How can impact be measured and evaluated?

Evidence from Swedish impact investors

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Abstract

Impact investing has become more recognized in recent years as businesses, communities and governments try to find new solutions to tackle environmental and social concerns. The term involves creating environmental and/or social benefits while generating financial returns, and thereby producing a positive impact for the society with investments. Impact investing can be an important tool for directing more funding towards achieving the Sustainable Development Goals (SDGs). However, there is currently limited information about the field of impact investing and there is a lack of in-dept knowledge about evaluation criteria used in this area. This limited ability to capture and value non-financial performance presents a significant challenge for impact investors. This study examines how Swedish impact investors evaluate and measure the impact of their investments. By using a qualitative method based on semi-structured interviews, a multiple case study was conducted with six Swedish impact investors to provide an understanding of their impact assessment processes and their perceived challenges and opportunities with the impact investing landscape. The study concludes that there is no standardized and widespread approach to assess impact among the investors. The field is in a developing phase, and the investors are experimenting to find solutions that fit their organizations. All investors had a thorough screening process. Other components of impact assessment include measuring CO2 equivalent and adopting definitions or frameworks from industry organizations. Some of the main challenges that the investors face are greenwashing and impact washing, comparability of measurements and the lack of harmonization of frameworks.

Keywords: Impact investing, Impact assessment, Socially responsible investment, Impact measurements, Social finance

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Abbreviations

CAPM	Capital Asset Pricing Model
CO2-e	Carbon dioxide equivalent
ESG	Environmental, Social, Governance
GHG Protocol	Greenhouse Gas Protocol
GIIN	Global Impact Investing Network
GIIRS	Global Investing Rating System
GRI	Global Reporting Initiative
IMP	Impact Management Project
IRIS	Impact Reporting and Investments Standards
KPI	Key Performance Indicator
LCA	Life Cycle Assessment
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SIBs	Social Impact Bonds
SRI	Socially Responsible Investment
SROI	Social Return on Investment
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

1. Introduction

Impact investing has become more recognized in recent years as businesses, communities and governments try to find new solutions to tackle environmental and social concerns (Ormiston et al. 2015). The term involves creating environmental and/or social benefits while generating financial returns (Rockefeller Philanthropy Advisors 2017). Traditionally, philanthropy, which usually receive public funding, and investments in the finance sector has been viewed as two separate fields that might even stand in conflict to each other (More et al. 2012). However, the need to address the global problems have given rise to a larger interest in new possible solutions.

While the industrial revolution and the more recent development of information technology has led to advances such as economic growth, improved productivity, and improved welfare in many countries, it has also resulted in challenges such as increased inequality, climate change and other issues related to sustainability. As the Earth's resources is experiencing a rapid exhaustion affecting the future society and the environment, this presents a major challenge for the global community (Morrar, Arman, & Mousa 2017). In 2015, the United Nations adopted 17 Sustainable Development Goals (SDGs) as a call to take action for poverty eradication, environmental protection and making sure all people will have prosperity and peace by 2030. The integrated goals recognize that development must be balanced to accomplish economic, social and environmental sustainability simultaneously. To be able to achieve these goals, the United Nations highlights that it is necessary to use make use of technology, creativity, and financial resources from all the different parts of society (United Nations, n.d.). Likewise, the Paris agreement has been established for dangerous climate change to be avoided by creating a global framework which attempts to limit global warming to preferably 1.5°C, emphasizing financing, technology, and capacity building as key elements to reach this goal (UNFCC, n.d).

Rockefeller Philanthropy Advisors (2017) points out that since the problems of society are becoming more rooted and complex, there are difficulties for governments and philanthropy to solve the issues on their own. There is a large gap between the available funding from these actors and that of capital markets. For example, the funding gap to be able to achieve the SDGs has been estimated to be $2.5 trillion annually. However, it would be possible to fill this gap if the global capital market shifted only 1 percent of its investment towards impact investing (Rockefeller Philanthropy Advisors 2017). Furthermore, to be able to live up its commitments for reaching the climate and energy target in line with the Paris Agreement, the EU needs approximately €180 billion in additional funding per year. Therefore, there is a need to scale up sustainable financial solutions to close this gap (European Commission 2019).

Clarkin and Cangioni (2015) state that "impact investing (II) is one of the most innovative ways to bring the resources of the world's financial markets to the world's seemingly intractable problems" (p. 135). Impact investments includes investments in areas such as solar power, social enterprises, and solutions for under-served communities. Some advantages of impact investing are that the returns on the investment can be reinvested to achieve greater impact and that innovative solutions to societal issues that also produce financial return can be tested out (Rockefeller Philanthropy Advisors 2017). However, there is currently limited information about the field of impact investing and there is a lack of in-dept knowledge about evaluation criteria used in this area (Brandstetter & Lehner 2015). This limited ability to capture and value non-financial performance presents a significant challenge for impact investors (Geobey, Westley & Weber 2012). Therefore, this study aims to provide an understanding of how impact investors in Sweden can assess impact and the perceived challenges and opportunity they face.

1.1. Problem statement

Impact investing is a relatively new research field. Clarkin and Cangioni (2015) provide a picture of the research literature on impact investment based on literary taxonomy and analysis. According to the authors, current papers are mainly on potential and possibilities of impact investing. That leaves room for future studies that examines the challenges, efficiency, and applicability of impact investment (Clarkin & Cangioni 2015). According to Brandstetter and Lehner (2015), the evaluation criteria used for instruments in impact investing have not yet been analyzed in-depth. Likewise, Höchstädter and Scheck (2015) point out that further research is needed to examine the practices of impact investing and related challenges.

1.2. Aim

The aim of the paper is to develop a deeper understanding of how impact investors in Sweden can assess impact and the perceived challenges and opportunities of the processes in place. The study will provide an analysis of how impact investors currently work to ensure that social and environmental goals are met and how this is related to academic literature on impact assessments.

1.3. Research questions

How do Swedish impact investors evaluate and measure impact?

What are the perceived challenges and positive aspects of the impact investors' assessment methods?

1.4. Delimitations

This study has the scope to focus on six Swedish impact investors, which fit the chosen definition for impact investing. Moreover, the study is limited to the Swedish context and other geographical areas are not considered. Since impact investing is an evolving field and the interviews were conducted during a specific time period, some challenges and methods used by investors may change over time.

It is relevant to specify the definition used for this study. The definition of impact investing varies between different people and actors within the field. In the definition chosen for this study, there is an emphasis on investments seeking financial returns alongside environmental and/or social impact. This definition is relatively broad, at the same time, it excludes other types of investments that for example are fit better into the definition of traditional investments or philanthropy.

Additionally, this study has its main focus on the assessment of social and environmental aspects. Features that are associated with the traditional investment process focusing on evaluation of financial performance are not studied in depth.

2. Theoretical framework and literature review

2.1. Definition of impact investing

The logic of philanthropy, usually funded by public expenditure and grants, and the logic of traditional practices for investment and finance, have historically been seen as in conflicts to each other. Thereby, the idea of social finance has not been institutionalized and developed to a full extent (More et al. 2012). Impact investing as a term was first used by the Rockefeller Foundation in 2007 to describe the hybrid concept that combines the traditional form of investment decisions with social objectives and philanthropic motives (Höchstädter & Scheck 2015). It describes the phenomenon of providing financial capital, such as equity and debt, to support organizations working with ecological or social goals under a limited time period and with the right to financial returns on the investment, such as interest payments or dividends (Glänzel & Scheuerle 2016).

The term social finance has sometimes been used interchangeably with impact investing in academic literature. Moreover, there are several terms that have been linked to impact investing, including socially responsible investing (SRI), venture philanthropy, microfinance, and social impact bonds (SIBs) (Agrawal & Hockerts 2021). In addition, the consideration of ESG (environmental, social and governance) criteria when evaluating investment opportunities can be used for risk reduction (Brandstetter & Lehner 2015).

When it comes to socially responsible investments, negative screening is the oldest and most common approach used. Negative screening means to exclude investments that are found to be undesirable from an ethical perspective from the investment portfolio. Typical negative screens include tobacco, alcohol, gambling, firearms, and environmental damage. A second type of ethical screening is positive screening. In this case, companies are instead included in the investment portfolio based on their superior performance in terms of environmental impact, labour issues or community involvement. Negative and positive screening is sometimes described as being the first and second generation of screens when it comes to socially responsible investments (Bilbao-Terol, Arenas-Parra, & Cañal-Fernández 2012). The third generation has been called “triple bottom line” (from People, Planet and Profit’) or simply “sustainability”. This integrated approach includes both positive and negative screens and the companies are picked out based on social, environmental, and economic criteria. The fourth generation includes the previous “sustainability” approach but goes one step further by engaging in shareholder commitment and activism. The portfolio manager is in this case trying to influence the management in a more sustainable direction (Renneboog, Ter Horst & Zhang 2007).

Although there are established frameworks for portfolio allocation in terms of evaluating risks and returns from a financial perspective, institutional investors have in many cases not been able to find a good way to include social risks and returns that goes further than negative screening. There are instead mostly smaller and dedicated funds that use different sorts of positive screening since the metrics and instruments used by larger institutional investors tend not to fit into these concepts (Brandstetter & Lehner 2015).

When defining impact investments, Brandstetter and Lehner (2015) outline a spectrum which ranges from traditional investments only focusing on financial returns and risks to philanthropy, in which financial returns can be traded off to achieve environmental and social impact (Figure 1). In between these two traditional ideas of how business and charity should be exercised, there are different types of impact investments, in which negative and positive screening is performed to find investment with positive social and environmental impact with limited to no financial trade-offs (Brandstetter & Lehner 2015).

Glänzel and Scheuerle (2016) differentiate between impact investing focusing on finance first and impact first. Finance first means trying to achieve environmental and social objectives as an addition to existing financial goals, while impact first prioritizes social returns first. The authors argue that finance first investments can be seen as relatively conventional and therefore choose to focus on impact first investments (Glänzel & Scheuerle 2016). In the range of investment types outlined by Brandstetter and Lehner (2015), finance first and impact first can be seen as two outer parts of the purposed scale of impact investment. For this study, a definition of impact investment based mainly on the research of Brandstetter and Lehner (2015) has been chosen. The working definition of impact investing is therefore;

Investments that are made by investors performing both negative and positive screening, seeking financial returns but that are unwilling to compromise on environmental and social performance.

