen as high-net-worth individuals directing equity or equity-like debt, knowledge, and support to young enterprises [27,30]. Social business angels provide financial and non-financial support explicitly directed at social enterprises [35]. Unlike their traditional angel investor counterparts, social business angels see their investments as 'a source of social value creation' [36] (p. 500). Financial returns are still required, but they function to scale the overall impact rather than maximize personal economic utility [35,43].

Foundations

Foundations usually invest their endowment capital directly into social enterprises, which qualifies them as direct impact investors [44]. Rizzi, Pelligrini, and Battaglia [37] describe foundations as actors 'at the heart of social finance' (p. 814) who use their endowed capital to stimulate social and environmental value creation. Their mission can be described as assuring the establishment of larger impactful organizations that sustain themselves long-term without constant recourse to grants and donations [38]. Ultimately, the foundation's aim is to pursue and preserve its essential fiduciary duty and to further its core purpose and mission [45].

1.1.2. Indirect Investors

Social Banks

Cornée and Szafarz [40] generally define social banks as financial intermediaries that adhere to traditional banking practices while exclusively serving socially minded investors and value-driven borrowers [46]. Yet, as Baumgartner [47] describes, social banks remain subject to the same legal regulations as their original commercial counterparts in most countries. Krause and Battenfeld [39] and Paulet, Parnaudeau, and Relano [48] identify the motivation of social banks as the feature that differentiates them from commercial credit institutes: their aim for equal financial, environmental, and social returns.

Impact Investment Funds

Roundy et al. [36] delineate impact investment funds as intermediaries who strive for financial benefits and social returns by investing equity or mezzanine capital into social enterprises [12]. In their attempt to distinguish between socially responsible and real impact investors, Findlay and Moran [16] describe impact investment funds as originating in the traditional or venture capital investment scene. They further characterize the fund's motivation as intentionally 'doing good'; thus, they differ from SRI and commercial investment funds, which, if any, are known to invest with impact and embellish themselves with single ESG investments to minimize harmful externalities. For these investors, impact generation would be, at most, a side effect of the investment.

Crowdinvesting

Crowdinvesting platforms function as intermediaries, enabling individual investors to invest equity or debt in social enterprises [42]. They aggregate large numbers of individuals who share common beliefs and values and are willing to invest small amounts in a project or young company [49]. A platform's motivation to position itself as an impact-investing intermediary is described by Lehner and Nicholls [29] as the desire to overcome the bureaucratic hurdles set by institutional investors and provide easy access to social capital for social enterprises.

Other than experienced institutional investors, crowdinvestors often have a nonfinancial or non-economic background and thus tend to focus less on their investees' financial returns or business plans [42].

2. Materials and Methods

Our study follows an inductive approach aiming at a holistic and comparative overview of the investment criteria of the different types of private impact investors. While previous research partly discusses isolated investment criteria, we aim to explain the interdependencies between them, why they are used in the first place, and how the different investment motivations shape them. Qualitative data allows us to discover holistic sets of investment criteria of various impact investors. More importantly, we aim to discover the process of how investment criteria are shaped and how investment motivations and investment criteria are associated. Qualitative research is especially valuable in these process-based and often subjective settings [50]. Gathering qualitative data from semi-structured interviews allows us to identify the ultimately decisive investment criteria for different kinds of investors and to discover the underlying influencing factors and peripheral aspects.

2.1. Data Collection

We divided the data collection process into three phases. First, we screened the investor landscape in Germany, Austria, and Switzerland for actors identifying with and allocating themselves to the impact investment scene. To increase the materiality of our study, we decided to include a wide range of investor perspectives, ranging from institutional investors such as impact investing funds to individual investors like social business angels. To ensure a common denominator for "impact" investors, we selected most investors from known impact investing networks like Impact Europe and Impact Assets. Second, we contacted all the actors identified in phase one via email, LinkedIn, and phone calls. Third, we collected the primary data by conducting 34 interviews via phone and Skype in German and English. Each interview took between 40 and 90 min. Since the interviews focused on discussions about the investee selection process, interviewees were selected based on their involvement in these investment stages. As our interviewees represent impact investors of different sizes, the interview partners could include C-level management in case of smaller investors or lower hierarchy levels in case of larger impact investors. Table 2 provides an overview of all interview partners.

