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Coping with and benefiting from institutional complexity in impact investing

Master's Thesis
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Abstract of master's thesis

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Abstract

This thesis studies how organizations cope with, or in the best-case benefit from institutional complexity. Managing institutional complexity has been a topic of interest in management research during the past decade. It is essential to an organization to manage its institutional environment which contains multiple, possibly contradictory institutional logics, which may prescribe mutually exclusive or conflicting behaviour. Failing to manage institutional complexity may lead to a loss of organization's legitimacy. Vice versa, successful management of complexity may lead to a particularly legitimate status. Research on hybrid organizing is closely related to research on institutional complexity – organizations which combine multiple logics are called hybrids. In this thesis, four Finnish impact investing and development funding organizations and their responses to complexity are studied. Impact investing is marketed as a mix of investing and philanthropy. Thus, it provides an interesting setting for studying institutional complexity and hybrid organizing.

In this thesis, four professionals working in impact investing or development funding organizations are interviewed. Qualitative research method is used to gain in-depth knowledge about how organizations experience, cope with and benefit from institutional complexity. A comparative multiple-case study method is used to allow cross-case analysis between the cases and field-level analysis of Finnish impact investing. In this thesis, organizations and individuals are autonomous actors, which are capable in using institutional logics as tools for their benefit, but are still affected by the institutional environment and logics.

The theoretical finding of this thesis is that strategic responses used by the case organizations are symbolic coupling, selective decoupling and hijacking logics, as suggested by previous research on the subject. The empirical findings of this thesis shed light on impact investing as an investment philosophy related to socially responsible investing. It is an emerging field that aims to bridge the gap between public sector and private capital to ensure funding for public sector services in times of public budget deficit. Managerial implications follow that managers in organizations should be aware of institutional complexity to be able to consider and execute appropriate strategic responses. Institutional complexity poses a risk but also an opportunity for organizations to benefit from a mix of institutional logics. Field-level implication for impact investing organizations is that a new field benefits from a pioneer organization that takes the primary responsibility for legitimating the emerging field, thus making it easier for willing organizations to follow. Implication for the public sector is that impact investing should be considered as an innovative, potential and basically risk-free funding mechanism for the public sector.

Keywords Institutional complexity, Impact investing, Institutional logics, Hybrid Organizing

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Tiivistelmä

Tämä tutkielma keskittyy selvittämään, miten organisaatiot selviävät tai parhaassa tapauksessa hyötyvät institutionaalisesta kompleksisuudesta. Institutionaalisen kompleksisuuden hallinta on ollut yleinen tutkimuksen kohde neoinstitutionaalisessa tutkimuksessa viimeisen vuosikymmenen aikana. On tärkeää, että organisaatio hallitsee institutionaalista ympäristöä, jossa on lukuisia, mahdollisesti ristiriitaisia institutionaalisia logiikkoja, jotka ohjaavat toisensa poissulkevaan käytökseen. Puutteellinen kompleksisuuden hallinta voi johtaa organisaation legitimiteetin häviämiseen, ja siten estää pääsyn tärkeisiin resursseihin. Päinvastoin, onnistunut kompleksisuuden hallinta voi johtaa erityisen legitiimiin asemaan. Hybridiorganisaatioiden tutkimus liittyy läheisesti institutionaaliseen kompleksisuuteen – organisaatioita, jotka yhdistelevät institutionaalisia logiikkoja, kutsutaan hybrideiksi. Tässä tutkielmassa tutkitaan neljää vaikuttavuus- ja kehitysinvestointiorganisaatiota. Vaikuttavuusinvestointia markkinoidaan sijoittamisen ja hyväntekeväisyyden yhdistelmänä. Niinpä se mahdollistaa mielenkiintoisen asetelman kompleksisuuden ja hybridiorganisoitumisen tutkimiseen.

Tässä tutkielmassa haastatellaan neljää vaikuttavuusinvestoimisen ja kehitysinvestoimisen asiantuntijaa. Kvalitatiivisella tutkimusmenetelmällä pyritään saavuttamaan syvällistä tietoa siitä, miten organisaatiot selviävät tai hyötyvät kompleksisuudesta. Komparatiivinen monitapaustutkimus mahdollistaa vertailevan asetelman ja analyysin tapausten välillä, sekä analyysin vaikuttavuusinvestointikentästä Suomessa. Tässä tutkielmassa organisaatiot ja henkilöt ovat autonomisia toimijoita, jotka käyttävät institutionaalisia logiikkoja hyödykseen, mutta ovat silti institutionaalisen ympäristön ja logiikkojen vaikutuspiirissä.

Tutkielman teoreettinen löydös on, että organisaatiot käyttävät strategisina responsseina symbolista sitoutumista, valikoivaa irtisanoutumista ja logiikkojen kaappausta, kuten aiemmissa tutkimuksissa on havaittu. Empiiriset löydöt kuvaavat vaikuttavuusinvestointia vastuulliseen sijoittamiseen liittyvänä sijoitustapana. Se on kehittyvä kenttä, jonka tarkoituksena on toimia siltana julkisen sektorin ja yksityisen pääoman välillä, sekä turvata julkisen sektorin palveluiden jatkuminen julkisen sektorin budjettialijäämän aikana. Johtamisen kannalta tärkeää on, että johtotason henkilöt ovat tietoisia institutionaalisesta kompleksisuudesta. Kompleksisuus on organisaatioille sekä riski että mahdollisuus hyötyä logiikkojen yhdistelmästä. Kehittyvä kenttä hyötyy pioneeriorganisaatiosta, jolla on johtava rooli kentän legitimoinnissa, jotta muiden organisaatioiden on helpompaa seurata tämän jalanjäljissä. Julkisen sektorin on hyvä huomioida, että vaikuttavuusinvestoiminen on innovatiivinen, potentiaalinen ja käytännössä riskivapaa rahoitusmekanismi julkisen sektorin palveluille, joka mahdollistaa myös kustannussäästöjä ennaltaehkäisevyydellä.

Avainsanat Institutionaalinen kompleksisuus, Vaikuttavuusinvestointi, Institutionaalinen logiikka, Hybridiorganisoituminen

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1. Introduction

The purpose of this thesis is to study how organizations cope with possibly contesting logics without losing their legitimacy, or turn the situation upside down and benefit from the mix of logics in an emerging field to gain legitimacy. My goal is to identify how the studied organizations face challenges from contesting logics, or institutional pluralism and complexity, and how they may try to solve these challenges. In addition, this thesis aims to draw field-level conclusions on how the emerging field and institutional logic is being constructed and what challenges are in the agenda to be solved to legitimate it.

1.1. Background, topic and significance

The setting of this thesis involves organizations that are in the business of creating and developing innovations that aim in solving critical social and environmental problems. Some of these challenges include a wide range from global warming and climate change to inequalities in income and wealth between and inside nations and socio-economical classes. While the governments and public organizations try to solve these challenges, the private sector and private capital is offering its helping hand – while simultaneously building business cases and seeking profits. Historically, stances about the private sector participation in social and environmental problems and corporate philanthropy have varied greatly. Now the corporations and organizations face pressures to behave responsibly and are expected to participate in societal problem solving and development. One embodiment of this development, and the case of interest in this thesis, is the innovation of investment philosophy called *impact investing*.

Impact investing is one of the newest social innovations in the finance industry. It could also be framed as an innovation in philanthropy and public sector's welfare services. Impact investing is a relatively new term which refers to an investment philosophy which aims to address social and environmental issues while also creating profits for the investors. In Finland, first investments have been made with this new investment logic. Private and public organizations are cooperating to create the new emerging field and ecosystem. This emerging field still seeks its identity, legitimacy and practices, as well as established institutional boundaries and rules. It is still affected by established beliefs about traditional investing and philanthropic activities, and many cannot distinguish it from the more established field of socially responsible investing, which has become established and somewhat mainstream during the last decade.