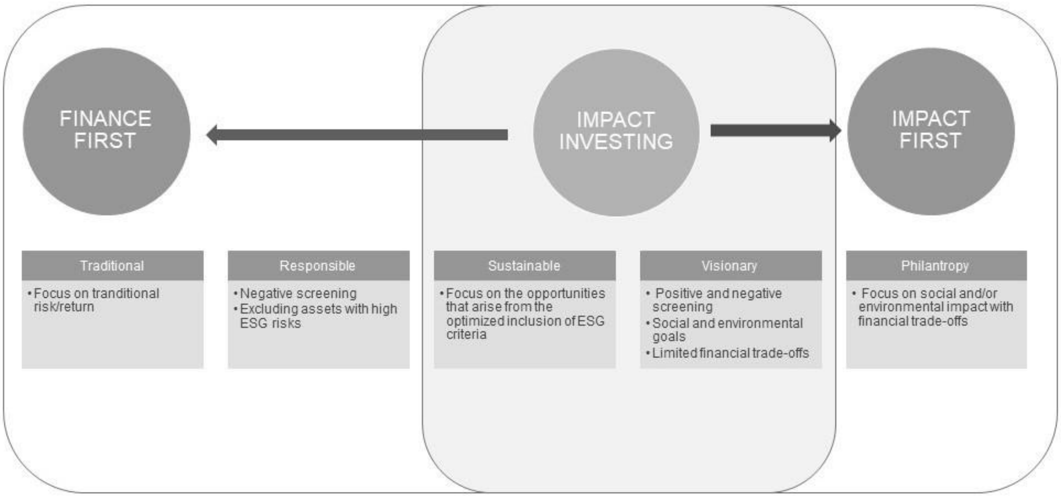

Figure 1. Definition of Impact investing. Based on Brandstetter and Lehner (2015) and Gränzel and Scheuerle (2016)

2.2. Investment process

To be able to understand how impact investors measure and assess impact, it is important to have an overview of the different steps in the traditional investment process for investors, and how impact assessment can be integrated into this process. Tyebjee and Bruno (1984) describe the traditional investment process as being divided into five different steps: Deal Origination, Deal Screening, Deal Evaluation, Deal Structuring, and Post-Investment Activities. The European Venture Philanthropy Association (2018) presents a similar sequence of steps for investments in Social Purpose Organizations (SPOs).

Deal Origination: This first step refers to the processes by which the investor becomes aware of potential investment deals (Tyebjee & Bruno 1984).

Deal Screening: The large number of potential investment recipients must be narrowed down to a small number of deals that can be subjected to in-depth evaluation. This can be done by using screening criteria that are often linked to areas with which VC is familiar, such as specific types of products or technologies (Tyebjee & Bruno 1984). For an investor with impact objectives, the investor can assess whether the investment opportunity fits those objectives, whether it can provide the necessary non-financial support, and consider exit possibilities. It also assesses whether the characteristics of the company being invested in match the investor's goals and investment strategy (European Venture Philanthropy Association 2018).

Due Diligence: In this step, the deal is evaluated more thoroughly, and the expected return and perceived risk are assessed. This is done based on a number of characteristics of the potential investee. The final decision on whether to make the investment is made is based on a trade-off between the perceived risk and the expected return (Tyebjee & Bruno 1984). For investors seeking social impact, a more in-depth assessment is made to determine whether the financial needs of the investment recipient match the investor's expectations of expected return and social impact. The investor also assesses whether it can offer an appropriate financial instrument and a potential exit plan. At this stage, a business plan is usually prepared. This may include a look at the market in which the organization operates, a plan and strategy for the next three to five years, and a financial budget. Elements of impact assessment at this stage may include a review of social impact targets and an impact measuring system (European Venture Philanthropy Association 2018).

Deal Structuring: The next step is to negotiate the price of the deal, more specifically the amount to be invested and what to include in the agreement to reduce the investor's risk (Tyebjee & Bruno 1984). For social impact investments, a non-financial support plan is created. This plan may include objectives related to social impact, financial and organisational sustainability, and defining responsibilities and resources for measurements (European Venture Philanthropy Association 2018).

Post-Investment Activities: At this stage, the investor can assist companies in areas such as strategic planning, the recruitment of key executives, and finding financing for expansion (Tyebjee & Bruno 1984). The nature of the engagement can be specified in an investment agreement. A social impact investor can monitor how well the investee is meeting the financial return and social impact goals set out in the non-financial support plan (European Venture Philanthropy Association 2018).

Exit: The investor decides how the exist should be arranged (European Venture Philanthropy Association 2018). The investor may also provide assistance in organising an acquisition, merger, or public offering (Tyebjee & Bruno 1984).

Figure 2. Investment process, based on Tyebjee and Bruno (1984) and European Venture Philanthropy Association (2018)

2.3. Measuring impact

In general, there are expectations on impact investing firms to generate outcomes in two areas, namely financial income for the firm and social impact that can benefit the society (Jackson 2013). While the measurements related to financial performance are standardized and easy to verify, measurements of social value creation and social impact are, on the other hand, not easily verifiable nor standardized (Ormiston & Seymour 2011). Assessing social impact tends to be a resource consuming process, both in terms of money and time (Agrawal & Hockerts 2021).

There are various measurement systems that are being used today by different actors and across sectors. Two of the more recognized ones are Global Impact Investing Rating System (GIIRS) and Impact Reporting and Investment Standards (IRIS) (Brandstetter & Lehner 2015). IRIS is a reporting toolkit managed by the Global Impact Investing Network (GIIN), a key organizing instrument for stakeholders in the impact investing industry (Jackson 2013). IRIS was developed originally for double bottom line reporting. That is financial reporting with social impact assessments. Now IRIS+ has been formed which is a triple bottom line reporting system with many ready templates for different types of investments. The triple bottom line reports include financial reports with social and sustainability assessments.

Moreover, several initiatives have been developed to provide guidance for sustainable investing, including Global Reporting Initiative (GRI), Principles for Responsible Investment (PRI) and Sustainability Accounting Standards Board (SASB). However, these initiatives mainly focus on the supply chain and operational risks of a company by, for example, reducing emissions, improving efficiency and provide better working conditions. The evaluation procedures fail to provide a true verification of a company’s sustainability performance and may lead to investment decisions and assessments that are not compatible with sustainable development according to Vörösmarty et al. (2018). There is an ongoing quest to find the most suitable metrics and framework to report on sustainability within finance. In September 2020, the World Economic Forum, together with some of the world's leading consulting firms, presented a new set of metrics which aims to put previous initiatives together in a comprehensive framework (World Economic Forum 2020).

2.3.1. Five dimensions of impact

IRIS+ is structured based on the five dimensions of impact from the Impact Management Project (IMP) (GIIN 2019). IMP was launched by Bridges Impact+ in 2016 and is an initiative involving a large number of stakeholders which aims to determine the fundamentals of establishing measurements, management, and communication of impact (GIIN 2018). Through communication and coordination with over one thousand industry stakeholders, the IMP concluded that impact performance can be understood by gathering data related to the following five dimensions of impact:

What: To what outcomes the company contributes and what significance these outcomes have for those affected.

Who: Which stakeholders experience the impact and how underserved those stakeholders were before the initiative.

How much: The number of stakeholders that experienced the outcome of the initiative, how significant the change was, and how long it lasted.

Contribution: The assessment of whether the company and/or investor produced outcomes that are likely to be better than if the initiative had not taken place.

Risk: Assessment of the likelihood that the impact will be different than expected. Impact risk is typically described as one of the following 10 risk factors: external risk, evidence risk, execution risk, drop-off risk, stakeholder participation risk, unexpected impact risk, contribution risk, alignment risk, efficiency risk, and endurance risk (GIIN 2019).

2.3.2. Social Return of Investment

Agrawal and Hockerts (2021) highlight that the possible adoption of traditional methods for accounting to field of impact investing should be explored to a larger extent. One example is social return of investment (SROI), which follows a similar way of thinking as the established financial concepts capital asset pricing model

(CAPM) together with discounted cash flow. While the latter concepts are used to guide investment decisions from a financial point of view, SROI uses a modified concept based on discounted cash to instead measure the value of the social impact per unit of investment (Agrawal & Hockerts 2021). SROI is thereby used for making calculations of the social impact value of an investment. It highlights the seven principles: stakeholder involvement, having a clearly formulated theory of change, valuing the outcomes, only including material information, not to over-claim outcomes, transparency and verifying the results. To achieve this methodology, a process of six stages is purposed. These are: to set boundaries for what should be covered in the SROI analysis, mapping of outcomes to develop a theory of change, finding evidence for when outcomes have been achieved and valuing them, establishing to what extent outcomes have occurred because of the activities linked to the investment, making the SROI calculations and, lastly, to report and embed good processes for the outcomes (Nicholls et al. 2012). There are difficulties in comparing the SROIs of different investments since different types of proxy valuation and metrics are used (Geobey, Westley & Weber 2012).

2.3.3. Theory of change and the Impact Value Chain

Another impact concept and tool is the theory of change, which is ordinating from program evaluation (Jackson 2013). Theory of change involves constructing an explanatory model that illustrates, usually visually, the inter-relationships between an intervention's assumptions, resources, logic, activities, and the results that are expected to be achieved (Jackson & Harji 2014). According to Jackson and Harji (2014), and other researchers (Jackson 2013, Verrinder et al 2018), understanding theory of change is an important area that should be prioritized by evaluators within the field of impact investing.

When collecting and analysing performance data, the theory of change can be compared to results and the actual progress experienced from the intervention. Some basic questions are posed when applying the theory of change: Is the project/program theory appropriate, valid, accurate and relevant? Is the expected change happening according to plan in practice? Are there other pathways of change dynamics at work? (Jackson 2013).

A closely related concept is the impact value chain. Although there is debate about how to measure social impact, a commonly used foundation is the impact value chain, which is used to distinguish between inputs, activities, outputs, outcomes, and impact. Figure 2 illustrates the impact value chain, and an explanation of the different parts are provided below (EVPA 2015).

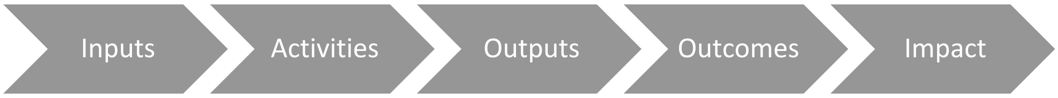

Figure 3. The impact Value Chain. Based on EVPA (2015)

Inputs: The resources that are invested in the activities of the investee.

Activities: The concrete actions that are carried out by the investees to generate outputs and outcomes and for its objectives to be accomplished.

Outputs: The results from the activities of the investee, in terms of tangible products and services.

Outcomes: The benefits, changes, learnings, and other effects (both short and long term) that are achieved as a result from the investee's activities.

Social Impact: How the activities of the investees have attributed to longer-term and broader outcomes (EVPA 2015).