Following a replication logic, interviews continued to be conducted until the unique marginal information added was scant in that most of the responses merely confirmed already established patterns [51].

A semi-structured questionnaire was prepared and used as a reminder for essential subject areas to cover. Since we wanted to avoid narrowing the response spectrum too much, we formulated the initial questions as broad as possible and specified follow up questions based on the responses.

The first part of the conversations comprised context questions intended to characterize the respondent and help place their later responses concerning investment criteria into a broader perspective. These included questions about the interviewees' professional background and investment motivation, such as "What are your underlying goals when investing in portfolio companies? How would you describe your main investment motivation?". Further, questions like "How would you define the terms 'social entrepreneurship' and 'social impact'" were included to verify sample validity. Lastly, questions were asked regarding the general business or investment framework, the definition of impact, and relations to potential third-party stakeholders.

The second part of the interviews focused on the investment criteria that were generally required and applied. We included general questions like "Based on which criteria do you decide whether to invest in a company?", and more specific questions such as "What kind of rate of return do you expect from your investments". All questions were followed up with questions asking for "how" and "why" elaborations. Investors were encouraged to specify their investment criteria to choose among potential investment targets. All interviews were digitally recorded and transcribed.

Table 2. List of interviewees.

Interview Partner	Country of Origin	Investment Focus	Position of Interviewee
CrowdPlat01	Germany	Global	CEO
CrowdPlat02	Germany	Global	Head of Communications
CrowdPlat03	Germany	Global	CEO
CrowdPlat04	Switzerland	Switzerland	CEO
Found01	Germany	Global	Project Manager Impact Investing
Found02	Germany	Global	Head of Corporate Responsibility
Found03	Switzerland	Global	Senior Associate
Found04	Austria	DACH	Impact Investment Manager
Found05	Germany	Germany	Director Corporate Engagement
Found06	Germany	Germany	Investor Relations
ImpactFund01	Germany	Global	Head of Sustainability Department
ImpactFund02	Germany	Europe	Investment Manager
ImpactFund03	Germany	Global	CEO
ImpactFund04	Switzerland	Global	CEO
ImpactFund05	Germany	Global	CEO
ImpactFund06	Germany	Europe	Investment Manager
ImpactFund07	Germany	Global	Managing Partner
ImpactFund08	Switzerland	Global	Investment Manager
Network01	Germany	Germany	Coordinator
Network02	Germany	Germany	Head of Impact Investing
Network03	Germany	Germany	Regional Group Leader
Network04	Germany	Germany	Regional Group Leader
SocBank01	Austria	Austria	Head of Corporate Responsibility
SocBank02	Germany	Europe	Head of Impact Transparency and Sustainability
SocBank03	Germany	Global	Lector for Ethics and Sustainability
SocBank04	Germany	Europe	Sustainability Manager
Angel01	Germany	Global	Angel Investor
Angel02	Germany	Germany	Angel Investor
Angel03	Germany	Europe	Angel Investor
Angel04	Germany	Europe	Angel Investor
Angel05	Germany	Europe	Angel Investor
Angel06	Germany	Europe	Angel Investor
Angel07	Germany	Global	Angel Investor
Angel08	Germany	Europe	Angel Investor

2.2. Data Analysis

We used inductive theory building to analyze our data, the central element of which is coding large amounts of textual data and finding relationships within the data [52,53].

We used the research software Atlas.ti (version 9.1.3) to analyze our data, which is especially suited for structuring and coding large amounts of qualitative data. An initial thorough scan of the interviews enabled the first observations to be structured and segmented into 17 codes, which label and categorize similar topics, ideas, or concepts in the interviews [54]. The primary codes included broader concepts such as *investment criteria*, *return expectations*, *investment motivation*, *definition of impact*, *relations to potential third-party stakeholders*, and *applied performance indicators*. From this, a shift from a fragmented approach toward a more holistic view across documented groups could be achieved. Secondary codes categorized primary codes into granular sub-concepts such as specific investment criteria like *team composition*, *company fit with investor profile*, *business model*, or *overall financial performance*. Lastly, the quotations to all primary and secondary codes were allocated to the respective impact investor group to highlight differences in investment motivation and selection criteria among investor types. After coding all documents for the first time, each code's initial description and meaning were reviewed, and all documents were examined for a second time to eliminate potential allocation and interpretation errors [52]. The 'investment criteria' code was broken down into secondary codes covering specific sub-groups of investment criteria and re-allocated to the five document groups.