Some organizations, like impact investors, creatively combine business logic and philanthropic logic (Birkholz & Santos 2015). In general, social enterprises participate in social intervention, and help people in disadvantaged position; their goal is to fit in the gap left by governments, charities and not-for-profits by innovating solutions that often combine business to social practices, such as microloans to developed countries (Kroeger & Weber 2014). Social entrepreneurship is growing in popularity (Grimes et al. 2013). Social entrepreneurship is defined by its mission to solve social problems, such as poverty, in contrast with traditional entrepreneurship which only aims in maximizing profit. As the operating logic of social enterprises is different from conventional ones, they might have challenges in getting funding. Social investing, and impact investing in particular, is a solution that answers to that demand (Mendell & Barbosa 2013). Therefore, leaving the connections of impact investing to social entrepreneurship unacknowledged would be unacceptable. However, social enterprise as a body of research is not in the scope of this thesis.

Neo-institutional research on institutional complexity has been a popular framework for researching social enterprises and social entrepreneurship among scholars. After all, in social businesses the unique mix of social welfare logic and business logic intertwine in novel, surprising ways enabling societally beneficial innovations. In some cases, the complexity may also be challenging if the logics prescribe incompatible behaviours and set different goals and ideals. Therefore, social enterprises, which impact investment organizations can be categorized as, provide an interesting area of study. Moreover, impact investing has not been investigated academically to a great extent yet. To my knowledge, impact investing has not been a subject of Master's thesis in Finland before this. Impact investing deserves to be researched for academic purposes but for practical, organizational and societal reasons too.

This thesis may be interesting for scholars in the areas of sustainability, social investing, social entrepreneurship and finance. Also, scholars specialized in neo-institutional theory and research may find my findings useful. Hopefully, the research will be useful for professionals working in the field of impact investing or social entrepreneurship. The practical goal of this thesis is to provide some answers to how navigate in institutionally complex environments and possibly leading to concrete practices and managerial skills. In the societal level, I hope to be advancing the fields that are trying to solve these pressing issues in society and environment.

1.2. Research problem, literature and research gap

My research addresses theoretical and practical concerns of hybrid organizations and fields operating under demands and guidance of multiple logics prescribing possibly contradictory ideals and modes of operations. I have built the theoretical framework on the body of research on neo-institutionalism concerning legitimacy-seeking, institutional logics and complexity, and hybrid organizing.

A lot of research has been done in order to understand the organizational reality in institutionally complex environments. When early neo-institutional research focused on field-level isomorphism, or why organizations tend to gravitate towards similar structure and appearance (DiMaggio & Powel 1983), more recent research has been interested in why and how organizations experience the institutionally pluralistic reality - how institutional logic guide the behaviour of organizations and fields (Kraatz & Block 2008). Contemporary neo-institutional research views individual and organizations as more independent and capable actors who use various logics purposefully and actively, not only as puppets that are subordinated for the will of the logics (McPherson & Sauder 2013).

Research on institutional complexity has described different types and degrees of complexity, as well as typical or ideal organizational responses and structures to those different types (Raynard & Greenwood 2014) However, more light needs to be shed on those organizational responses to understand better how institutional logics coexist in and are being used by hybrid organizations. In addition, more understanding is needed regarding impact investing organizations and their strategies when their level of complexity and position in the emerging field are taken into consideration.

1.3. Research objectives and question

I aim to describe and explain in this thesis how Finnish investing organizations, operating according to or close to the emerging logic of impact investing, experience and respond to institutional complexity. In addition to the main research question, I try to draw analytic generalizations regarding hybrid organizing and organizational strategies built to respond to institutional complexity. Secondly, my thesis provides understanding in what kinds of legitimacy challenges a nascent field, built on possibly contesting logics, may face in its journey towards a socially legitimate, institutionalized field. Also, this thesis adds understanding in defining impact investing in relation to socially responsible investing, traditional investing, philanthropy and public sector's financing models.

1.4. Empirical data gathering and research setting

This multiple-case study was limited to four organizations because it provided an optimal compromise between empirical richness and analytic depth, and heterogeneity and generalizability of the cases. Three of the organizations I researched are located in Finland, and one is an international investing organization that has branches located in the Nordic countries. Two of the organization's work only with Finnish projects - one has operations in the Nordic countries and one has projects in third world countries. Research data was gathered between May 2016 and June 2017, and the main research data was gathered from interviews with experts between October and December 2016. Data used for triangulation purposes may contain historical information from the recent years gathered and published by the case organizations on their internet pages. For example, descriptions and rationale of mission, strategy, services and projects done by the organizations serve this purpose. The case organizations are either directly working with impact investing projects, or follow investing logic that can arguably be labelled as impact investing logic in a broad sense. The reason to allow this somewhat loose definition of impact investing logic is to serve the multiple-case design. It allows better setting for theoretical replication and cross-case comparison, and allows field-level analysis. Moreover, the impact investing field is in very nascent state in Finland and the possible cases are not numerous. In addition, all the organizations provided good cases for the theoretical interests of this thesis considering institutional complexity and hybrid organizing.

2. Literature review

I will start the literature review by summarizing research on impact investing. It should be noted that not many papers have been published about impact investing – this review is complete to my knowledge. After discussing research on impact investing I will continue to review literature on neo-institutional theory, more specifically literature on legitimacy, institutional complexity and institutional logics. I will also reference to research on hybrid organizing. I end the chapter by summarizing the theoretical framework for this thesis.

2.1. What is impact investing?

Impact investing is an emerging investment philosophy, or a set of guiding principles, that combines elements from mainstream investing and philanthropy (Birkholz & Santos 2015). Impact investors seek profits but they also want to contribute to the societal and/or environmental well-being simultaneously, and measure impacts (Mendell & Barbosa 2013; Höchstädter & Scheck, 2014). World Economic Forum's report (2013) about the state of the impact investing sector adds two necessary conditions for impact investing: intentionality and the measurement of the impacts. Intentionality means that the investment is purposefully aiming for the environmental and/or social improvements. Measurement of the impacts should be easy and simple enough, for example a concrete goal to improve employment rate number of young adults.

Impact investing has not yet been researched academically to a great extent (André 2015; Birkholz 2015). Grabenwarter & Liechtenstein (2011) draw early definitions on the nascent field of impact investing, giving five conditions that need to be fulfilled: intentionality, aiming for profit, positive correlation between profit and social impact, measurable impact and positive net effect on society. Mendell & Barbosa (2013) discuss the state and development of the impact investment industry and identify a lack of finance liquidity among the field of social enterprise and call for secondary financial markets that would allow investor exit, which would be vital for institutional investors. This would require bigger markets and impact investing instruments that would be available for small investors too. Jackson (2013) discusses the importance of evaluation in impact investing and introduces a theory of change as a possibility to understand and develop the field, and Evans (2013) draws on contract theory to suggest framework for impact investors to help to understand situations where and how impact investment can be done without trade-offs. Reeder et al. (2015) studied the measurement methods and practices of impact investing, and propose that even though there is a differentiator and strength of impact investing, they are still far from sufficient. Wood et al. (2013) emphasize the role of policy-makers to enable the development of the field. Birkholz's (2015) dissertation studied impact investing and social entrepreneurship from the neo-institutional perspective in addition to André (2015), who linked resource dependence theory to neo-institutional approach to study how impact funds respond to pressures to manage societal performance. In conclusion, research on impact investing has concentrated on defining it, discussing the measurement and evaluation of projects, the development of the impact investment market, and how the organizations should respond to multiple stakeholders that may not have the same demands.

In the centre of discussion is the concept of "impact". Brest & Born (2013) discuss the conditions where impact investments could have real impact. They find additionality being a central concept, that is to say the investment will produce impacts that would not have been materialized without the impact investor's investment – for example, the social enterprise would not have received funding from traditional investors. They suggest that in efficient markets, there are always trade-offs. If the financial markets are not efficient, then there is a chance that impact investors could have information that others don't, and so market-rate returns (or even above) would be possible while simultaneously creating real positive social impacts. Concessionary investments (or below market-rate return investments) are as a matter of fact a form of charity – the sacrificed return is donated to the target enterprise (Brest & Born 2013). By this logic, impact investments are constructed from two distinct building blocks: a traditional investment and the donated part of the profits. Thus, an impact investor operates with two distinct logics – investment logic and philanthropic logic.