2.3.4. Measuring Greenhouse gas emissions

One way to determine how the climate is affected by different activities is to calculate the greenhouse gas emissions. Two important terms in the context of measuring the greenhouse gas emissions of a company or an initiative are carbon footprint and CO2 equivalent. Carbon footprint is the "The quantity of GHGs expressed in terms of CO2-e, emitted into the atmosphere by an individual, organization, process, product or event from within a specified boundary" (Pandey, Agrawal, & Pandey 2011, p. 139). CO2-e means carbon dioxide equivalent (CO2 equivalent). This measure enables different greenhouse gases, such as methane, to be compared and converted to the one unit, i.e., how much CO2 emissions they are equal to. This, in turn, can demonstrate how much they contribute to global warming (OECD 2008.). A carbon footprint analysis can be conducted through a life cycle assessment (LCA) in which an organization measures the CO2 equivalent generated at each step of the value chain for a product, "from cradle to grave" (MacDonald & Reitmeier 2017).

The Greenhouse Gas Protocol (GHG Protocol) was launched in 1998 as an initiative to meet the need for an international standard to measure and report greenhouse gas emissions for businesses. It was created by World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) through a multi-stakeholder process. Since 2001, when the GHG Protocol guidelines was presented in its first version, the initiative has produced various calculation tools and guidelines with the aim to assist organizations to report and measure their GHG emissions (Hickmann 2017).

One key element of the GHG protocol is Corporate Accounting and Reporting Standard with provides detailed and practical advice and suggestions for businesses. It suggested that businesses need to distinguish between Scope 1, Scope 2 and Scope 3 emissions. Scope 1 entails emissions from sources the company owns or have control over. Scope 2 emissions occur from the electricity that the company consumes. Scope 3 comprises of emissions from all other sources for upstream activities (i.e. products and services that a company purchases) and downstream activities (i.e. how the products are used and disposed after they are sold) in the supply chain. Scope 3 tends to constitute the vast majority of the emissions of a company (Hickmann 2017).

2.4. Challenges

When it comes to measuring and assessing impact, the challenge of standardisation versus specificity is brought up by several researchers (O'Flynn & Barnett 2017; Grabenwarter & Liechtenstein 2012). Although stakeholder needs and requirements may vary, efforts to develop impact metrics have typically focused on one-size-fits-all measure. Attempts to develop standardized, transparent, and comparable metrics have generally been unsuccessful because the purpose for using the metrics may not be the same among stakeholders (Grabenwarter & Liechtenstein 2012). According to Grabenwarter and Liechtenstein (2012), a key performance indicator, KPI, must be closely linked to the characteristics of an individual activity and its associated theory of change in order for it to meaningfully express the impact achieved. However, this type of individuality makes it difficult to compare KPIs, and there may be an expectation by investors to be able to make comparisons of the impact of individual investments.

It is argued that the dilemma of standardization versus the need for specificity has led to the development of impact metrics that does not fulfil any expectations of stakeholders in a meaningful way, using CO2 footprint and SROI as examples of this (Grabenwarter & Liechtenstein 2012). Furthermore, O'Flynn and Barnett (2017) suggest that it is not likely to that one method is sufficient when investors assess impact. Instead, there needs to be guidance and innovation on methodologies and how different approaches can be combined and complement each other in a cost-efficient way.

Another challenge is that there are difficulties to gather and measure the most relevant impact data to be able to understand the impact experienced by beneficiaries. Because of these difficulties, unintended consequences and contextual factors that might be beneficial to understand to improve the future investment approach may not be considered sufficiently (O'Flynn & Barnett 2017). Moreover, it is noted that although there are strengths of using metrics such as IRIS to improve impact reporting, there have not been as much effort to capture issues such as differential impact, described as understanding who is benefitting and who is not, nor additionality effects. Another aspect that tends not be put much effort into is whether an investment can result in any unintended social consequences (O'Flynn & Barnett 2017). The latter issue is also brought up by GIIN (2019) as an impact risk in the context of IMP:s five dimensions of impact, which states unexpected impact risk is as one of its risk factor. O'Flynn and Barnett (2017) suggest that investors could potentially make improvements to their decision-making and get more effective investments by assessing and understanding the cause/effect relationships from a broader perspective and by better understanding the unintended consequences that comes from an impact investment. These types of efforts also decrease reputational risk that come from potential negative social consequences.

Furthermore, impact washing is another challenge liked to reputational risk, which can also become an obstacle to the success of impact investing as a widespread practice. Impact washing can be described as the use of the term impact for marketing to gain capital or improve reputation while not actually working with material solutions to solve sustainability challenges. One aspect brought up is the use of data from sustainability rating agencies and the term impact investing being used in the area of listed equity. In these cases, it is considered important to differentiate impact-generating investments from investments only taking social and environmental considerations into account. The latter category can risk being accused of impact washing (Busch et al. 2021).

3. Methodology

3.1. Research philosophy

An important first step of starting a research process to choose a research paradigm that fits the research to be conducted (Mackenzie & Knipe 2006). For this study, the interpretivist/constructivist paradigm has been chosen. According to Mackenzie and Knipe (2006), the interpretivist/constructivist paradigm is often associated with qualitative research methods for data collection, such as interviews. The research on the topic of impact investing in Sweden is limited. According to Bryman (2004), a qualitative approach can be an effective strategy for research studies on a specific and relatively unexplored topic to gain a better understanding of the area. In qualitative research, the researcher has a question formulation that takes a more general form and is less structured than in quantitative research. Moreover, the research approach emphasises a thorough investigation of the participants' opinions and points of view (Bell et al. 2019). Thereby, the qualitative data "can provide rich insight into human behaviour" (Guba & Lincoln 1994, p. 106). In the interpretivist/constructivist paradigm, reality is seen as something that is socially constructed (Mackenzie & Knipe 2006). The perception that the participants have of the situation studied is also highlighted. In contrast to the postpositivist view, constructivists usually do not start with theory, but try to generate or through inductive reasoning form a pattern of meanings or a theory (Creswell 2003). Since the study aims to research the phenomenon of impact investing, it is relevant to investigate the perception of the investor on this topic and on the working procedures of the organization she represents.

3.2. Research design

The study has taken a qualitative approach by conducting semi-structured interviews. Semi-structured interviews as a research method can make it possible for the researcher to keep an open mindset about the process, allowing theories and concepts to develop from the collected data. The method entails having more general questions than in a structured interview, with the possibility to change question sequence if needed (Bell et al. 2019). The choice to use semi-structured interviews ensured that the interviews covered similar themes to make them comparable to each other and previous research. At the same time, it allowed for new themes to be discovered and explored with follow-up questions during the interview. Another potential method is unstructured interviews, in which a researcher might just have one question and the interviewee can respond freely, following the pattern of a conversation (Bell et al. 2019). When researching issues that could be considered sensitive, such as topics related to sustainability and compliance, it can be important to have a degree of structure in the interview guide to make sure that the relevant topics are addressed. The unit of analysis is impact investors in Sweden that finance enterprises and initiatives with social and/or environmental objectives while generating financial returns.

The interviews were conducted through the software platform Zoom that is commonly used for video meetings. This was partly due to some of the organizations being located in other parts of Sweden. The interviewees located in Stockholm were given the choice to have the interview in person or over Zoom. However, due to recommendations from the Swedish authorities and company restrictions implemented because of the COVID-19 pandemic, all interviews ended up being conducted through Zoom. Bell et al. (2019) argue that the extensive use of these types of technologies in people's everyday life have resulted in this way of interacting becoming entirely normal for many people. Moreover, it is more flexible for the interviewee as it can be easier to schedule than a face-to-face interview, potentially resulting in a higher response rate. Compared to telephone interviewing, there are benefits of being able to see the person's body language and there have not been significant evidence that the ability to secure report is reduced to a significant extent compared to face-to-face interviews (Bell et al. 2019). Another advantage of conducting the interviews through Zoom was that the interviewees could respond to the questions at their office or in their homes where they could feel comfortable. Nevertheless, one potential issue is that the quality of the internet connection can fluctuate (Bell et al. 2019). Minor connection problems did arise during some of the interviews. However, this did not affect the communication significantly. Bell et al. (2019) emphasise that technologies for making video calls have great potential and the difficulties that have been reported initially will decrease over time. During the COVID-19 pandemic, remote work and frequent communication through video meetings have become more widespread. Therefore, it can be argued that this development has made it more a natural setting to conduct interviews by video calls.

3.3. Data collection

For this study, purposive sampling has been applied. Purposive sampling entails several different kinds of sampling methods for which participants are chosen based on criteria that has relation to the research objective and facilitates answering the research questions (Bell et al. 2019). The criteria used for the sampling of this study was based on the chosen definition of impact investing brought up in Section 2.1. An original list of organizations to interview was composed through desk research. Out of seven investors that were reached out to, six of the organizations agreed to participate. Moreover, due to the limited number of relevant organizations and difficulties finding all that fit the criteria, snowball sampling was used to try to find more relevant participants. In this sampling method, the researcher uses an initial group of relevant participants to find additional interviewees for the study (Bell et al. 2019). However, due to the high response rate of the organizations listed originally and some interviewees suggesting organizations that was already on the list, the use of snowball sampling did not change the sample. The interviews were recorded and transcribed to ensure that all important information would be taken into consideration for the analysis. The interview guide can be found in the Appendix. The respondents were asked open-ended questions about the research questions and conceptual framework, which were developed based on the problem statement and literature review.

3.4. Literature review

A literature review was conducted. According to Bell et al. (2019), reviewing existing literature is an important part of all research to be able to gain an understanding of previous knowledge as well as the concept, theories and research methods associated with the field. Likewise, the researcher is given an opportunity to critically reflect on the previous research and how the research question can be linked to these findings (Bell et al. 2019). For this study, searches for relevant existing research and information were done through the data bases Scopus, Web of Science, Google scholar as well as reports from institutions working with impact investing.

3.5. Data analysis

To analyse the collected data, a thematic analysis was conducted. Thematic analysis is a commonly used approach in qualitative research methods which involves searching for themes in the collected data (Bell et al. 2019). In the analysis process of a thematic analysis, the collected data is described and interpreted with the possibility of using both and deductive and inductive approach. In contrast to a content analysis, less emphasis is put on quantifying the frequency of different themes and categories (Vaismoradi, Turunen & Bondas 2013). This data analysis process allowed for a systematic reviewing of the gathered data to understand common themes, as well as explore connections to themes brought up in previous research, such as Glänzel and Scheuerle (2016).