These steps generated five networks for each of the examined investor types. Each network contained quotations from the respective interviewees related to investment criteria; these contradicted or supported other quotes from that same investor type. Finally, quotations concerning investors' motivations to invest, their definition of impact, and their relations to potential third-party stakeholders were allocated to the network to check for further interrelations. Thus, a holistic view of the investment criteria of all five investor types could be established.

Lastly, to increase the external validity of our data, we triangulated responses using publicly available data from investors' websites and news articles. In addition, we conducted five interviews with impact investing consultants and impact investing networks to cross-check the criteria built up from our first- and second-order concepts.

3. Results

The literature has shown that impact investors' investment decisions are subject to two key influences: their original background (e.g., an impact investment fund may have emerged from a former VC fund) and their investor status (direct investor or intermediary).

Based on these assumptions, we have found that investment decisions have two categories of drivers: venture capital-driven aspects and impact-driven factors. Overall, seven main criteria could be observed in the data, of which Financial Sustainability was mentioned most frequently, as summarized in Table 3.

Table 3. Descriptive statistics.

Category	Investment Criteria	Coding Frequency in All Interviews
Venture capital	Financial Sustainability	40
Impact driven	Impact Rigor	26
Venture capital/impact driven	Business Model Integration	17
Venture capital	Financial Return Potential	11
Venture capital/impact driven	Investment Involvement	26
Venture capital	Investment Tenure	24
Venture capital/impact driven	Founding Team	21

Table 4 shows the individual definitions of the seven investment criteria outlined during the interviews.

3.1. Financial Sustainability

Paramount to all investors is the definition of their engagement as an 'investment', which is perceived to be different from grant-making or other forms of philanthropic giving. The funds invested should, at some point, be at least recouped. As ImpactFund02 states:

> *It must be a profitable, scalable business model and funded not solely by donations.*

Financial sustainability is also seen as a facilitator to ensure that the addressed impact can be sustained long-term, as explained by Found02:

> *As an investor, you [. . .] want to ensure that the investment you make [. . .] and which is intended to achieve a certain impact can also exist in the long term and that a business model can be sustained accordingly.*

Others regard their investees' financial sustainability from a reputational point of view, taking into account the influence of institutional norms and regulators and external stakeholders' expectations towards own investment behavior.

> *They [the investees] have to be set up properly and financially planned well. If we did not review this, we would not be complying with our duty of due diligence. (CrowdPlat01)*

Similar notions can be found at foundations that see financial sustainability as part of their investment criteria to fulfill their fiduciary duty toward their endowers and to ensure long-term impact generation. On the other hand, social banks explain their focus on financial sustainability by the strict institutional and regulatory norms in which they operate.

Table 4. Investment Criteria.

Financial Sustainability	**Impact Rigor**	**Business Model Integration**	**Financial Return Potential**
Venture Capital	Impact Driven	Venture Capital/Impact driven	Venture Capital
We monitor these companies to see whether they are economically viable. None of the [. . .] investors want to lose their money. - ImpactFund07	A positive contribution [must be] made to a social problem. - ImpactFund02	Implementing a sustainability project can only work if you make it financially sustainable. - ImpactFund03	For me, there is no discount on the financial return. - ImpactFund04
Initially [. . .] we screen the financial framework of the customer or the project, whether this is profitable at all. - SocBank04	[The improvement] should [. . .] be seen in terms of a fundamental improvement in the livelihoods of many people. - Angel04	We make sure that the impact is inherent in the business model. - Angel04	In social banking, we consciously forego returns, meaning we do not want to maximize them. We are content with a lower return because we intentionally wish to promote the individual purpose. - SocBank01
We intend to invest in companies that can live off their revenue in the long term. - Found04	We are an investor focused on absolute poverty. That means we want to see a positive impact on people living in absolute poverty. - Found03	If [. . .] the business model does not work [. . .], the impact would not be generated either. Impact and revenue must always correlate. The more revenue our companies generate, the higher the impact must be. If this is not the case, the impact will not work long term. - Found04	The approach is often to look at the best investment to preserve the endowment capital [. . .]. - Found05