According to Brest & Born (2013), impact investments that have real impact cannot produce market-rate returns, which is a conclusion derived from the additionality condition. Additionality means that the project would not happen without the impact investor – traditional investors would not invest because they would require bigger returns. They imply that there is a trade-off between financial and social outcomes. Grabenwarter & Liechtenstein (2012) take an opposing stance and argue that the very concept of market-rate return is not accurate when speaking about impact investing. In their view, impact investing should be compared to venture capital and framed as illiquid asset class, which makes it obsolete to discuss whether it provides market-rate returns or not. They also see no trade-offs in "true impact investing" because financial and social impacts are positively correlated; the impact goals are included in the social enterprise's business goals – therefore the better they have succeeded in achieving their social and business goals, the bigger are the profits. They suggest that without the positive correlation social investments can be labelled as philanthropy. However, future quantitative research may be able to shed more light on this debate, when there is enough performance data from impact funds for comparisons.

In conclusion, impact investing is a nascent, emerging field that creatively combines logics from traditional investing and philanthropy, which may be mutually contesting (André 2015; Birkholz & Santos 2015). Birkholz & Santos (2015) perceive the role of impact investing in supporting social enterprises by providing them funding. It may be difficult for social enterprises to receive funding from traditional investors. Whilst social enterprises need new financial mechanisms, actors in the field of impact investing have challenges in convincing institutional investors and policy-makers (Wood et al. 2013), and creating universal evaluation and measurement practices and methods to create a stable and legitimate institutional field. In this complex emerging field, it is crucial to manage this complexity to gain and maintain legitimacy.

2.2. Foundations of neo-institutionalism

According to Battilana & Lee (2014) and Birkholz & Santos (2015), impact investing provides an interesting area of study for neo-institutional research on institutional complexity. Thornton & Ocasio (2008) describe the birth of neo-institutionalism as the result of Meyer's & Rowan's (1977) notion about societal isomorphism. It was followed by DiMaggio's & Powell's (1983) concentration on isomorphism on organizational level. Tolbert & Zucker (1983) emphasized on legitimacy seeking as the main factor contributing to the behaviour of organizations. The notion is still relevant, as Kraatz & Block (2008) portray legitimacy as a vital resource for organizations from the neo-institutional perspective. In conclusion, early neo-institutional research concentrated on why organizations tend to become similar with each other, later research emphasized on the legitimacy-seeking process of organizations.

In the centre of neo-institutionalism is the idea of organizations as entities seeking primarily legitimacy. Suchman (1995: 574) defines organizational legitimacy as *"a generalized perception of appropriateness and desirability which fits in the values and norms of a given socially constructed system"*. Legitimacy has been thought to provide organization a mandate to operate in the society and provides access to important resources (Pfeffer & Salancik 1978). If an organization is judged to behave inappropriately, it's legitimacy might become questioned (Suchman 1995; Palazzo & Scherer 2006). Without legitimacy the organization cannot operate efficiently (Dart 2004), and its financial performance may be affected negatively (Zuckerman 1999). Since legitimacy is necessary for an organization, we need to understand how it is determined what is legitimate. Therefore, we need to understand what institutional logics are.

2.3. Institutional logics

Institutional logics are the mediums that convey prescriptions about legitimacy. Institutional logics are a macro-level phenomenon that affect organizations and individuals (Friedland & Alford, 1991). Thornton & Ocasio (1999: 804) define institutional logics as social constructs that are based on *"historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and* *reproduce their material subsistence, organize time and space, and provide meaning to their social reality"*. Dunn & Jones (2010: 114) describe institutional logics in a more concrete fashion as *"cultural beliefs and rules that shape the cognitions and behaviors of actors"*. Thus, institutional logics carry means to make judgments about an actor's legitimacy. Examples of institutional logics used in the literature have been, to mention a few, development logic (helping the poor) and banking logic (maximizing profits) in microfinance organizations (Battilana & Dorado, 2010), care logic and science logic in medical education (Dunn & Jones, 2010), the multiple logics of criminal punishment, rehabilitation, community accountability and efficiency in a drug court (McPherson & Sauder 2013), and investment logic and philanthropic logic in impact investment organizations (Birkholz & Santos 2015). Institutional logics are various, but how much do they affect individuals and organizations?

Research on institutional logics has emphasized field level institutions' effects on organizations from a coercive viewpoint, where institutional logics dictate organizational behaviour (Kraatz & Block 2008). In contrast, McPherson & Sauder (2013) depict organization members as active actors using institutional logics as tools which may be deployed depending on the situation to achieve their goals. In their study, professionals from different institutional backgrounds, for example, hijack others' institutional logics to influence them in order to advance their agenda. Thus, for example managers have the ability to creatively deploy various sets of institutional logics in institutionally complex environments in order to pursue organizational and personal goals.

2.4. Institutional pluralism and complexity

Organizations and organizational fields may be subject to influence from a multitude of institutional logics (Thornton & Ocasio, 1999; Thornton 2004; Scott 2008; Thornton & Ocasio 2008) resulting in institutional pluralism, being *"multiple things to multiple people"* (Kraatz & Block 2008: 4). It might be a normal, rather than exceptional, situation for most organizations (Schildt & Perkmann, 2016). For example, McPherson & Sauder (2013) identified four different logics affecting the work of drug court. Many studies have, however, deployed only two distinct logics (e.g. Battilana & Dorado 2010; Dunn

& Jones 2010; Birkholz & Santos 2015). While earlier literature predicted eventual domination by one logic (Greenwood et al. 2002), Purdy and Gray (2009) theorize how multiple logics may abide in emerging fields and survive for long term, and Meyer & Höllerer (2010) suggest that plural logics may coexist, contest, settle for a temporary peace or compromise. Institutional complexity has been an area of research in the field-level (e.g. Purdy & Gray 2009), in the organizational level (e.g. Battilana & Dorado 2010; Pache & Santos 2013) and in the micro and actor-level (e.g. McPherson & Sauder 2013). Neo-institutional research has no consensus whether pluralism leads to harmful complexity or not, and what are the circumstances where multiple logics may co-exist for long periods of time. Some research does take stance that sometimes complexity arises.

Sometimes institutional logics are conflicting, contesting or incompatible (Kraatz & Block 2008), when they carry contradictory prescriptions about legitimate behaviour. In some cases, the logics may be conflicting but not incompatible (André 2015). Organizations face demands from multiple audiences and it is not possible to satisfy them all (Suchman 1995; Pache & Santos 2010). In practice, there may be external and internal pressures, for example coming externally from customers and internally from employees with different backgrounds carrying different institutional logics. When institutional pluralism is perceived challenging due to incompatible institutional logics the term *institutional complexity* is often used (Greenwood et al. 2011). Failing to manage institutional complexity may lead to legitimacy problems (Kraatz & Blok 2008). A growing body of literature has researched different settings of institutional complexity (eg. Thornton 2002; Purdy & Gray 2009; Battilana & Dorado 2010; Pache & Santos 2010; Greenwood et al. 2011; McPherson & Sauder 2013; Smets & Jarzabkowski 2013; Birkholz 2015) Although challenging complexity seems to be a real threat, it may be also used for benefit.

Institutional logics may sometimes be complementary or supportive, or they may be used in innovative and creative combinations to satisfy multiple demands and goals in institutionally complex settings (Smith et al. 2013). Kraatz and Block (2008) believe that success from the viewpoint of multiple different logics may result in "especially legitimate" outcome. As an example, a successful micro-finance organization succeeded in its social mission but was financially profitable at the same time (Battilana & Dorado 2010). These organizations are widely accepted because they are able to satisfy demands of multiple stakeholder groups.