3.6. Quality criteria

To assure a high level of research quality, it is important for researchers to consider the concepts of reliability and validity. These concepts are particularly prevalent in quantitative research, and since, for example, validity is associated which measurement, it is argued that these concepts are not fully applicable for qualitative studies (Bell et al. 2019). For qualitative research, the authors Guba and Lincoln (1994) have instead proposed that the most important criteria for evaluating studies with a qualitative approach should be trustworthiness and authenticity. Trustworthiness entails the four criteria: credibility, transferability, confirmability, and dependability. The criterion of credibility takes into account the idea of different perspectives of a social reality. To improve these criteria, the researcher can use the technique of respondent validation to gain confirmation from the respondents that their perception of the social world studied is correctly portrayed (Bell et al. 2019). This was done in this study, in part, by asking follow-up questions if something is unclear during interviews. Moreover, a researcher should ensure that the research is conducted with good practice (Bell et al. 2019). In this study, this has been addressed by continuous discussions with the supervisor about the research process and findings. This also helps to create credibility, which addresses the aim to stay as objective as possible as a qualitative researcher (Bell et al. 2019).

The transferability criterion is concerned with if a study can be generalized for other studies, and it can, in general, be difficult for qualitative studies that study aspects of a social world in depth in a unique setting (Bell et al. 2019). This can be an issue in this study as well because of the study being conducted on a relatively specific group and context. However, the specific definition of the phenomenon and its actors can make it easier to generalize to other populations fitting into this definition.

3.7. Ethical considerations

One of the most important aspects of research ethics is that the researcher should avoid causing harm to the participants. Minimizing harm can entail making sure the participants do not need to experience stress or negative effect on her work life (Bell et al. 2019). In the case if this study, there could be some risks of sensitive information being told during the interviews, for example, if the employee says something negative about the organization this could negatively affect her career. Moreover, some topics can be of sensitive character, such as issues concerning compliance of investees. One measure to address these issues is that participants are anonymous in the study. However, since there are few actors in this field, they could be possible to identify based on short descriptions. Therefore, the descriptions of the organizations have been carefully considered.

Another relevant aspect of research ethics is informed consent. The researcher must make sure to provide enough relevant information about the study to the participant for an informed decision to be made about her potential participation (Bell et al. 2019). This was ensured in this study by sending brief information about the study and its purpose by email before the interview take place. A third area of research ethics is honesty as a researcher. This aspect will be addressed by carefully considering the importance of objectivity in all steps of the research.

4. Results

Impact investing is about making a positive impact with one's investments alongside generating financial returns. However, it has proven difficult to assess and fully understand the impact of the investments made. Therefore, this study aims to provide a deeper understanding of the relevant issues surrounding the impact assessment practices of impact investors in Sweden.

The results of this study are mainly based on the interviews with the six organizations. Moreover, open sources such as websites, annual reports, media coverage and material sent by the respondents were used for triangulation and to provide a more in-depth understanding of the organizations' activities. The interviews have been facilitated by the interview guide that is based on the theoretical framework and literature review presented in chapter 2. Of particular interest is the investment process and various methods for measuring impact. The following part introduces the main themes and some key points of the results.

Case descriptions: Introduces the six investment organizations that were interviewed.

View of impact investing: Outlines the studied organizations' different perceptions of impact investments.

Investment process: The section covers the financial aspects of the investment processes used by the respondents.

Impact assessment: Brings up screening as a major part of the impact assessment of the investors. It also addresses how the investors are evaluating and measuring impact and the specific frameworks used.

Challenges with the impact investing landscape: This theme covers the different challenges brought up by the investors to navigate in the impact investing environment.

4.1. Case descriptions

The six organizations interviewed for the study are all located in Sweden, and the majority of the respondents have their offices in Stockholm. The respondents were chosen based on the sampling strategy outlined in section 3.3. In the sample, there are different types of investors that have different characteristics.

The organizations differ in terms of whether or not they invest in high-risk countries; in terms of the maturity of the companies and initiatives in which they invest (start-ups or not); in terms of whether they receive funding from private investors, high-net-worth individuals, or the public sector. There are also variations of the investment themes, whether they have an environmental or social focus. There are larger and smaller organizations (both in terms of capital invested and number of employees) and the type of financing they offer to investment recipients also varies among the interviewed organizations.

The extent of impact assessment is another parameter that varied among the respondents, as described more in section 4.4.2., and which characteristics that is likely to affect the level of impact assessments is discussed in section 5.1.

What connects the organizations in the sample is the similar focus of their investments in terms of sustainability and financial returns. The organizations were chosen to display a range of investors that have high ambitions of achieving positive environmental and/or social impact with their investments with no or limited trade-offs for receiving financial returns, and thereby, qualify for fitting into the definition of impact investing.

In Table 1, and overview of the cases is provided.

Table 1. Description of cases

Code	Position	Description
I1	Customer manager	Investor with focus on developing economies
I2	CEO Fund manager	Investor in established Greentech companies
I3	Investment manager	VC with focus on social impact and investments in the public sector
I4	Analyst	VC for investments in Cleantech companies
I5	Director	Large fund for investments in developing countries
I6	Investment manager	VC with a focus on social and environmental impact

4.2. View of impact investing

The view of impact investing varied among the respondents. Only half of respondents defined themselves as impact investors. Many of the interviewed organizations emphasized and defined their organizations by how they differentiated themselves from other investors (and used different types of investors to compare themselves to). They often outlined what they did better than other investors.

For example, I6 stated "No, we do not identify ourselves as impact investors. I would identify impact investors today as someone that kind of put impact first, that put impact as the most important, and it does not really matter if there is a financial return or not." (I6) According to the respondent, an impact investor puts impact not only before financial gain but also before quality aspects of a product, such as the taste in a food product.

I4 thought that impact investing would refer to social sustainability as a measurable point to a larger extent than what their organization is doing today.

I2 understood impact investment as something that is exclusive to early-stage investments. This definition excludes this organisation that only invests in listed companies with a clear and exclusive business in renewable or environment friendly products and services.

Three of the respondents (I1, I3 and I5) expressed that they did define their organizations as impact investors. I5 responded "We are definitely an impact investor". The respondent explained that their organization used the definition of impact investments from Global Impact Investing Network (GIIN), which focuses on trying to achieve dual impact, with both financial returns and a return in form of social or environmental impact. About the investments they make I5 said "They must be sustainable, and they must be financially viable. Thus, we have both this non-financial requirement and the financial requirement. Therefore, it is built into our investments or into the business model that we are an impact investor."

I1 stated that even though their organization do identify as an impact investor, the respondent toned down the relevance of this term and stated that an impact investor is the concept their organization is the closest to being able to define itself as. The organization was investing in opportunities that they believed were good for people, planet, and the economy and that there should not be any sacrifices to obtain a return on the investment. The respondent thought that their triple bottom line direction of their investment ensured sustainability.

In addition, I1 brought up the idea that there are good investments and evil investments. Their organization believed that, in the future, there should be no discussions about concept such as sustainable investment or green investment. According to this view, investments that are sustainable will be the predominant choice in the future. The respondent compared it to streaming, which 20 years ago was a technology which would be difficult to grasp and require a lot of explanation but is nowadays seen as an obvious way to watch movies and series. I6 made a similar statement, adding that they think that their fund is two steps ahead of impact investing since all their investments are sustainable.

I6 considered the organization an impact investor since it was working from the definition of The Swedish National Advisory Board for Impact Investing. This definitions is, in turn, based on IMP:s Five Dimensions of Impact and includes an investment having to produce measurable results. “So it is that in order to be defined as an impact company according to that model, there are a lot of different definitions for this, therefore, it depends a bit on who you ask. But what I like about that definition, and which we were involved in developing, is that it is then about being able to demonstrate social impact or results or outcomes.” The respondent continued stating one may need to establish a kind of “measurement universe” or an ecosystem to understand what effects the initiative has on the society. “If you do not have a structured process or a structured ecosystem or framework where you can measure and understand results, then you are not talking about an impact investment.”

4.3. Investment process

The respondents were asked to describe their investment process, in order to gain an understanding of if and how the impact assessment was included in this process. Most respondents described their investment process as standard investment process. The respondents did either have extensive knowledge and experience of the financial industry themselves or had experienced colleagues that were managing the investment process from a financial perspective. All organizations applied a sophisticated approach for evaluating their investments from a financial perspective.

However, most of the respondents outlined their investment process without mentioning any aspect of the impact side of the investment outside of the screening process. Only the largest investor (I5) was applying an integrated process in which impact was one of the areas that is embedded in all stages of the investment process.

I5 explained the organization's investment process in more detail. I5 made investments that are high risk; therefore, it had a thorough evaluation process and focused heavily on risk mitigation. One separate assessment was made for impact and one for ESG. The respondent stated "In terms of impact, we try to look at development effects or development impact. In doing so, we go through the five dimensions of impact: Who, What, How, How much, and Contribution. Then there's a separate ESG assessment, which also covers similar issues, but focuses mainly on negative impact and risks". Their team looked at issues such as gender and climate as part of both ESG and due diligence. Even before concept clearance, the impact team was involved in screening investment proposals. It examined what impacts were to be expected. In the due diligence stage, the organisation studied in more detail how each investment would meet the theories of change. "We make calculations, for example, if we are investors in this company for ten years: What do the KPIs look like today and how are they are expected to be in ten years? What is our so-called ex ante analysis?" If the investee needed to improve in an area related to its impact, a plan was created for how to achieve that. "And then if the board decides that we are going to make that investment, we start following up on what's been agreed upon. At least once a year, we collect the impact KPIs from all the investments so that we can track the development." According to I5's public reporting, the investor is an active owner and continuously engages in dialogues with investees, conducts analysis, and supports them by providing training or advice on issues related to sustainability, impact, and ESG. In the exit phase, I5 analyses the social and environmental impacts achieved to understand which relevant learnings can be useful for future investments.

4.4. Impact assessment

4.4.1. Focus on screening

The assessment methods used by the organizations varied. Overall, however, there was a large emphasis on the screening process. Many of the investors focused primarily on deciding and defining the themes of their investments. Less attention was generally put on the later stages of the investment process, such as compliance. Cleantech investors, in particular, focused more on investees within specific themes, with the underlying assumption that a particular technology will contribute to positive environmental impact. If they believed that the description of the company's business model had a strong link to sustainability in a straightforward way, the investors believed this is sufficient. The basic analysis then becomes the most important aspect of the impact assessment.

I2 stated” I do not look for what the companies present as what they are doing. I look for what the companies actually do. If a company builds windmills, I am more than pleased, there is not that much to analyse. Unless they would decide to quit the windmills and start with coal power. But that is a small risk.”

I6 made a thorough analysis in the screening process of how the products (goods and services) of their potential investees compared to other alternatives in terms of sustainability aspects. Thereafter, the investor decided whether the organization thought that this the direction the specific sector need to push for to become more sustainable in the future. If that was the case, and if the investment made sense from a financial perspective, they would decide to invest.