Investment Involvement	**Investment Tenure**	**Founding Team**
Venture capital/impact driven	Venture Capital	Venture capital/impact driven
Another point is exercising our voting rights during shareholders' meetings. - SocBank03	It is 7–12 years for equity investments, and we would try to exit after years 7, 8, or 9 [. . .]. For long-term debt financing, it is 5–10 years. - ImpactFund04	Of course, the founders' motivation also matters to us. [. . .] we want founders to see themselves as entrepreneurs, but also to have this impact, this mission drive. - ImpactFund02
Essential for me is: Where can I have the most influence? Where can I help to convert a vision to life? At bigger companies, my influence is relatively small. - Angel01	For us, this is of secondary importance. We are designed for eternity. - Found01	[. . .] assess whether these are clever people, whether this is a good business model and whether the team has understood that it also needs professional structures. - SocBank02
[. . .] if the impact is exciting, but the business model may not be mature yet, we work out a new business plan with the management or revise it. - Found04	We have the whole spectrum from 12 months to 10 years. It depends entirely on the project. But the average is four years. - CrowdPlat03	The team has to show execution ability. - Angel02

3.2. Impact Rigor

According to the interviews, there is no standardized definition of 'impact', nor do the different investors give equal value to the importance of impact within their investment criteria. For example, foundations tend to put the highest priority and rigor in defining impact. As Found02 reports:

> *The [company] should aim to achieve a substantial impact on its target group. It should be recognizable in the business plan or roadmap, with which measures this effect is to be achieved.*

Others assess the 'impact' category by following a multi-stage approach:

> *Initially, companies are selected based on positive criteria. [. . .] In the second step, the companies are rechecked [. . .] based on negative criteria. [. . .] And we also follow a best-in-class approach.* (SocBank03)

Some investors, such as social business angels and crowdinvesting platforms, give impact a fairly broad definition as a positive effect in a broadly defined field or target group that often falls within one of the sustainable development goal (SDG) pillars (Angel08).

3.3. Business Model Integration

The focus on investees' financial sustainability and impact rigor has shown that impact investors' portfolio companies should strategically plan to integrate both aspects. For foundations, impact investment funds, and social business angels, in particular, this is described as 'business model integration':

> *We look at whether the company has a realistic path-to-profitability and whether impact generation is inherent in the business model.* (Found03)

Ideally, therefore, a direct correlation between financial success and impact generation should be ensured, as ImpactFund04 explains:

> *The more revenue we generate, the more impact we have. That should be a logical relationship.*

However, the call for an integrated business model is not characteristic of all investor types. For crowdinvesting platforms and social banks, business model evaluation is only relevant to assessing capital longevity and client ratings.

3.4. Financial Return Potential

As shown above, besides a certain degree of impact generation, all investor types require a financially sustainable business model, generating an inevitable financial return. The exact return requirements start at inflation compensation (Angel08) and capital preservation, as Found04 explains:

> *So we would be content if we receive the money back at some point.*

Especially for intermediary investors, the required financial returns can add up to 5–7% (CrowdPlat01) or even more:

> *Today, our investors expect between 6% and 17% net return.* (ImpactFund01)

Impact investment funds, in particular, thus demand a return that is comparable to that required by traditional investment funds. ImpactFund02 explains that as to:

> *[. . .] attract more traditional capital. We want to show that philanthropy is not the only way to do things in this area, but it is possible to generate returns.*

3.5. Investor Involvement

Like traditional venture capitalists, several impact investors have clearly expressed requirements for an active investment approach; they regard their investment as securing a direct or indirect influence on their investees' operations:

We see ourselves more as an active investor. We want to have a say at the shareholder level, and we want to have at least a veto on major decisions in the operating business. (Found04)

For most investors, this can be described as active coaching (ImpactFund04), where actions may be geared toward the development and refinement of the business model (Found04), the development of a key performance indicator and impact measurement system (ImpactFund01), and the facilitation of sales and funding processes by opening their network (Angel03). From traditional investment theory, these notions are known as the resource-based view (RBV) theory, in which investors allocate own financial, social, and intellectual resources to create competitive advantages for their investees [55].

The reasons for requiring active influence on investees' operations differ. Foundations report aiming to further accelerate impact generation and long-term stability (Found04), whereas for social business angels and impact investment funds, maintaining a direct influence serves to implement business-related processes and ensure stable business development.