Raynard and Greenwood (2014) conceptualize four distinct types of institutional complexity: segregated, restrained, aligned and volatile complexity. Raynard (2016) further develops the framework by arguing that the type of the complexity is determined by three factors: 1) the degree of incompatibility of the logics, 2) logic prioritization in the field and 3) the jurisdictional overlap of the logics. She points out that earlier it has been assumed that degree of complexity is simply determined by the quantity of logics, but also the relative powers of the groups making demands and the degree of compatibility of logics affect the perceived degree of complexity. Moreover, if the field has generally accepted prioritizations, for example traditional investing logic dominating philanthropic logic, the degree of complexity is lower than if prioritizations don't exist. Jurisdictional overlap refers to the situation where the logics lay prescriptions over same matters, for example traditional investing logic and philanthropic logic trying to prescribe how decision should be made in a single investment case.

2.5. Hybrid organizing

The formation of organizations takes place in three levels, where *"individuals (are) competing and negotiating, organizations (are) in conflict and coordination, and institutions (are) in contradiction and interdependency"* (Friedland & Alford 1991: 240–242). Coexistence of multiple institutional logics may enable blending and hybridization (Meyer & Höllerer 2015) leading into a hybrid organization (Battilana & Lee 2014). According to Pache and Santos (2010), one factor behind the phenomenon of increase in conflicting institutional demands is that many organizations employ hybridity and adapt multiple logics intentionally. These hybrid organizations combine, for example, social welfare logics and commercial logics (Battilana & Dorado 2010) or state, market and civil society logics (Jay 2013).

Scholars have started considering the "black box" of organizational responses by strategic management practices used by hybrid organizations under institutional complexity (Battilana & Dorado 2010; Battilana et al. 2012, 2014; Greenwood et al. 2011; Jay 2013; Reay & Hinings 2009) as well as into micro-level actions and tactics used by organizational actors (McPherson & Sauder 2013). Moreover, Battilana and Dorado (2010) and Kodeih and Greenwood (2014) discuss the importance of institutional and organizational identity building in responding to institutionally complexity and pose complexity mainly as an opportunity, not as a threat.

Moreover, Kraatz and Block (2008) identify four strategic organizational responses to institutional complexity: 1) Deleting or marginalizing logics, 2) creating cooperation and interaction between the advocates of different logics, 3) emerging as an established institution or 4) compartmentalizing different identities. Pache and Santos (2013) find that selective coupling, meaning a creative use of scripts and templates drawn from multiple logics, is an effective way to manage institutional complexity in hybrid organizations. Greenwood et al. (2011) distinguish strategic and structural responses to institutional complexity and summarize responses proposed by literature. To further elaborate, they discuss, to mention a few, the roles of human resource practices, organizational identity and boundary management, structural separation and so on.

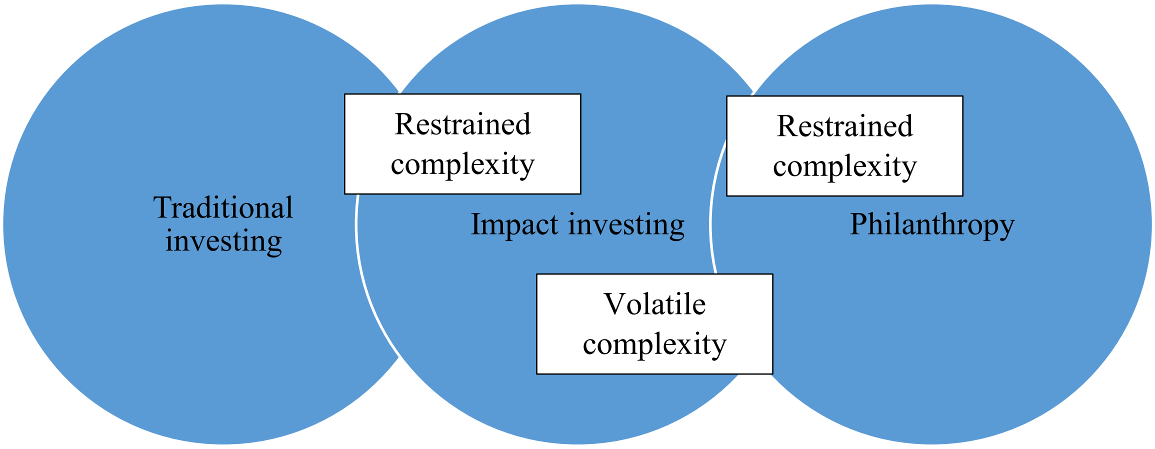
Greenwood et al. (2011) identify two distinct structural configurations for hybrid organizations drawing from Simsek (2009): blended and structurally separated. Blended hybrids mix the multiple logics under the same organizational unit, whereas separated hybrids compartmentalize different operating logics into separate units. Raynard (2016) further develops the framework of structural configurations around the idea of blending or separating (table 1).

Table 1. Structural, strategical, practical and procedural recommendations for different types of complexity (Raynard 2016)

Type of complexity	**Recommended structures and strategies**	**Recommended practices and procedures**
Segregated complexity	Dedicated unitary structure or structurally compartmentalized units	Boundary re-inforcing practices and dispute arbitration procedures
Restrained complexity	Symbolic decoupling or mirroring the settled prioritization of the field	Recalibrating organizational structures and identity
Aligned complexity	Blended hybrid structure	Extensive blending of logics
Volatile complexity	Federated or task-based structure with semi-autonomous units	Flexibly invoking multiple logics while maintaining their distinction and resilience

Birkholz and Santos (2015) divide the field of impact investing to three different categories drawing on the categorization of institutional complexity by Raynard and Greenwood (2014): At the margins, there are positions which are closer to either traditional investing logic or philanthropy logic (but still a combination of both) and at the centre position the distance to both are equal (both logics combined equally). The margin positions are under restrained complexity while the centre position is under volatile complexity. Restrained complexity, according to Raynard and Greenwood (2014), is easier to deal with than volatile complexity.

Figure 1. Restrained and volatile complexity in the field of impact investing (Birkholz & Santos 2015: 60, 63)



Organizations that are closer to either traditional investing or philanthropy experience restrained complexity, depicted in figure 1, and have two options for responding: employing symbolic coupling or structuring hierarchically. Symbolic coupling has its advantages and disadvantages. It does not require much efforts (for example publicly declaring compliance to logics they are not going to follow) and might help to raise resources from multiple stakeholder groups, but might result in loss of legitimacy if the symbolic nature of their commitment would be exposed. Hierarchical structuring means that the organization actually does follow both logics to an extent (for example measure social and environmental impacts but still position financial gains above them in the end), but with a clear prioritization.

Birkholz and Santos (2015) build a framework for impact investors located in volatile complexity and model three organizational configurations: federated, network-modular and generative hybrids, which are explained in table 2. Federated impact investors are organizations that have a separated structure where different departments handle projects in alignment with one different logic each (for example a department to handle investments from financial basis and another to invest in a philanthropic fashion).

Generative hybrids, on the other hand, have a blended structure where logics are synthesized creatively (Raynard & Greenwood 2014). Network-modular impact investors cooperate throughout the field with actors from restrained and volatile complexity (for example with more traditional investment funds, philanthropic organizations etc.)

Table 2. Three models of hybrid organizations under volatile complexity (Birkholz & Santos 2015: 87)

	Federated Impact Investor	**Network-modular Impact Investor**	**Generative Hybrid Impact Investor**
Key characteristics	Distinct, separated units catering for each of the two relevant logics	Network of individuals or organizations working together in a task- or project oriented way	The "organization as a whole is engaged in dynamic and innovative syntheses of elements from different logics" (Raynard and Greenwood, 2014:30)

Birkholz and Santos (2015) give recommendations for each type of impact investors from three organizational dimensions: people management, performance measurement and goal definition. They also suggest for future research: 1) Developing a general model for hybrid organizing, 2) studying why organization prioritizes one logic and remains close to the mature institutional field or vice versa, why it strives to a more central position in the emerging field, 3) focusing on the antecedents of the three organizational configurations (for example how the backgrounds or board members and executives affect the outcome in organizational configuration), and 4) researching also other organizational dimensions, for example strategizing, incentive structures and governance.