One of the aspects that I6 focused on in the screening process is whether a company was solving a large enough societal problem. It also needed to be a global problem and a scalable solution to solve it. When it comes to more local problems, the respondent stated, "For us, it is important to solve at least one major problem, then it may be another company's task to solve another problem." (I6)

4.4.2. Measuring impact

Overall, the view of the idea of measuring impact varied among the respondents. For example, I6 was positive towards measuring although their organization did not measure impact itself, whereas I1, that are using some types of measurements, toned down the importance of measuring impact.

Four out of six respondents did measure impact to some degree in a regular manner. Three of the interviewed organizations measured carbon dioxide equivalents (I1, I4 and I5). I4 calculated CO2 equivalent with a formula posted on its website and I1 with their own internal formula. I4 had a full-time employee dedicated to the task and made a prognosis of the future about carbon emissions avoided by the companies in their portfolio. That employee also assisted with the screening of new companies to invest in. The third investor (I5) measured CO2 emission with guidance from a number of international protocols related to ESG and impact investment. Their team was involved in investment decisions, follow ups of portfolio companies and ex ante analysis. This was the largest investor with the longest track record in this study. They had a highly qualified group working on ESG and impact investment. The investor also had substantial public reporting related to sustainability aspects.

On the other hand, two of the respondents (I2 and I6) did not use any type of measurements to assess the impact of their investment. Moreover, I2 did not see the value in measuring since the respondent thought that it was straightforward that the type of investments made by the organizations contributed to a positive impact.

The respondents with the most assessment of impact and measurements were generally the ones that received funding and have check-ups from governmental institutions. This is especially notable for one of the respondents, which made one part of their investments in collaboration with governmental institutions and one part of the investments were made with partners in the private sector. In this case, the type of the investments that is closely connected to governmental institutions was made with advanced methods for assessing the impact achieved. In the case of the investment that were only connected to the private sector, the assessment outside of the screening process were not as extensive (I3).

I3 talked about the importance of considering the effects and value that an initiative has on the society. For example, if a food waste operator provides bags with groceries to people in poverty, it can reduce the reliance on subsidies, and therefore produce an impact which will save public spending. The respondent highlighted that it is important to have a structured ecosystem or framework where you can measure and understand results. However, few actors try to prove the direct impact an initiative has on people in society according to the respondent.

Aside from the use of impact measurements from the investors, the respondents brought up various other examples of practices that help them to understand and assess the impact of their investments. I6 brought up that some investees made different types of measurements themselves, and they took part of that as a part of their ongoing research. I4 stated that their use of CO2 savings as a KPI also had other benefits for evaluating the company from an impact perspective in the initial stages. “We always ask the companies; can you send in a calculation of what you can contribute with to the climate, as well as in carbon dioxide savings. It also gives a clue about how… It becomes like a quality stamp for the company how they handle that task as well.”

I3 had an ESG workshop at the beginning of the investment process to set KPIs that they could follow up at later stages. I3 emphasized the importance of tying the goals of the organization to the business value. They would, for example, not ask a software company to start using paper mugs at their office. It had to be relevant for what the company produces.

When asked about examples of KPIs, the I5 mentioned number of women on the board and management, number of employees and CO2 emissions. I3 talked about the number of users being one metric that their organization and other stakeholders would be interested in when it comes to digital products. However, to understand more deeply the societal impact of these types of services, the companies had to themselves understand their own business metrics. I3 worked together with their investees to find suitable metrics. The respondent explained “What we do with all companies we are working with actively is that we are involved in setting different types of KPIs and metrics linked to the product benefit.”

As a part of the screening process, I2 brought up that it collaborated and took inputs from outside actors to analyse businesses from a sustainability perspective. Several respondents (I2 and I6) stated that they follow developments in the sectors of the investees and news about the investees as a part of the normal investment process. Then they would then take action if something negative would come up related to sustainability aspects.

On the topic of whether they used their own measurements to assess the impact made from their investments, I6 commented, “It is like this, our problem to solve, it is to allocate capital to the companies we identify and then, to a certain degree, that the market has identified that this needs to be supported. And then it must be someone else’s task to simply solve and to show measurements for this.” The respondent, representing an organization that currently does not measure impact, continued saying that if other organizations or the investees manage to show measurements of the impact made from a certain type of investments, this is positive since it brings more transparency. I6 took part of this type of information and was positive towards collaborating with these types of initiatives. Moreover, the respondents stated that when companies are transparent with their numbers showing their impact in terms of sustainability aspects, the market can decide if this is something it wants to support based on this information.

4.4.3. Frameworks

A number of frameworks, tools, and definitions that can assist in assessing impact were highlighted by the respondents. The Impact Management Project (IMP) was brought up by two of the respondents (I5 and I3) as a framework they had adopted. I5 stated “All our investments are analysed from an impact perspective. And then we start from the Impact Management Project, IMP. They have a so-called definition for Five Dimensions of Impact. Then we start from that as an analysis model. We look at each investment and try to define What, what impact this investment creates, Who, who experiences this impact, How Much, can we quantify the impact, and then Contribution, what is our [the investor’s] contribution to the impact that occurs, and then what is the impact Risk, what risk there is that the impact you want to give, try to reach, that it does not happen. Thus, we always define for the investment that the 'Who' that experiences the impact is at the bottom of the pyramid, that it is a direct impact on the most vulnerable or is it an indirect impact by enabling something that creates [an impact]" (I5)

Moreover, I5 was using the Theory of change to evaluate its investments. The investor had a sector-specific Theory of change for what it wanted to achieve in a particular sector. Then they made a Theory of change for every prospective investment and compared it to the sector-specific one.

Similarly, I3 used a definition from The Swedish National Advisory Board for Impact Investing, which has based its definition of the work of the IMP. According to the respondent "it is intended to function as an inspiring framework that distinguishes between responsible, sustainable and impact investments."

Regarding frameworks and tools for calculated CO2 equivalent, I4 referred to Avoided Emissions Framework from Mission innovation and WWF's Climate Solver tool, which the organization had used as a basis for developing its own calculation of the potential for reducing CO2 emissions that could result from their investees' activities. The organization also converted aspects such as energy saving, water saving or the effect of replacing coal into carbon dioxide equivalents. I5 referenced the Greenhouse Gas Protocol (GHG Protocol) in its public reporting. Moreover, I1 measured carbon dioxide reduction with the use of a standard from an international industry organization. The organization, which worked with many high-risk countries, also used an integrated system to overview the business activities of their investees in real time.

I5 was the organization that had adopted the most frameworks and tools for impact assessments. To manage its impact process, I5 said it used IFC's Operating Principles for Impact Management. The organization also used IRIS catalogue for its KPIs. Moreover, it had also adopted indicators from an international partnership with organizations in its specific field. Additionally, the organization had recently started conducting impact studies to get a better understanding of the impact used in its investments. Lastly, GIIN's definition of impact investments was used, which focuses on trying to achieve dual impact.

In addition, the SDGs were used by two of the respondents in their public communication to showcase how their investment were contributing to the goals. I5 was demonstrating how its different types of investments was supporting the many different specific indicators of the SDGs. I1 also used the SDGs to explain its contribution to the goals on its website.

On the other hand, I2 and I6 were not using any specific frameworks, concepts or KPI:s for assessing impact or their investments.

4.5. Challenges with the impact investing landscape

One new theme that arose was the challenges with the impact investing or the overall sustainable investment landscape, which could have affected the approach and attitudes towards the investment process used and the focus of the organizations. Therefore, this topic was added to the pre-existing themes.

This topic was mainly brought up when respondents compared their organizations to other organizations in the area of sustainable investments. Many of the organizations defined themselves in part by distinguishing themselves from other actors in the sustainable investment field. In doing so, respondents compared themselves to relatively different types of organizations, in part due to the different characteristics of the organizations in the study.

Most respondents gave examples of what they did not consider sustainable investments. I1 and I2 brought up commercial funds that market themselves as sustainable. The respondents pointed out that there can be minor differences in the companies they invest in for their "sustainable funds" compared to funds that are not marketed as sustainable. In addition, the frameworks and certifications related to sustainable investments that larger financial institutions and funds have implemented in recent years do not appear to have made a significant difference in the funds' holdings, according to I2. This was also something the interviewee had experienced while working in larger traditional financial institutions.

Three respondents used a large fast fashion company as an example of a business that did not have a sustainable business model and therefore could not be considered to be an impact investment. They stressed that fast fashion is promoting mass consumption and a throwaway mentality, is not good for the environment and produces clothes under circumstances that would not be legal in Sweden. I3 said that impact investing is not about this type of company carrying out one sustainability initiative, while continuing with an unsustainable business model as the main part of the business. Moreover, it was pointed out that several funds which are being marketed as sustainable have fast fashion companies as a part of their holdings. These “sustainable funds” also tend to have a higher management fee, according to I1.

One investor (I5) brought up that is important with more harmonization of frameworks, which is currently a challenge. The respondent thought that if you compare impact measurement to financial accounting, financial accounting has a long history compared to the much shorter history of impact investing. There are significant challenges to compare impact between different companies and organisations because there are many different frameworks, according to the respondent.

Likewise, the respondent commented “There are so many different areas and ways of working. It makes it difficult for individual organizations to know which direction to develop, what exactly is expected of us and, of course, if you are to compare between different companies or organizations, it is not possible because there are so many different frameworks.” (I5)

Regarding the difficulties in investigating more sustainability aspects in the supply chain of an investee, I6 stated “you cannot chase all the balls at the same time” when it comes to start-ups. The respondent continued explaining that you need to focus on just a few things if you want to become the best at it and thereby become competitive. A small organization has a limited capacity for handling multiple sustainable initiatives at once. It may not be possible to have an aim to make the entire production and transport chain sustainable straight away. If you have a product that is environmentally friendly and makes a meaningful impact, you may be able to take on one initiative to, for example, make the packaging of the product environmentally friendly as well, if that is economically feasible. But the organization is limited and cannot handle four or five initiatives at the same time, according to the respondent.

The investor commented that one major reason for not being able to focus on too many sustainable initiatives is the price competition, explaining how it works if an investee does want to add a costly sustainability aspect that it is currently not pursuing to its business model; “Then it will be either that you gradually improve production capacity to bring down prices, or receive governmental subsidies, or of course that someone just says ‘It doesn’t matter, we will take this as well. You can do that too. But let’s say that [The investee] would say that ‘now we should just have biodegradable packaging on everything’. Then you should first find someone who supplies it. And then if it is a bit like this attitude of "whatever it takes" or "whatever it costs". Then you have to have a budget for it, and then you have to have the money” (I6).

Moreover, the respondent commented that the investees have the ability to put demands on their suppliers, transport etc. to find better and more sustainable solutions, in the same way that consumers can put pressure on companies they buy products from. It is generally in the DNA of the entrepreneurs to try to find more sustainable solutions in their value chains (I6).