The main motive of a normal angel is to go in, believe in the idea, help to build the company, and then sell it again—most of this is also the case with impact angels. (Angel03)

However, investor involvement does not automatically imply close counseling or coaching. Due to capacity limitations, social banks and crowdinvesting platforms report minimal efforts during the investment period (CrowdPlat02).

3.6. Investment Tenure

Based on the interviews, impact investors reportedly target specific timelines and tenures for their investments. Investees' lifecycles vary, starting from early-stage investments when investors' '[. . .] influence is relatively strong, until Series A' (Angel02).

Foundations and impact investment funds have a similar focus, covering portfolio companies from pre-seed to Series A. Established portfolio companies or those in the market-entry phase are among the investment universe of social banks:

We tend to invest in more mature companies, which then simply need [. . .] capital again to secure their business model. (SocBank02).

Similarly, the interviews reveal that impact investors target a variety of investment tenures. The reported investment periods include short-term investments of up to three years until the portfolio company matures (Angel02). Others tend to cover rather mid-term tenures, as Found03 reports:

Our investment period is usually 5–7 years.

Impact investment funds and social banks seek mid-to-long-term investment periods, looking at seven to twelve years for equity investments (ImpactFund04).

3.7. Founding Team

Founders or founding teams are especially crucial to traditional venture capitalists' investment decisions. Impact investors emphasize similar notions, as CrowdPlat03 describes:

[. . .] the people involved and their track record are crucial. It is important to see where the people [. . .] come from and what their goal is.

The founding teams' aptitude is directly relevant and decisive within the investment criteria. In this context, the founders' influence on the investees' financial sustainability is particularly highlighted.

[. . .] we look in particular at the execution capability of the team and the influence on the economic viability. (Found03)

In addition, as impact generation is one of the main aspects differentiating social enterprises from traditional ventures, understanding the founders' motivation to launch a company and follow a specific impact in the first place is considered crucial, as Angel03 explains:

What drives a founder who identifies very strongly with an impact idea? What is the personal motivation to commit so strongly to a particular topic?

4. Discussion

The opaque matchmaking process between the different types of impact investors and their investees has been identified as a major obstacle to the faster growth of the impact investing market [16]. However, while studies such as Achleitner et al. [31], Lehner and Nicholls [29], Mair et al. [38], and Roundy et al. [36] have engaged with the selection criteria of single investor types, no study gives a comprehensive overview of all the relevant private impact investor types.

Overall, seven investment criteria can be identified based on the interviews conducted in this study. However, differences in the relevance of the individual investment criteria for each of the five investor types are visible, as illustrated in Table 5.

Our findings support previous literature in that all types of impact investors require an inevitable financial return [12,35]. However, we show that the underlying investment motivation and the respective influence on the investment criteria, such as financial stability and financial return potential, vary greatly between impact investors and traditional venture capitalists.

4.1. Impact Investment Funds

Since impact investment funds mainly originate from traditional investment or venture capital funds, they focus on economically driven investment criteria, such as investees' financial sustainability. This seems to be impacted by an investor's simple desire to reduce losses.

Findlay and Moran [16] have drawn a somewhat blurred image of impact investment funds' definition of impact, relating it to intentional investments to make a positive contribution. Similar general definitions and assertions about the importance of impact in the investment decision process can be drawn from our interviews. However, impact investment funds' reported prerequisite of an integrated business model, ensuring parallel development of impact and financial return, adds new insights to their investment criteria.

Unsurprisingly, intermediate investors, such as impact investment funds, place the highest expectations on potential financial profits. With return requirements ranging from 6% to 17%, the interviewed funds reveal higher expectations than even Palandjian et al. [56], who found varying return expectations ranging from capital preservation to market returns. However, other than traditional venture capital funds, the underlying motivation for these relatively high return requirements is the intention to attract additional impact capital from traditional investors, as ImpactFund02 explains.

At least partly, the founding team's aptitude also seems to play a decisive role in the overall investment process of impact investment funds. However, while Achleitner et al. [31] and Scarlata and Alemany [11] specifically mention the entrepreneur's integrity, reputation, and voluntary accountability efforts as decisive criteria for impact investment funds, we have found an assessment limited to the founder's motivation and execution ability. Practitioners might benefit from these findings by transparently communicating their financial return expectations and success stories to investees and traditional sources of capital to contribute even more to the missing matchmaking process in the social entrepreneurship ecosystem.