2.6. Summary of the literature review

Neo-institutional research studies social reality through the scope of institutions - how institutions form, change, exist over periods of time, and dissolve, and how the institutions shape social reality and affect the society through organizations and individuals. Institutions at large construct the institutional environment, which influence individual organizations. For individual organizations to survive, they need to be legitimate in the institutional reality. Contrasting to economics, it is not enough for organizations to be economically successful.

Institutions affect organizations and individuals through institutional logics which prescribe the ideal and appropriate behaviour. Institutional logics are carried over by rules, norms and habits. One way to describe institutional logics is by the viewpoint of an individual who behaves in a certain way not because he thinks about what is right or wrong, but rather that the choices he perceives are the only ones that he cognitively realizes and that there really are no alternatives (Suchman 1995). However, another point of view considers individual and organizational actors as active and aware users of institutional logics (McPherson & Sauder 2013). I tend to gravitate towards the latter view. Although institutions affect individuals, it is up to individuals to make the last judgment and decision.

Organizations are formed by individuals that make sense of the institutional reality individually and collectively. The organizational reality is the product of that sense-making activity. Organizations are guided by institutional logics but they have autonomy over how they respond to the prescriptions of those logics. Organizations may combine logics creatively and make use of multiple combinations of logics depending on their environments and goals. These kinds of organizations are called hybrid organizations. Organizational responses to complexity may be strategical and tactical, and deliberate or unintentional.

Sometimes the institutional logics may clash or prescribe contradictory goals and ideals. This is thought to cause a threat to the organization’s legitimacy. In theory, the organization that experiences institutional complexity needs to act to reduce the complexity or solve it some other way. There have been different stances whether multiple logics may remain over a long period of time, or if one logic will eventually win the battle over the others. Also, combinations of logics may form new institutional logics. However, for new institutional logics to become legitimate takes time and effort.

Some types and degrees of institutional complexity have been identified. It is not only the number of logics at play that determines the complexity but also their mutual compatibility. It is thought that the more complex the institutional environment is, the harder it is to navigate through. Therefore, reducing complexity would benefit the organization. Strategic decisions made by organizations determine whether they succeed or fail in it.

Some of the strategies and tactics mentioned by the research on institutional complexity and hybrid organizing are symbolic coupling, selective decoupling, logic hijacking and hierarchical structuring. Organizations may symbolically commit to some institutional logics but follow others. They can also deny following some logics but still do it. They may also “hijack” logics from other institutions – use their methods and language to persuade more followers and therefore legitimacy. Lastly, organizations may prioritize logics so that one logic is more important than the other(s).

3. Research design and methods

In this chapter, I will outline the research design and methods I used in my research. I will also describe the data gathering and analysis process. I will end the chapter by evaluating the research and discussing research ethics.

3.1. Research approach

I chose the multiple-case study method to gain in-depth understanding of the emerging, complex and scarcely researched field of impact investing. Multiple case study method is especially good in theory building as it seeks to confirm emerging constructs and propositions in each case independently (Santos & Eisenhardt 2004), and good at explaining complex phenomena with rich descriptions (Bishop 2010). The purpose of case study is to get similar findings across the cases, or if the findings are not consistent, explain why so (Yin 2013). A qualitative method of inquiry is especially suited for research in an emerging field where theory is new and incomplete and the phenomenon is still quite unknown. Moreover, multiple-case study method allows for comparative analytical methods and an overall view of the field. Therefore, this thesis could be also labelled as a comparative case study.

The case study research method starts with a comprehensive literature review followed by careful planning of research questions and design. (Yin 2013) Research design is the logic that connects the gathered data to the initial research questions. It is very important to define the case carefully. (Ibid.) When designing a research, the researcher should pay attention to research questions, study propositions, study's units of analysis, the logic of data analysis and the criteria for interpretation of the research findings. (Ibid.) In case study research, there are more objects of interests than there are data points, the case is complex, data are gathered from multiple sources and previous research is used in designing the study. Case study is more than just a tactic of data collection or design feature, but rather a research method that covers also approaches to data analysis. (Ibid.) I have followed these principles in this research. I started with reading different fields of research to discover what would be the best for explaining the phenomenon, the rise of impact investing, that I was interested in. Then I identified some organizations that were starting to experiment with the new investing philosophy in Finland – or were going to a similar way even if they were not officially practicing impact investing.

Research may be exploratory, descriptive or explanatory. A case study is particularly good when attempting to answer "how" or "why" cases and when in-depth descriptions of the investigated social phenomena are needed, and therefore it is good for pursuing explanatory purposes. The strength of case study method is its ability to make use of various kinds of evidence, including both quantitative and qualitative evidence. (Ibid.) Impact investing could be labelled as socially complex phenomenon. It is still in a nascent state, and the concept was first introduced under a decade ago. It combines investing and philanthropy, which are not traditionally paired up, since the former concentrates on making money and the latter in giving it away. This new philosophy requires new practices and new kinds of operating models. I chose the case study method to be able to provide explanatory answers to "how" and "why" -questions.

A case study is a method of doing empirical research where real-world phenomena are investigated in-depth and it's not always easy to distinguish the phenomenon from its context. (Ibid.) This is especially true in the nascent field of impact investing. It is a new, vaguely defined and debated concept among scholars, investors, philanthropists and the public in general. It is difficult to distinguish where investing ends and impact investing starts, or where philanthropy turns into impact investing, or where a public project turns into a venture funded by impact investment vehicle.

A multiple-case study is a form of case study research. (Ibid.) Also, multiple-case studies are generally better than single-case ones, but the cases should be chosen rather by replication than sampling. (Ibid.) As I was trying to decide whether to conduct a single- or multiple-case study, I ended up in choosing the multiple-case version. I wanted to understand the phenomenon from a wider view and to be able to see what kinds of similarities and differences would exist between the studied cases. Yet, I think that it could be argued that cases were chosen more by sampling than replication, because the field is not yet well established in Finland, and the organizations participating in the field come from different backgrounds and have different institutional heritages. Sampling was based on the estimated theoretical fit. Still, I believe the cases were similar enough for a multiple-case study research. As one of the challenges of multiple-case study method is that it requires more resources as a single-case study (Ibid), I may should have chosen the single-case study. However, the advantage of multiple-case design is that I haven't put all the eggs in the same basket therefore increasing the chances for a successful study, and the analytic conclusions can be considered more valid (Ibid).

It is important to choose such cases that one has access to and which are likely to provide answers to research questions. (Ibid.) As mentioned earlier, there are only a couple of organizations in the Finnish investing field that are solely dedicated on advancing the impact investing field. However, there are numerous organizations that are in some way participating in building and developing the field, while still fulfilling the characteristics of actors experiencing institutional complexity. Due to limitations of my resources at hand, I chose to study organizations that I had easy access, and were likely to provide answers to my research questions.

Defining a "case", the units of analysis, is challenging and should be carefully thought of. However, it is possible to redefine the units of analysis during the research if needed. In addition, the definition of unit of analysis may be different from the definition of phenomenon being investigated. (Ibid.) Such was the case in my research where the organizations, or the units of analysis, participating in the development of Finnish impact investing field were in two out of three cases not "pure impact investors". As the field is in such a nascent state the boundaries and definitions inside the field are not yet well formed and stabilized. Therefore, one could view those organizations outside of the context of impact investing and consider them as examples of institutionally complex hybrids.

The goal of a case study is to make analytic, not statistical, generalizations and use those to develop theory. Some theoretical development and propositions should be made during the design phase already before the fieldwork, unlike in grounded theory. However, if previous research doesn't provide a good theoretical base or well-established framework, it may be difficult to develop theory or make explanatory research, but rather easily results in exploratory research. Also, a descriptive case study is usually conducted when trying to answer a “how-question”. The analytic generalizations may be based on previous research and theory, or they may be developed on the insights gained from the completed research (Ibid.) Institutional complexity has been researched in various settings but it can’t be said the findings have been very consistent, almost the contrary. Thus, my research may contain more exploratory and descriptive than explanatory elements, which is acceptable when the studied field and the establishment of its theoretical propositions are still emerging and there is a clear lack of consistent, at least empirical, prior research on the subject.