The challenges of investing in high-risk countries were brought up by several respondents. Many of the investors did not invest in low- and middle-income countries or other countries with a documented high risk of corruption. Some reasons for this included low level of press freedom making it difficult to check and validate information about a company or project in those countries. Moreover, it did not fit the investment profile of all the investors in the study. The two investors (I1 and I5) that worked with low- and middle-income countries were aware of the risks involved, which were described as being substantial.

4.5.1. Challenges with measuring impact

There respondents were asked about how they handle the risk of unintended consequences, which in this context refers to negative consequences of investments from a sustainability perspective.

I3 brought up the example of electrical scooters distributed in city centres. These were meant to lead in a reduction in car traffic and improved health as people moved about more by foot. However, the respondent commented that this leads to problems with electric scooters being thrown into waters and with batteries that was lost on the way. It can also lead to a negative impact on car traffic and people walked less which was bad for their health. The unintended consequences of these investments clearly outweighed the positive impact of these investments according to the investor.

I3 continued explaining how their organization would deal with these issues using the example of if they had invested in an electric scooter company "Then you have to look at it in the analysis of the company. Then we have the form of our ESG policy. We also have that we can look at companies that we have set goals for. Say that we own in an electric scooter company and then you realize that okay, but this is a huge problem, there are a lot of electric scooters being thrown in nature, etc. Then we raise our concerns and then set up a plan together with the company. And then if we, in theory then, this is not what we have had to do, but if you see that this is not a plan that is addressed in a credible way then we can divest from the company. So, it is definitely there as a tool as in the box" (I3).

I6 described the challenges and dilemmas of knowing how much measuring would be enough to achieve a comprehensive impact analysis: “Which parameter should you measure? What is the impact for a solar energy company? What is the impact? Is it how much green electricity that has been produced until today or is it how much less fossil fuel that has been used due to our solution? Or is it… This is the top level. How many customers that is using this, and how much the carbon dioxide emissions had been reduced and so on. I mean, how do you measure? How do you get a complete analysis? Or is an 80/20 a good enough analysis for such a parameter? Yes, that seems to work. But how do you do it across the whole value chain? Okay, are the solar cells produced in an environmentally friendly way? Is it the net positive emissions in their production, in transport from where they have been produced to where they are used? You can always take it to another layer. Then you ask yourself, what is enough? Identify; what is enough for an impact analysis?” (I6).

4.6. Summary

There does not seem to be a systematic or widespread approach to assessing impact among the sampled investors. The investors formulated the themes/areas that they want to invest in and how these specific areas contribute to a sustainable development (with trade-offs based on the investors’ preferences). The most important part of the impact assessment is linked to the screening process where the investors evaluate if the potential investee is living up to the criteria decided for their investment themes. There is a thorough financial investment process from the screening to after the investment has been made. However, after the screening process the impact assessment is typically less comprehensive. Four out of six of the interviewed organisations measure and report impact in a systemic and regular way. Furthermore, three respondents report carbon emission equivalents.

5. Discussion

5.1. Definition and view of impact investing

The view of what impact investing entails varied among the respondents. Half of the respondents defined their organizations as impact investors and the other haft did not. Nevertheless, in this study, it is argued that all respondents fit into the chosen definition of actors within the field of impact investing. The main reason for this, is that all the organizations had a strong dedication and high ambitions of seeking a financial return and achievements in terms of sustainability aspects at the same time. Thereby, the investors in this study fit the description of impact investments by Brandstetter and Lehner (2015). They operate in an area in between the traditional views of business and charity, with positive and negative screening, and focus on investments that produce positive social and environmental impact with limited to no financial trade-offs.

Moreover, the investors interviewed for this study could be place in the third or fourth generation of socially responsible investments, as classified by Renneboog, Ter Horst and Zhang (2007). The third generation, called “sustainability” involves both negative and positive screening, and the fourth generation also includes working to influence the management in a more sustainable direction (Renneboog, Ter Horst & Zhang 2007). All investors had positive and negative screening. Many of the investors worked very closely with the investees throughout the whole investment process, and several respondents addressed that they would make a plan with the investees to improve different sustainability issues if they were not living up to their standards. The possibility to exit investments that had major issues related to sustainability was also brought up.

The respondents that did not define themselves as impact investors did generally not want to be grouped together with organizations that fit their perception of impact investing. They also had relatively strong criticism towards these groups, although the groups varied. On reason for this could be that it is important that the organizations are perceived in a certain way by different stakeholders that they can encounter. For example, some investors did not want to be associated with the impact first investors as brought up by Glänzel and Scheuerle (2016), that compromise the investments by not seeking competitive financial returns. Other investors emphasized that they should not be associated or grouped together with investors that can be categorised as finance first investors that, according to Glänzel and Scheuerle (2016), that put financial returns before social impact. In the view of these respondents, the finance first investors they compare themselves to are using sustainability more as a marketing tool rather than having strong requirements and ambitions that their investment should lead to a more sustainable development. Thus, it can be argued that there are still signs of the conflict between the ideas of philanthropy and traditional investments which have historically been seen as standing in opposition to each other, as addressed by More et al. (2012).

Some of the implications of the results of the relative reluctance to be classified as impact investors could be that, firstly, although it can be valuable to classify different types of sustainable investments from a research perspective, being put into a specific group of investors can be viewed as something negative for some investors.

Secondly, since impact investing is a relatively new and developing field, the investors that could be a part of this field prefer to view themselves and present themselves as having a relatively unique investment concept. This is partly true for this selection since the respondents have variety of characteristics, although there are also important similarities. In this case, the respondents preferred to highlight how they differentiate themselves from different groups, rather than bringing up which organizations they are similar to.

Thirdly, there seems to be a lack of consensus to what constitutes impact investing in practice among actors within sustainable investments. As pointed out by Agrawal and Hockerts (2021), the term impact investing has been used interchangeably with and have been linked with a number of other concepts. This, together with the respondents having different views of what impact investing is, indicates that there is still some confusion to what this concept should entail among both academics and investors. Moreover, how to in the best way classify and name investments that seek financial returns while having high ambitions on achieving social and/or environmental impact, remains to some degree ambiguous and subjective. Nevertheless, suggestions for a better term to describe these investments rather than impact investing have not been found in this study. In the study, some concepts and organizations that the respondents linked to the definition of impact investing included triple bottom line, GIIN, dual impact and IMP:s Five Dimensions of Impact.

Moreover, some of the respondents had different ideas for additional requirements for the classification of an impact investment beyond the chosen definition in this study. These included putting impact first, having social responsibility as a measurable point, focusing solely on early-stage investments and being able to produce measurable results related to impact. The positive and negative implications of including measurability as a part of the definition of impact investing will be discussed more in the in Section 5.5.2. about the challenges of measuring impact.

5.2. Investment process

All the investors followed a similar investment process as outlined in section 2.2., although there were differences mostly related to the type of organization and investments made. All investors expressed that they had a standard investment process from a financial perspective. The traditional investment process brought up by Tyebjee and Bruno (1984), therefore, fits well to describe how the respondents work with their investments. Tyebjee and Bruno (1984) outline the five different steps: deal origination, deal screening, deal evaluation, deal structuring and post-investment activities. It can be noted that this traditional process is adopted for venture capitalists (VCs), and since not all of the respondents in the sample were VCs, some parts were not applicable for all respondents. Moreover, since many of the respondent had only operated for a few years, not all organizations had done an exit.

Overall, the main focus of the organizations was on the basic financial investment process which is not specific to impact investors or investors within sustainable investments. The finding that most respondents did not mention impact in the later parts of their investment process, indicates that they see it as two separate areas that are not highly connected to each other. Thereby, this suggests that any attempt to assess impact is considered an add-on to the basic investment process. They are essentially viewed as two different areas of their work process. The main difference was added criteria in the screening process. In that part of the investment process, the investors all investigated if the potential investment recipient fit the investor's impact objectives, goals, and investment strategy, in line with the description of European Venture Philanthropy Association (2018). Even though it became clear during the interviews that some components of impact assessments were included in the later stages of the investment process for all investors, this was not viewed as an integrated process, but as two separate themes to be discussed.

However, the largest investor was applying an integrated process in which impact was one of the areas incorporated in all stages of the investment process. This investor used several elements of impact assessment in different stages of the investment process, as brought up by European Venture Philanthropy Association (2018). These included setting up KPIs related to social and environmental impact in the due diligence stage. The investor made a plan with the investee for improvements in some are related to sustainability if needed. It also continuously followed up on how social and environmental targets were met. Moreover, the investor provided training for the investee if needed to be able to meet this target. Lastly, the investor evaluated the social and environmental impact achieved as a result of the investment in the exit phase.

5.3. Impact assessment

5.3.1. Focus on screening

Many of the investors seem to have put the most focus on the deciding and defining the themes of their investment. This is similar to developing a basic theory of change or an impact value chain for how the areas they are investing in are contributing to positive impact in terms of sustainable development, following the work of Jackson (2013) and EVPA (2018). The organizations then identified investment opportunities which fit into these themes and that organization thought would lead to more sustainable outcomes and a positive impact. Since they have already established in the screening process that the investment opportunity should lead to a positive impact from sustainability perspective, some of the investors did not think that they have to follow up so much in the later stages of the investment process. It is straightforward that these investments lead to positive impact according to several respondents.

There were some interesting tools and concepts used in the screening process that were addressed by the respondents. One tool to ensure that the investees meet the organisation's vision of sustainable investment was to seek input from external stakeholders to analyse the companies from a sustainability perspective. When analysing a company, its founders, and the company as a whole, some respondents highlighted that they try to ensure that it is part of their DNA to strive for sustainability.

A few respondents reasoned that an investment can be either good or bad. This can also be linked to the idea that a thorough screening process is sufficient to assure impact. In this way of thinking, there are businesses and initiatives that have a fundamental idea to achieve positive impact from an environmental or social perspective, and those that do not. Therefore, when an investor has found an investment opportunity that resonates with that theme and the type of impact that the investor would like to accomplish, the work is done. In this view, as long as an investee has a basic idea that the investor thinks will generate impact, working on an in-depth assessment of impact can be seen as a redundant activity.

In favour of this way of thinking, it can be argued that, due to sustainability and impact investing being developing fields, the subjective nature of what is considered to be sustainable practices and the ambiguities of how impact should be assessed, could make it not worthwhile or considered important for these investors to put too much of their limited resources into this area. Moreover, two respondents reasoned that all businesses would need to have a more sustainable business model in the future, when sustainability will be a natural feature. Following the chosen definition of impact investing, based on Brandstetter and Lehner (2015) and Gränzel and Scheuerle (2016), this implies a perception of traditional investment and philanthropy being in the process of moving from the traditional divide between finance first and impact first to a state in which the investments that falls into the category impact investing today will in the future standard all investments have to live up to.