Table 5. Investment criteria per investor type.

	Impact Investment Fund	Social Banks	Social Business Angels	Foundations	Crowdvesting Platforms
Financial Stability	Essential to prevent complete capital loss.	Important to comply with banking regulations.	Important to show that investee can survive.	Important to ensure capital preservation and maintain impact in the long run.	Essential to ensure platform's duty of diligence.
Impact Rigor	Impact defined as positive contribution to a social problem, evaluated at outcome level.	Impact relative to industry standards, not in absolute social contribution (negative positive, best-in-class).	Impact defined as positive effect in SDG fields. Impact evaluation on output or outcome level.	Impact should target root cause of social problems for distinct target groups. Evaluation on outcome or impact level.	Investee should show some type of impact and positive contribution to be evaluated on the iooi's output level.
Business model integration	Important to ensure long-term success of financial and social factors.	Not ultimately required.	Important to ensure long-term success of financial and social factors.	Important to ensure long-term impact generation.	Not ultimately required.
Financial Return Potential	Returns between 6% and 17% as signaling effects to attract further traditional investors.	Positive return should be achievable but usually lower compared to traditional banks.	Returns between inflation compensation and slightly above market return.	Capital preservation is the overall financial goal.	Return between 5% and 7%, depending on platform user requirements.
Investor involvement	Active investment approach. Coaching programs and advisory services.	Passive investment approach.	Active investment approach. Consultancy tasks and network facilitation.	Active investment approach. Support in business model and operative planning and reporting systems.	Passive investment approach.
Investment tenure	For equity investments, 7–12 years.	Starting at 6 years investment tenure.	1–3 years.	5–7 years.	4 years.
Founding team	Founding team's aptitude only of secondary importance.	Assessment of founding team not ultimately required.	Founder's personality, background, and focus highly relevant to investment decision.	Founder's skillset and ability to execute impact-driven business plans are highly relevant for investment decisions.	Assessment of founder's aptitude too cumbersome for crowdvesting platforms' limited resources.

4.2. Social Banks

Social banks' investment motivations and criteria can be partly linked to institutional theory, meaning the influence of institutional norms and regulations. Given that in most European jurisdictions, social banks are subject to the same banking regulations as traditional credit institutions, it comes as no surprise that investment foci, such as investees' financial sustainability, are comparable to those of the conventional banks, as Mykhayliv and Zauner [57] have already noted.

Social banks include impact-related criteria such as positive, negative, and best-in-class as additions to the investment process; this is where they differentiate themselves from traditional banks. Social banks are comparatively permissive regarding impact rigor and specificity compared to other impact investor types, which they usually view as relative to industry standards rather than as an absolute contribution to a social or ecological problem (SocBank02).

Additionally, none of the interviewed social banks report a necessity for a direct relation between these broader impacts and the financial return. In turn, impact generation can only be ensured by foregoing profit maximization, which translates into lower yield requirements (SocBank01).

As Cornée and Szafarz [40] have already found, despite belonging to the intermediary group, it is noticeable that social banks expect lower financial returns from their mostly long-term debt financing to mature companies compared to other intermediaries (e.g., impact investment funds) and traditional banks. Additionally, due to their perceived role as mainly initiating debt, social banks tend to follow a more passive investment approach, only exercising their influence during share- or stakeholder meetings.

Our findings show that social banks' investment motivation is partly driven by the aim to use '[. . .] the organizational framework of a bank as an instrument to achieve social-ecological goals'. (SocBank02). Still, we must note that this apparent motivation does not as strongly influence their investment criteria and, therefore, does not differ as clearly from traditional banks. Overall, our findings indicate that due to their regulatory constraints and associated investment motivation and criteria, social banks shall focus more on providing bridge financing for mid-sized to larger social enterprises instead of early-stage investments that often do not fit their investment framework.

4.3. Social Business Angels

Achleitner et al. [27], Nicholls [58], and Spiess-Knafl and Scheck [30] assume that the general investment approach of social business angels would not differ significantly from that of traditional angel investors. The evidence from our study leads us to concur. Findings reveal that investees' financial sustainability is one of the most decisive investment criteria for social business angels. Additionally, regarding their understanding and definition of the term 'impact', social business angels seem slightly less meticulous than the more impact-centric investor types, such as foundations. Nevertheless, it has become apparent that an integrated business model is a decisive criterion to ensure the development of both impact and financial returns. Being direct investors and thus accountable only to their return requirements, social business angels emerge as impact investors with moderate return expectations averaging around 4%.