It is important to limit the research with accurate and detailed propositions and research questions, or else the studied scope may become too big to cover. (Ibid.) In my research this ended up being one of the most difficult tasks. I hypothesized that it would be difficult to determine whether a case organization experiences institutional complexity or not by asking it directly. One of the most important reasons for this is that impact investing is sometimes marketed to provide maximal returns for the investment while simultaneously having “good impacts” which would require giving some of the profits away if the additionality condition is believed to be true, therefore resulting in contradictory prescriptions by institutional logics of investing and philanthropy. Thus, someone who is involved in building the emerging field of impact investing may be tempted to deny being under the influence of institutional complexity. Instead, I decided to make indirect inquiries in the interviews that would reveal if this seemed to be true or not. These indirect questions then covered perceived challenges, practices, opportunities of the case organizations and opinions of the interviewed experts about the development of the field in general. As a result, the scope of different themes covered in the interviews became quite wide and retrospectively I would have possibly needed to conduct a second round of interviews to be able to gain more in-depth knowledge.

There are challenges in case study method that need to be taken seriously. Firstly, the method and its procedures are not yet documented or established to a great extent. Thus, using the method requires a lot from the researcher. The researcher should be a good listener, have good analytic capabilities and great rigour and investigation is needed when looking for proper cases to study. Also, the method requires continuous interaction between theory and data, and there are several ethical issues to be considered when gathering data, for example how to limit sharing private or sensitive information. (Ibid) These were some challenges I spent a lot time and effort trying to solve.

3.2. Data collection

The cases were selected by *theoretical replication* because I expected contrasting results (Yin 2013: 99). The case organizations all participate in the emerging field of impact investing. The difference between the case organizations was their unique proximities to different institutional logics. One of the case organizations was a publicly governed future think tank and an investor (I use pseudonym Alpha from now on) that has been constructing the emerging field in Finland. The second case organization is a multinational publicly owned investment bank (pseudonym Beta) that invests in projects that enhance environmental sustainability, for instance. The third case organization is a privately-owned impact investment fund management company (Gamma) that also incorporates social enterprise logic. The fourth organization is a publicly owned development fund (Delta) that funds development projects in the third world countries. Alpha and Gamma organizations have dual roles; on the one hand, they facilitate and build the institutional foundation of the emerging field, and on the other, participate in it as investor and fund manager. Beta and Delta on the other hand are located further away from the "center" of the new emerging institutional field.

By studying different kinds of organizations, I was able to form a holistic view of the field – to understand the different situations, challenges and opportunities of each organization, and to find the essence of impact investing. Two of the case organizations, Alpha and Gamma, were located in the middle of the logics - a position of volatile complexity. One organization, Beta, was closer to traditional investment logic and the last one, Delta, closer to philanthropy logic, which were both in restrained complexity.

The first case organization Alpha has a history of decades in investing and research with a mission to foster economic growth and competitiveness of Finland. In recent decades, they have also had an emphasis on sustainable development. Their current strategy is to concentrate on different key areas in a few year cycles. Currently, impact investing is one of the key areas they are trying to promote. They have been building the emerging field in Finland, educating different parties from private and public fields and helping to establish the new impact investing ecosystem. They also participate in the field as an investor.

The second case organization Beta has also been operating for decades. It is publicly owned by multiple Northern Europe states. As Alpha, the Beta has a mission to improve the economic competitiveness and environmental sustainability of the its operating region. They only invest in projects that fit their clearly defined assessment criteria, but unlike in impact investing, they do not measure the impacts afterwards, but only in advance. As such, their investment strategy does not fulfil the criteria of narrow definition of impact investing. I decided to include the organization in the research because they are planning to start measuring the impacts afterwards too. In addition, their mission driven strategy is based on creating positive environmental or economic competitiveness impacts with a priori assessments, which qualifies as impact investing in a broader definition. Furthermore, I interpret their plans to start assessing the impacts also posteriori as a movement closer to the institutional logic of impact investing.

The third case organization Gamma manages impact investment funds. It is also a certified as social enterprise. They are in a leading position in impact fund management and have taken part in the establishment of the emerging field. From the case organizations, Gamma is the youngest with only a couple of years in existence.

Delta is the fourth case organization and they are a publicly owned development fund. They fund socially responsible projects in third world countries. Again, their operations may not fit into the narrowest definition of impact investing but they expressed a willingness to move towards impact investing logic. Positive social and environmental impacts are central to their mission.

These four case organizations offer a good cross-section about what is happening in the field of impact and development funding in Finland and how the emerging institutional logic of impact investing is already affecting different investment fields. Furthermore, they enable the possibility for cross-case analysis to compare contrasting cases for theoretical testing and explanation building.

The primary source of data was gathered by four semi-structured interviews. The interviewees are experts and specialists working in the field of impact investing or development funding in a daily basis, and whom have first-hand knowledge about the development and stage of the fields, both globally and nationally. The experts work in strategic or executive roles in organizations with institutionally complex environments and have knowledge about their organization's strategic responses and coping mechanisms targeted in reducing complexity, or making the best of it.

The first interviewee was predetermined as a key player in the field and enabled the use of snowball method in choosing the later interviewees. I sent one of the interviewees, the expert from organization Beta, a list of themes before the interview because he requested it in the initial contact, to be able prepare and give good quality answers, in his own words. For the other interviewees I did not send any lists beforehand. The interviews lasted for 30-60 minutes and were recorded. The interviewees were promised anonymity and the recordings were told to be kept confidentially. Themes for the interviews were predetermined. I had also written down questions to make sure that all the themes were visited but I didn't necessarily ask all the questions, which made the interviews somewhat conversational in nature, which is typical in case study research (Yin 2013). I also improvised follow-up questions when it felt necessary. This allowed me to embrace the differences in the case organizations and their unique positions in the field.

The interviews were conducted in the middle of the process over a 2 months period. I had prior familiarized myself with literature on neo-institutionalism, institutional logics, institutional complexity and hybrid organizing for a few months before interviewing. This approach allowed me to keep the theory in my mind when interviewing and to react to interviewees answers with follow-up questions to further facilitate discussion towards in-depth observations.

Other sources of data included materials that the studied organizations had published in the Internet. Triangulating with different sources of data is important in a case study, even to the point that a case study based only on interviews may not be a case study at all. Furthermore, I also used news articles to gain knowledge about the "high level unit of analysis", which is the Finnish impact investing field itself, while case organizations served as units for cross-case synthesis and enabled analytic generalizations towards the higher level.

Being a good listener requires understanding the setting, the mood of the interviewee, reading between the lines, making notes, and most importantly asking good questions. During the interviews I tried to be a good listener - I did not interrupt the interviewees but let them answer as they wanted, also tolerating short silent moments after the interviewee had stopped speaking. Sometimes the interviewees continued with excellent points after those silent moments. I tried to be neutral and implied that I may not have any familiarity with the field whatsoever in order to give the interviewees a chance to explain the studied phenomenon in their own words. I also tried to be politically neutral to appear friendly and to avoid feelings of hostility or judgment. I also wrote simple notes during the interviews, in addition to recording them, but also tried to listen as carefully as I could to be able to respond with good follow-up questions. I tried to read between the lines to pick up subtleties that were not expressed literally.

3.3. Data analysis

I used "theoretical propositions" (Yin 2013) as my main analytical strategy in this case study. These theoretical propositions were that the case organizations experience institutional complexity and deploy response strategies to reduce complexity. I also expected that the organizations would experience different levels of complexity, and that the level of complexity would affect those strategic responses. In other words, I built the theoretical framework prior data collection and data analysis and mirrored those theoretical concepts with the collected data during the analysis. Data analysis, then, was based on the theory.

I used pattern matching, explanation building and cross-case synthesis as analytic techniques that made use of my general analytic strategy. I tried to find repeated similarities and dissimilarities across the cases to provide explanations to the issues raised by my research questions.