5.4. Evaluating and measuring impact

The view of measuring impact varied among the respondents. Moreover, the responses were not necessarily linked to the actions of their organization. Some were positive towards measuring impact although they do not measure themselves, and others that are using some type of measurements toned down the importance.

Some of the aspects brought up was that the investors performed continuous research related to the investment in later stages of the process. They followed developments in the sectors of the investees and news about the investees as a part of the normal investment process, then they would act if something negative in terms of sustainability issues would turn up. Moreover, since some investees had their own measurements and reporting related to sustainability aspects, the investors took part of that information to assess impact. It became a quality stamp if the investees had their own measurements and they could show KPI:s for their social and/or environmental impact, and that was is seen as a positive factor since it brings more transparency. Other efforts to measure impact included having a workshop to help the investees develop company specific KPI:s at the beginning of the investment process. One of the established tools for measuring impact used by the largest investor were KPIs from IRIS as brought by Jackson (2013) and GIIN (2019).

Several respondents measured CO2 equivalent as mentioned by Pandey, Agrawal and Pandey (2011). One investor also mentioned the GHG Protocol specifically (Hickmann 2017). Another respondent specified that it measured the potential is for reduced CO2 emissions from their investees' activities but did not make any calculations after the investment was made. Moreover, CO2 equivalent was the only measure used by this respondent, even for investments that had other types of environmental benefits. In this sense, there were no unified view of whether to use standardized or company specific KPI:s among the respondents.

Two of the interviewed organizations were applying definitions based on IMP's five dimensions of impact from GIIN (2019). These five dimensions that the investors should analyse are What, Who, How much, Contribution and Risk (GIIN 2019). However, how these five dimensions were applied and at which parts of the investment process they were used was not made entirely clear during the interviews. It was clear that the organizations made use of this concept for guidance and the analysis of potential impact at the start of the investment process. Nevertheless, whether or not the five dimensions of impact was used to follow up the effects of the investments after it had been made was not clear from the interviews. It can be argued that the first two dimensions, What and Who, are mainly suitable for analysing the potential impact before an investment has taken place. The last three dimensions, however, all include aspects that also need to be assessed after the effects of the investment have occurred. These involve more challenging aspects to assess, such as for how long the change lasted and if the investment contributed to outcomes that were better than if the investment would not have occurred. These aspects were not covered in detail by this study but might be an interesting topic for future studies to uncover.

The largest investor used Theory of change as brought up by Rockefeller Foundation (2014), both for what it wanted to achieve in a specific sector and for individual investments. The setup used were similar to the one brought up by EVPA (2015), with evaluating the Inputs, Activities, Outputs, Outcomes, and Impact of an initiative. The other respondents did not mention theory of change specifically. However, all of the investors were conducting a thorough evaluation of the expected implications of the investments from a social and/or environmental perspective in the screening process. One possible explanation for the lack of usage of the theory of change by the other investors is that since it originates from programme evaluation (Jackson 2013), it may not a well-known concept among investors and other actors within the financial industry. As with IMP:s five dimensions of impact, the Impact value chain also contains parts of how an investment should be evaluated after it has been made. However, most investors did not mention any framework or structured process for evaluation of impact at the later stages of the investment process. Nevertheless, for some impact investors it might be useful to consider using one of these concepts to evaluate the impact of the investments at the later stages of the process to get a greater understanding of the effects of an investment not just from a financial perspective. On the other hand, for investors that have the perspective that is that is it straightforward what the positive impact will be, this is likely to be considered a redundant activity.

Another way to understand social and/or environmental impact is to look at an initiative from the lens of the SDGs (United Nations, n.d.). This was done by two of the investors to communication the impact or expected impact of their investments within specific themes.

An interesting measure from the largest investor was the initiation of the use of impact studies to evaluate the impact of some investments made. It can be argued that to fully understand the Outcomes and Social impact in the Impact value chain (EVPA 2015), as well as the How much and Contribution of the Five dimensions of impact (GIIN 2019), one of the few measures that could achieve this could be to conduct impact studies. However, this is likely to be a time and resource consuming process that smaller investors would find challenging to undertake.

SROI was not used nor brought up by any of the respondents. SROI measures the value of the social impact per unit of investment (Agrawal & Hockerts 2021). The idea that you could calculate an economic value for a social or environmental outcome is an interesting but challenging task. This way of thinking was brought up by one respondent who talked about how their investments in social initiatives could save money for the public. It was stressed that you need a structured framework or ecosystem to truly understand the economic and social impacts on the society and how an initiative might lead to reduced public spending for example. However, there could be a number of challenges contributing to the difficulties to calculate and express social and/or environmental impact in terms of economic value, such as difficulties to know if outside factors may play a role in the outcome. It could also be debated whether or not the benefits of an initiative need to be expressed in an economic value or if the contribution to social and/or environmental impact should be seen as bringing value to the society by itself.

SROI also addresses some aspects relevant to some other concepts and framework, such as highlighting the importance of developing a clearly formulated theory of change (Agrawal & Hockerts 2021). Moreover, “establishing to what extent outcomes have occurred because of the activities linked to the investment" is also included in IMP:s five dimensions of impact. Thereby, there are some similarities and overlaps between the different frameworks brought up in the Theoretical framework.

5.5. Challenges with the impact investing landscape

5.5.1. Impact washing

Impact washing was a concept brought up by two of the respondents, together with green washing, which is a more well-known concept. In the same way, impact washing can be seen as trying to appear to achieve or work for creating a positive impact when that is not the case, or when the achievements are substantially exaggerated. Busch et al. (2021) describe impact washing as a term used when companies use the term "impact" for marketing to attract capital or enhance their reputation without actually implementing effective solutions to address sustainability issues.

Some of the examples given by the respondents in this area were certifications for funds and financial institutions. Another issue mentioned was that some banks market their funds as sustainable without making significant changes to their holdings compared to their traditional funds, thereby misleading investors about the actual impact of their investments. This can be linked to the findings of Busch et al. (2021) stating that there are issues of impact washing with sustainability rating agencies and when the term impact investing being used in the area of listed equity.

Furthermore, large fast fashion companies trying to adopt more sustainable initiatives in only a small part of their business operations while maintaining their overall unsustainable business model was another example brought up in the study. Another factor brought up in this category was newer business initiatives that market themselves as sustainable solutions but prove unsustainable in terms of the overall consequences of doing business. In this respect, electric scooters were brought up as an example, referencing short lifespan of the vehicle and unsustainable waste disposal practices.

The potential negative effect that these issues have on the impact investors and their investees, is that it can limit their credibility when positioning themselves as an impact investor, or an organization that invests in sustainable solutions. If there are many organizations claiming to achieve a positive impact while making only small changes to business-as-usual, many outside observers may not be able to see the difference. There will be risk of the extra work put in to assure that the investees are accomplishing a positive impact from a sustainability perspective will not be noticed nor rewarded. As pointed out by Busch et al. (2021), impact washing is linked to reputational risk. This is on one hand an issue for the individual investor, but it may also lead to reputational risk for the concept of impact investing as a whole and can thereby affect all the actors within the field.

Busch et al. (2021) stress that it is important to distinguish between impact-generating investments from investments only taking social and environmental considerations into account, since the latter category can risk being accused of impact washing. In this regard, it can be argued that certifications and funds marketed as sustainable while having similar holdings to the traditional funds would risk falling into the latter category. Similarly, investors in companies that have marketing campaigns for smaller sustainable initiative while maintaining an unsustainable business model for the rest of the company may also risk accusations of impact washing if they claim that these are impact investments.

5.5.2. Challenges with measuring impact

One central issue of measuring impact is that, in large part, it is a fundamentally abstract idea. This was brought up by several respondents when posing questions such as “How do you measure growth of a local community?”. Moreover, the ambiguity of trying to compare different types of impact metrics was also illustrated by the statement “How do you compare access to water to GDP growth?”. The findings show that measuring impact is not necessarily a straightforward idea and there are a number of challenges to consider.

The issue of standardisation versus specificity when it comes to impact metrics is addressed by several researchers (O'Flynn & Barnett 2017; Grabenwarter & Liechtenstein 2012). The challenges of this area were visible among the respondents in this study. If an investor has only one type of investments, for example in one type of renewable energy, this is not necessarily an issue since the same metrics can be used for all investment, leading to comparability for the investor. However, when an investor has investments with different types of positive impacts, it presents a challenge to measure the impact in the same way. It was also brought up that it can get very complex if you choose more than one parameter.

To express the achieved impact meaningfully, a KPI should be closely linked to the activity's characteristics and its associated theory of change, according to Grabenwarter and Liechtenstein (2012). Similarly, it was brought up in the findings that it is important to tie the goals and KPIs of the organization to the business value.

Different stakeholders may have different requirements and preferences when comes to impact evaluation and measuring, and to what extent this needs to be reported. This can also be a challenge for the investors. Grabenwarter and Liechtenstein (2012) use SROI and CO2 footprint as examples of impact metric that, according to the authors, do not fulfil any stakeholder expectations in a meaningful way. SROI was not brought up by any of the respondents which may indicate that this concept is not meeting the needs of this sample of investors nor their stakeholders. However, CO2 equivalent was the most common impact metrics used in the study, which shows that it does have a perceived value among many impact investors in practice.

The majority of the respondents put most weight on impact the screening part of their investment process. It was brought up by one respondent that the number of users could possibly be used as an impact KPI. The argument there would be that if you make a thorough enough impact analysis in the screening process, establishing that the product being provided has direct positive effect on the receiver, KPIs such as number of users or number of sold products could be enough to establish the impact of the investment.

One of the organizations using a definition of impact investing based on the IMP:s five dimension emphasized that measurability should be part of the definition of impact investing. In other words, investors should be able to demonstrate measurable results related to social and/or environmental impact, according to the respondent. A positive aspect of this view could be that if all impact investors were to measure and show the impacts generated by their investments, this would lead to more concreteness and transparency and may reduce the risk of impact washing, as it would become clearer what positive impacts investors are contributing to. On the other hand, there is no consensus on how impact should be measured or how much value measurements bring, which calls into question measurability as part of the definition. In addition, measuring and evaluating impact is a resource-intensive activity. Therefore, there is a risk that smaller investors with fewer opportunities to measure impact will be excluded under this definition, and only larger investors with more resources will be able to call themselves impact investors.

5.5.3. Unintended consequences of investments

One remaining issue is the potential negative consequences of the investees' activities. For example, it is possible that the investors in electrical scooters did not foresee that there would be instances of the vehicles being thrown in the lake.