Similarities to traditional angel investors can be seen in the requirements for a close investor–investee relationship. As described in RBV theory, social business angels seem to facilitate their strategic support as a resource that enhances the competitive positioning of their investees. Angel03 explains this motive as investing in a social enterprise, which he can then help to build and scale by providing value-adding services like operative and strategic consultancy tasks. However, the underlying motivation lies in building a company focused on the 'good cause' and ensuring this is maintained in the long run. Lastly, great emphasis is placed on evaluating investees' founding teams, precisely the founder's motivation and execution ability.

To summarize, social business angels seemingly exhibit many similarities to their traditional counterparts in terms of investment decision-making. Though first, these similarities are complemented with additional impact-related criteria. Second, the overall motive to invest and apply the respective investment criteria focuses more on the investee's purpose than financial benefits. We therefore propose that practitioners focus on early-stage investments, during which they have more influence on the investees' development and facilitate their mentoring and networking skills.

4.4. Foundations

The financial sustainability of an enterprise is unanimously seen as a vital determinant of the investment decision for all types of impact investors in this study. Nevertheless, our findings show that foundations root their financial focus on the goal of maintaining the targeted social impact in the long run (Found02). This can be directly linked to Ebrahim and Rangan's [59] findings, which ascribe to the particularities of impact investors the investments in companies that target the root causes of social or environmental problems. Again, we observe how the underlying intention to invest in social enterprises shapes investors' investment criteria. Foundations' high priority and rigid definition of impact seem to make it paramount in the set of investment criteria, making them the strictest type of impact investor in terms of impact rigor and its overall significance in the investment decision process. This impact-centric investment narrative is further supported by the need for an integrated business model to sustain this impact in the long run.

Unsurprisingly, foundations show the lowest financial return requirements, reporting to aim for return rates between 0% and inflation to ensure capital preservation.

In exchange for their lower return requirements, the interviewed foundations expect a higher investor involvement in their investees' strategic and operational processes, again in line with RBV theory. This is mainly to ensure a long-term impact generation and to prevent the impact from being relinquished in favor of higher financial returns, which is also reflected in the reported investment tenures, averaging between five and seven years.

Lastly, the team must have sufficient execution ability to realize the intended impact and build a functional business model.

Overall, it can be said that foundations place by far the highest value on long-term impact generation. Although financial criteria are also considered in the investment decision-making process, these mainly serve to achieve the desired long-term impact goals. Based on this, we expect foundations to co-invest more often with investors with similar investment motivations and impact expectations to ensure impact generation and the execution of their fiduciary duty.

4.5. Crowdinvesting Platforms

In their studies, Lehner [42] and Lehner and Nicholls [29] assume that private crowd-investors only invest small amounts and tend to lack the economic background that enables them to evaluate their investees' business plans. This corroborates their supposition that crowdinvestors are a relatively passive investor type. It can be assumed that the investment criteria of crowdinvesting platforms are at least partly congruent with the investment criteria of individual private investors who provide the funding. Similar to social banks, this can be explained by institutional theory, describing the need for platforms to be concerned with the security of their investees' financial sustainability.

Regarding the definition and importance of their investees' impact, crowdinvesting platforms appear to follow the least rigorous approach. A particular positive contribution and impact are seen as sufficient, although this contribution only needs to be visible at the input, output, outcome, impact (iooi)'s output level [60]. This might be explained by the findings of Arvidson et al. [61] and Nicholls [58], which state that the strongly limited resources of the crowdvesting platforms do not allow for detailed due diligence on impact. The same might apply to the relevance of integrated business models. Lastly, giving space to both young and already established platforms with short and long investment periods, crowdinvesting platforms are among the rather passive investor types. The small sums provided by individual crowdinvestors most likely do not justify complex screenings or active participation [29].

Surprisingly, although Lehner and Nicholls [29] suggest that individual crowdinvestors would typically be primarily motivated by the social cause, the respective platforms through which they make their investment rank second regarding expected financial returns, ranging from 5% to 7%.