To help with the process I used open coding system to discover patterns to compare cases and build explanations. Open coding is a coding method where empirical data gathered from interviews and other sources, for example websites, are analysed and arranged into themes (Strauss & Corbin 1990). Open coding is often used when there are multiple similar cases of data sources. The goal of open coding is to categorize a big quantity of research data into understandable structure (Price 2012). The coding resulted in themes that I then tested against the theory and identified useful concepts to discuss with the existing theory, and based on the findings I could suggest managerial implications.

I tried to stay adaptive during the data analysis phase. It is important to be able to steer the research design if gathered data reveals a need for it, but at the same time to be honest and critical about whether the changes minor or major, and their implications on research design.

I started the Initial data analysis after the first interview. I continued it throughout the data gathering phase which happened over a two-month period. After initial writing of the findings I continued to read relevant literature to keep constant dialogue between data and theory and to keep my mind open to different possibilities and rival explanations.

3.4. Evaluation of the research process & ethical considerations

Concentrating on four cases does not allow such in-depth analysis compared to a single case study. However, three cases from different positions in the field may provide a more thorough view of the field and allow better field-level analysis and analytical generalizations than a single case study by cross-case analysis method. In addition, the field is still in a nascent state and there are not many organizations operating yet.

There are important limitations that one should be aware of. Firstly, the social and economic environment of Finland may be different from other countries outside the Northern Europe. Finland has a very long history of combining welfare state functions and market capitalism and thus the hybrid institutional logics which impact investing navigates may be familiar in the societal sphere. Secondly, the Finnish investment market is relatively small, and the impact investment market is only a fraction of it. The emerging field is still in such an adolescent state that it may be hard to draw predictions of its direction. Thirdly, Finland is a relatively small country by population and it might allow more agile and innovative experiments in the overlapping area of market and state than compared to bigger countries.

According to my evaluation the constructs used in this research are valid; I have followed definitions from previous research and used them in a similar fashion. The validity of constructs would have been even better if I had done a follow-up with the interviewed experts to determine if they agreed with the constructs in my case analysis. I also tried to use general concepts or explain clearly what my questions meant, so the interviewees would interpret them correctly to avoid the situation where both parties would understand the theme differently. I could have also improved the construct validity of this study by conducting more interviews for each case and gathered more data for triangulation purposes.

I tried to secure the internal validity of this study by evoking dialogue between theory and data by using pattern matching and explanation building techniques. However, the internal validity of this study would have been better had I used more time to explore rival explanations more carefully.

The most important factor in building external validity was to choose cases by theoretical replication. On the other hand, one could argue that the cases were not chosen appropriately - for example for them being not similar enough to justify multiple-case study. However, for the research agenda of institutional complexity I believe the cases provided a good platform and from theoretical point of view, they were similar enough with necessary contrasting elements.

I wanted to ensure the reliability of this case study by documenting the research process and design carefully to allow the replication of this case in the future (Yin 2013). I tried to avoid biases by being open to rival explanations, and being politically neutral in my inquiries. Overall, in my assessment the study was conducted in a satisfactory manner, but still left room for improvement. My original intention was to complete the thesis in a period of a few months. Instead, it took almost a year and a half. I would have benefitted from a regular and steady pace of work – now it ended up being more like big fast sprints followed by long pauses in the work.

4. Findings

I start discussing the findings of this thesis by providing short descriptions of the case organizations; what they do and why they are relevant to this thesis. Then I will discuss the definition and form of impact investing from multiple perspectives and position it in relation to socially responsible investing. I will then proceed to depict the impact investing model in a more detailed level. After discussing impact investing I will continue to ponder its position on societal level – what are its challenges as a field, and what is needed from the parties involved in this emerging field.

4.1. Case descriptions

In this section I describe the case organizations shortly. I discuss their mission, history, relation to impact investing field and organization structure.

4.1.1. Organization Alpha

The first case organization Alpha is a state owned, independent fund that reports to the Parliament of Finland. In recent decades, they have had an emphasis on sustainable development via investing and research with a mission to foster economic growth and their strategy is to concentrate on certain, varying key areas in a few year cycles. Currently, impact investing is one of the key areas they are trying to promote and develop. They have been building the emerging field in Finland, educating different parties from private and public sectors and helped to establish the impact investing ecosystem. They also participate in the field as an investor.

Organization Alpha has many kinds of projects and operations that serve their mission to foster the development of sustainable well-being in Finland. They cooperate with numerous private, public and third sector organizations. They conduct and publish studies, organize events and platforms for discussion, develop new financing models, invest in projects, and define themselves as a future think tank. Alpha's organizational structure is departmentalized per their key areas – they have, for example, a team of circa

10 people working in the impact investment area. Therefore, their departments may have very little to do with each other concretely, thus their organizational structure may be defined as compartmentalized.

4.1.2. Organization Beta

The second case organization Beta is an investment bank, and it has also been operating for decades. It is publicly owned by multiple Northern Europe states. Similarly, to Alpha, Beta has a mission to improve the economic competitiveness and environmental sustainability of its operating region. They only invest in projects that fit their clearly defined assessment criteria, but unlike in impact investing, they do not measure the impacts afterwards, but only in advance. As such, their investment strategy does not fulfil the criteria of narrow definition of impact investing. I decided to include the organization in the research because they are planning to start measuring the impacts also afterwards. In addition, their mission driven strategy is based on creating positive environmental or economic competitiveness impacts with a priori assessments, which qualifies as impact investing in a broader definition. Furthermore, I interpret their plans to start assessing the impacts also posteriori as a movement closer to the institutional logic of impact investing.

In comparison to Alpha, Beta's operations are limited to financing projects that fit into their mission, so their scope of operations is narrower. They do not conduct and publish research or facilitate discussion to same extent, but occasionally organize events and panel discussions. Being a big organization, they also have a departmentalized structure – I interviewed a member from their department of environmental assessments of projects. Some mentionable examples of their projects are financing a modern new hospital in Finland, developing wastewater treatment in Sweden and launching "green bonds" where the carbon dioxide impacts are analysed so that investors may take them into consideration.

4.1.3. Organization Gamma

The third case organization Gamma manages impact investment funds. It is also a certified social enterprise. They are in a leading position in impact fund management and have taken part in the establishment of the emerging field. From the case organizations, Gamma is the youngest with only a couple of years in existence. Also, Gamma is a small organization with only 6 employees. It could be argued that their organizational structure is more unified than Alpha's or Beta's. Their scope is limited to building and managing impact investment funds, so their scope of operations is even narrower than Beta's. In addition, they also offer consulting for mission-driven enterprises and charity organizations.

Currently, Gamma has two ongoing impact funds. The first one concentrates on job wellbeing amongst workers of a public-sector organization. The concrete and measurable goal is to reduce sick-leave days taken by the employees by providing preventive wellness and healthcare services to them. The second one aims to reduce the unemployment rate of asylum-seekers in Finland by facilitating training programs. It is the biggest social impact bond (SIB) in Europe so far. Also, a third fund is going to be built that is aimed at increasing children's welfare and reducing exclusion.

4.1.4. Organization Delta

Delta is the fourth case organization and they are a publicly owned development fund. They risk-finance private organizations that implement socially responsible projects in third world countries. As with the case of Beta, their operations may not fit into the narrowest definition of impact investing, but they consider their operations as impact investing. Positive social and environmental impacts are central to their mission. Their operating philosophy is quite like Beta's, but the geographical area of their operations is different. In addition, they always need to have some aspect in their project that benefits Finland somehow. The size of organization Delta is bigger than Gamma with almost 60 employees, but smaller than Alpha and Beta, which both have over 150 employees.

Their investment projects include an investment loan to an industrial manufacturer operating in an Asian developing country, which needed funding for expanding their operations and for building a new factory building. In addition, the manufacturer emphasizes on modern management practices, quality of manufacturing, environmental issues and a program for gender equality – and these are the causes that Delta wants to promote. To mention another example, they also participated in funding a solar energy power plant project in the Middle-East where energy is now needed due to the refugee crisis. Also, promoting solar energy benefits the Finnish tech industry.