According to O'Flynn and Barnett (2017), it is relevant to consider potential unintended social consequences of investments, although this aspect is often overlooked. Unexpected impact risk if also mentioned in the IMP:s five dimensions of impact (GIIN 2019). Few respondents mentioned any structured way of dealing with the risk of unintended consequences. Therefore, the findings are in line with the statement of O'Flynn and Barnett (2017) that it is a factor that tends not to be considered to a large degree.

O'Flynn and Barnett (2017) also address the difficulty in collecting and measuring the most relevant impact data to comprehend the impact on beneficiaries as a significant challenge. This may result in unintended consequences and contextual factors being overlooked, hindering the improvement of future investment approaches. This can be linked to the findings of that one main challenge brought up was the difficulty of collecting the data from the investees. However, the connection between this and the issue of unintended consequences and contextual factors not being considers sufficiently was not evident in the study.

Unintended consequences can potentially arise both in the supply chain of an investee, such as when product is made from materials that might be not produced in a sustainable manner or with unsustainable packing. Moreover, there can be consequences after the product has been in use, such as unsustainable waste disposal. In the context of carbon footprint, Scope 3 emissions in the GHG Protocol (Hickmann 2017) may be considered unintended consequences since it concerns emissions from upstream activities in the supply chain and downstream activities of what happens after a product has been purchased. The example of unsustainable waste disposal of electric scooters can be linked to untended consequences related to downstream activities. In addition, one example from the study was whether it should be considered if solar cells are produced in an environmentally friendly way with net positive emissions in their production and transportation. This is related to Scope 3 emission of upstream activities, as brought up by Hickmann (2017). Furthermore, it is not certain what a product is substituting, which may lead to adverse effects for the health of the consumer. Moreover, risks of investee having large customers and partners that are involved in unsustainable activities were also brought up.

How the investors manage these risks are not clear in all cases, with statements that it is case to case basis. However, the dilemma of how much unintended consequences you can really account for was also addressed by the respondents. This is illustrated by one respondent asking, “What is enough for an impact analysis?” and stating that there is always another layer you can evaluate when it comes to impact. It was pointed out that one investee cannot do everything. If a business has its core focus on one area related to sustainability it cannot chase all balls at the same time. It might need put its resources into becoming competitive in that area and leave other areas for other actors to solve. This statement also highlights an important dilemma for smaller investors that may not have to resources nor the capacity to follow a variety of frameworks. If assessing impact is viewed as a complicated process, smaller investors might not think they have the ability to allocate too many resources into this area.

5.6. The future of impact investing

During the interviews, some suggestions were made on how the impact investing landscape could be developed in a positive direction. These were mainly related to how impact evaluation could be facilitated.

The findings indicate that there may be different challenges for smaller and larger investors, as well as for different types of investors. According to Brandstetter and Lehner (2015), since metrics and instruments used by larger institutional investors typically do not to fit smaller funds, the smaller and dedicated funds tend to use different sorts of positive screening for their investments. This is in line with the findings of this study suggesting that especially smaller investors mainly rely on the screening process to understand the (potential) impact of investee. Moreover, assessing social impact tends to require a lot of resources according to Agrawal and Hockerts (2021). Since it is a resource consuming process to assess impact and there are difficulties for the smaller funds to adopt metrics and instruments used by larger institutions, there could be a need to facilitate the impact assessment process for these investors.

Most respondents were positive towards initiatives and companies that measured impact and they were looking at this information in their research before and during an investment. For example, if investees evaluated and measured their impact on their own this was seen as positive by the investors. Similarly, if outside actors evaluated the impact of the type of products and activities that the investees produced or performed, this was also something they would take part of in their ongoing research. This could indicate that even though not all investors have the capacity or resources to assess and measure impact, they can be very interested in other initiatives that have attempted to do this, and this can affect their investments. Therefore, outside initiatives to understand the impact made and consequences of different initiatives have the ability to impact how these types of investors allocate their money.

According to O'Flynn and Barnett (2017), relying on a single method to assess impact may be insufficient for investors. To effectively evaluate impact, there needs to be guidance and innovation in methodologies and various approaches can be integrated and complement each other in a cost-efficient way. The large number of frameworks and methodologies for evaluating impact may be seen as challenge for the investors. Hence, easily accessible guidance to navigate among and implement impact assessment methodologies, together with a wider consensus on which methodologies to use, could facilitate impact assessment for investors.

The largest investor which used the most frameworks for impact investing, emphasized that one important development for the future of impact investing is more harmonization of frameworks. One reason for this was that there are difficulties to compare impact investing between different companies and organisations because there are many different frameworks.

In conclusion, the study found that both larger and smaller investors experienced challenges and ambiguities in assessing the impact made from their investments. Therefore, harmonization of frameworks for institutional investors and a clear and easily applicable approach for impact assessments of smaller investors could make a positive contribution to the field of impact investing. Additionally, since not all investors found impact evaluation valuable, there may be a need to communicate the value of impact evaluation and measurement for organizations that are purposing different frameworks and for the stakeholders of the investors to demonstrate that they value this activity when they do.

6. Conclusion

Based on the sample of this study, it is not possible to identify a common systematic approach to assess impact. Although most investors did not use a structured approach to assess impact throughout the investment process, all of the investors in the study applied some components of impact assessment. Specifically, all investors conducted a thorough screening process, applying positive and negative screening to assess whether an investment opportunity fit within the investment theme related to areas where the investor believed it would contribute to social and/or environmental impact. Moreover, the most common approaches beyond screening were measuring CO2 equivalent and adopting definitions or frameworks from industry organizations, such as the IMP:s five dimensions of impact or SDG mapping.

Although there was one example of an investor that took an integrated approach to impact assessment as part of its traditional investment process, most investors considered impact assessment and the financial side of the investment process as two separate areas. The respondents had different views on what impact investing entails and the extent to which impact measurement and evaluation is considered a relevant and valuable activity for investors. Furthermore, the results suggest that the perception of a divide between traditional investing and philanthropy is still prevalent to some extent and is something that investors need to adapt to, despite the fact that the idea that one can achieve financial gain and social and/or environmental impact simultaneously is becoming more widespread.

There were a number of challenges brought up in the study. Greenwashing and impact washing, measurement comparability, and the lack of framework harmonization were among the primary obstacles faced by investors. Since there is no common systematic approach to assess impact investing, the level of assessment may depend on how serious and motivated the investor is to work with sustainability and whether the analysis in the screening process is thorough enough to ensure that the companies being invested in will not do more harm than good in the long run. In addition, for someone looking at these investments from an external perspective, a lot of sector-specific knowledge and research would be required to understand whether the investments can be considered sustainable. Consequently, in the absence of a common systematic approach, it would be difficult to replicate the concept of impact investing while ensuring that a positive impact is achieved. A consequence of this is that it would generally be difficult to distinguish the more sustainable impact investors from those who using green washing or impact washing without having extensive knowledge in this area. This may risk damaging the reputation of impact investing and pose a challenge to expanding the field.

Impact investing is a relatively young and developing field. The actors are still experimenting and finding solutions based on what suits their organization and the characteristics of it. The organizations cannot focus on all aspects related to creating positive impact from a sustainability perspective, since they have limited resources to assess impact and there is not one established standardized way of assessing impact which creates ambiguities of what should be done in such assessments. Therefore, they tend to focus on a limited spectrum of impact assessment that is affected by aspects such as the reporting and communications requirements and preferences of their owners and other relevant stakeholders.

To achieve the Sustainable Development Goals, more financial resources need to be allocated to this area, and impact investing could be an effective tool to contribute to these goals. However, to ensure that investments are truly sustainable, this study suggests that there are currently challenges to understand the impact achieved by impact investors due to the lack of a widespread systematic approach for assessing impact. To tackle these issues, the findings suggest that there is a need for the existing frameworks to be more harmonized as well as for more clarity, consensus, and guidance to what should be included in an impact assessment.

6.1. Limitations and Suggestions for Future Research

This study is subject to several limitations. Firstly, since the study is focused on the investors' perspectives, the point of view of other stakeholders, such as the investees, are not considered. Therefore, it could be interesting for future research studies to address the investees and how they assess impact and their incentives for conducting this work.

In qualitative studies, the issue of generalization and the possibilities to apply the conclusions in other contexts have to be considered. As discussed in the Methods chapter, the conclusions could be applied in similar contexts of impact investors that fit the chosen definition of impact investing in Sweden, and potentially neighbouring geographical areas. To better understand the impact investment landscape in Sweden and other countries, more studies are needed to confirm the results as well as studies in other countries. However, in fields that are developing at a rapid pace there is also a risk of attitudes and methods used for impact assessment changing over time.

Moreover, it could also be interesting to make a similar study with a homogeneous group of respondents. This could potentially be done by interviewing fund managers that manages funds of banks and other large financial institutions with one specific theme within sustainability, such as cleantech.

Lastly, the limited research of the field of impact investing and the assessment methods used is to be considered a limitation since the material that could be used in the literature review is limited. This study adds to the existing research to better understand the assessment methods used in practices and the rational about assessing impact. Overall, the study is adding to existing research by contributing to filling a research gap to provide an overview of the practices used today and the challenges experienced by the impact investor to be able to develop this field further and thereby contribute to more funding for investments that can produce a positive social and environmental impact.

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Appendix: Interview guide

Introduction

- Introducing the study to the respondent
- Assuring anonymity, confidentiality, and asking permission to record the interview

Background information

- What is your job title? What is your role in the organization?
- How big is the organization? (Number of people, investment capital)
- Can you briefly describe the organization?
    - What is the focus of your investments?
    - Who are your important stakeholders?
    - How is the organization financed?
    - What type of financing do you offer to the companies you invest in?
    - How do you define impact investing? Do you identify as impact investors? Why/why not?

Investment Process

- Could you describe what your investment process looks like? (Before, during and after the investment takes place)

Evaluation

- Do you have any specific goals or requirements for your investments related to social, environmental and/or financial sustainability?
- How do you evaluate your investments?
    - How do you go about evaluating the social and/or environmental impact of your investments?
- How do you manage these questions in the different parts of the investment process? (before, during and after an investment takes place)
- Do you measure the social and/or environmental impact of your investments? How in that case?
    - Quantitative measurements? Qualitative measurements?
    - Any specific measurements/key figures/models/concepts?

- Any frameworks?
- How do you manage/consider potential unintended consequences of your investments?

Advantages and disadvantages

- What do you think are the positive aspects of working with these measurement methods/evaluation methods?
- What do you think works less well?
- What challenges and opportunities do you see with measuring and evaluating impact in general?

Additional information

- Do you have any documents/materials that can provide a more information about your organization and how you work with these issues?
- Is there anything you would like to add?