To conclude, it is evident that the decision criteria of crowdinvesting platforms are strongly influenced by the individual crowdinvestors' focus on investing funds in a secure but socially oriented company or project. We therefore propose that crowdinvesting platform provide standardized and comprehensible impact metrics that fulfill single crowdinvestors' quest for low-threshold impact generation.

5. Conclusions

To contribute to understanding intentionality and investment decision-making in impact investing, we have analyzed and structured the investment motivation and selection process of the major impact investor types. We find these are homogenous within the five impact investor types but heterogeneous across them. The main differences can be seen between strict vs. ambiguous impact definitions and requirements, active vs. passive investment approaches, and capital preservation vs. market-driven return requirements. Whether an impact investor type belongs to one of these categories is hereby often determined by the investors' origin and experience with impact investing.

We answer Casasnovas and Jones' [18] call for more research on impact investors' intention to invest by showing how investment motivations differ between the five major private investor types. Furthermore, we show how the investment motivations are shaped by the respective investor types' traditional origins. In addition, while, according to Agrawal and Hockerts [17], there are still definitional and terminological ambiguities between socially responsible investment and impact investing in the literature, our study sheds light on a more nuanced distinction between these two concepts. We show that impact investors do not only differ in terms of their investment horizon and investment criteria from traditional and socially responsible investors. Their underlying investment motivation to provide funds exclusively for ventures that put impact generation at the center of their strategic and operational activities also appears to have a much stronger influence on the overall investment process. While conventional or responsible investment funds invest primarily to achieve financial returns, partly intending to avoid harm, impact investors tend to subordinate all their investment criteria towards achieving a positive impact. The effect of this investment motivation seems to be most vital for impact investment funds, social business angels, and foundations. In contrast, social banks and crowdvesting platforms focus more on traditional investment criteria due to the regulatory framework in which they operate.

5.1. Implications for Theory and Practice

The matchmaking process between social enterprises and impact investors is reported to lack mutual transparency, thus hampering the growth of both these related fields. Growth in both segments is accelerated by a multiplier effect, in which successful impact investment deals accelerate additional entries by investors and new social enterprises. However, deals that fail due to mismatches between investees and investors can, in turn, adversely affect market maturation. They may reinforce the prejudice of the 'economically inefficiently run social enterprise' and thus deter new investors.

By considering our overview of the individual requirements of different impact investors, social enterprises can identify the investor type most suited to their business model and impact approach. For example, companies that prefer less investor interference in their operational and strategic business might seek funding from crowdvesting platforms or social banks. Alternatively, social enterprises whose business model is likely to generate minimal financial returns will turn to social business angels or foundations.

Therefore, single social enterprises can benefit from improved investor–investee matching by bearing in mind the distinct requirements of the respective impact investors. Our study also contributes to the general development of the social entrepreneurship and impact investing market, potentially increasing the number of successful investor–investee matches, which can effectively drive the dynamic growth circle.

In addition, we show that existing theories such as RBV theory, institutional theory, and stakeholder theory are echoed in the explanation of individual investment criteria and motivations such as investees' financial sustainability.

5.2. Limitations and Directions for Future Research

We follow a qualitative research approach that draws on interviews with four to eight representatives from each of the five private impact investor groups. Although we follow a replication logic, the small sample size per investor type limits the generalizability of our findings. However, complete generalizability was not the initial intention of this study. Instead, it is to be seen as a foundation for further quantitative research on the investment process of different impact investor types. As the global impact investing landscape is growing significantly, we call for further quantitative research to empirically prove the decision-making concepts established in our paper.

Second, as Yan, Ferraro, and Almandoz [62] point out, the focus on factors such as the financial sustainability or profit potential of investments differs from society to society. Especially for social banks, national jurisdictions and banking laws can significantly influence applied investment criteria. Our focus on impact investors from Germany, Austria, and Switzerland makes it debatable whether our findings can be transferred wholesale to other societies and regions. Therefore, future research should also test for regional transferability of the identified investment criteria of the different investor types.

Finally, even though all investor types have been subsumed under the impact investing umbrella in previous research, our study shows that the individual definitions and relevance of 'impact' differ significantly. We thus do not see the conversation on the definition of 'impact investing' as exhausted yet. More research is needed to draw a clear line between investors who invest for impact, such as foundations or social business angels, and those who invest with impact, like social banks.

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