Table 3. Mission, vision and purpose of the organizations

Organization	**Mission, vision or purpose**	**Structure of ownership / legal status**	**Size and organizational structure**	**Scope of operations**
Alpha	Developing sustainable well-being in Finland	Independent organization under the guidance of the Finnish Parliament	Number of employees 160 (2017)	Research and facilitation of periodically varying themes that contribute to future well-being in Finland, and investing per this mission
Beta	Developing economic and environmental sustainability and competitiveness in Nordic and Baltic countries	Owned by Nordic and Baltic countries	Number of employees 192 (2017)	Financing projects that contribute to economic competitiveness and/or environmental sustainability in the Nordic and Baltic countries
Gamma	Developing social and environmental sustainability	Privately owned	Number of employees 6 (2017)	Managing impact investing funds (social impact bonds) in Finland
Delta	Developing economic, social and environmental sustainability in the developing countries	State owned	Number of employees 56 (2015)	Long-term risk-financing private companies in developing countries

Source: company websites.

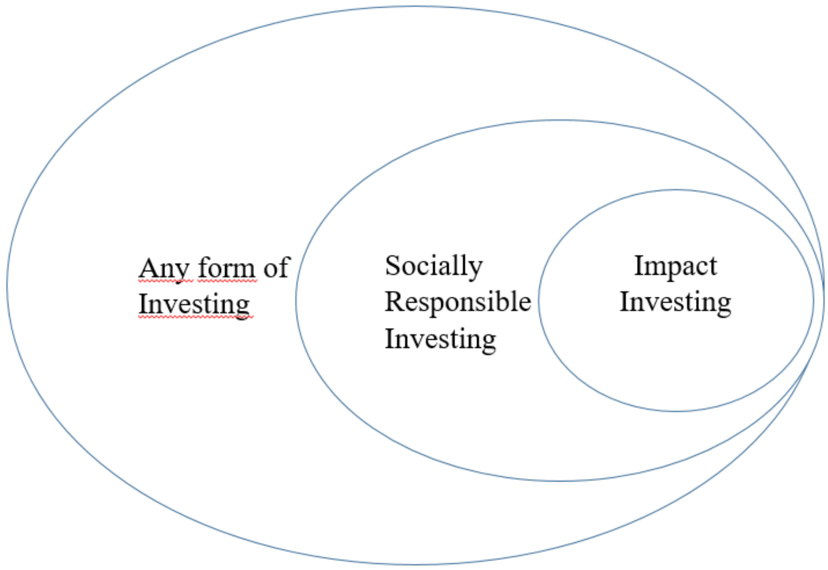
The case organizations represent a versatile set of different kinds of players in different locations in the field of the interest, resulting in interesting opportunities for cross-case comparisons. The key information about the organizations is summarized in table 3.

4.2. Defining impact investing

What can be considered as impact investing is a debated subject, as discussed in the literature review. The interviewees of this thesis also had different definitions. Firstly, impact investing can be considered as a subcategory of (socially) responsible investing (Hebb 2013), and the view was echoed by interviewees from Alpha and Beta. The relationship is depicted in figure 2. All the impact investments could also be defined as socially responsible investments, but not the other way around. About this, there seemed to be a similar consensus in the interviewee group. World Economic Forum (2013: 8) emphasized in their definition that socially responsible investing and sustainable investing do not "intentionally and explicitly" target the dual goal of economic and social/environmental benefits as opposed to impact investing, but rather emphasize the economic sustainability over the others. As one of the interviewees explained,

> *"Investing in something that creates impacts but the impact is not valued in the terms of repayment, I would exclude it… the purpose of the investment is to create the impact."* (Interviewee from Gamma)

Figure 2. Impact investing as a sub-category of socially responsible investing

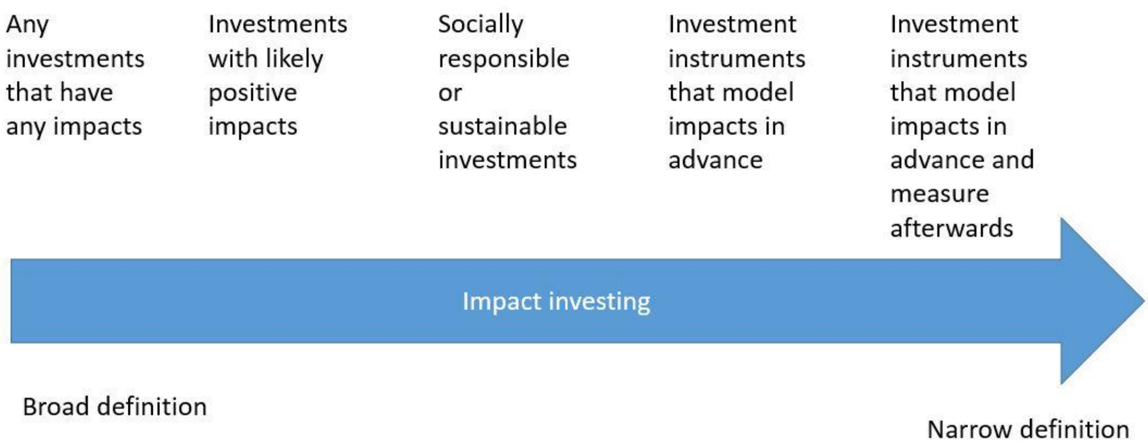


Also, the definitions of “impact” vary to great degree. One could claim that all investments have impacts, and even negative impacts are impacts per se. As interviewee from Gamma put it:

> *“Yesterday someone wisely said that all investments create impacts and the impacts are either good or bad. It is an impactful investment if you invest in weapons and sell them in Syria, of course it has an impact, a negative impact. But we see it so that the impact needs a quantifiable, monetary factor, and the impact shouldn’t only come as a by-product, but the purpose of the investment is the impact.”*

World Economic Forum (2013: 8) limit impact investing to intentional seeking of positive social and environmental benefits. However, the definition does not reach to ethics, so what are good impacts and what are bad ones are open to debate. Clearly, there are impacts that many may consider good while others think otherwise. Some interviewees also talked about “common good”, but as the interviewee from Gamma explained, it is up to the investor to do the judgment: *“Moral good is a stretchy concept.”*

Figure 3. Definitions of impact investing



Impact investing can be defined broadly or narrowly, as depicted in figure 3. I have created the model to picture impact investing in relation to socially responsible investing, and investing in general. The experts from Alpha and Gamma supported the narrower definition. Using a broad definition of impact investing is seen dangerous for the field. One of the interviewees explained:

> *"There are signs that it has been starting to be used as a general term that creates the risk that the content will disappear and that it will become like 'sustainability', 'whatever, who cares…'"* (Interviewee from Gamma)

From the other side of the field, the interviewee from Delta framed their operations as impact investing, although they might not satisfy the narrowly defined criteria of impact investing – they do not have a model where the financial profits for investors are tied into the success of the social or environmental impacts. He stated:

> *"Yes, we are an impact investor, for we have this mission of dual, or triple bottom line – we always assess the development impacts in our projects – and we also look for the financial profit, because we believe that those societal impacts are not sustainable if the project fails."*

In their case, economic realities set the boundaries for operations. However, their projects still fulfil the intentionality condition because they assess the impacts a priori, and the additionality condition, because they finance projects that wouldn't (most likely) get funding from the markets.

Also, the organization Beta also assess their projects a priori and satisfy the additionality condition, although they don't measure the impacts afterwards or tie the financial gains to the other goals. However, their a priori assessment model is robust and they take their mission seriously:

> *"We do quite thorough assessment before we enter into a project. – Our mission is to improve the environment or the competitiveness. – Basically, it's very important for Beta to fulfil its mission, that's the number one. It's not the earnings or the volumes. We don't compete with the commercial banks. We are a complement. For the lenders, it's the longer tenure, because usually the commercial banks don't give such long loans as we do."*

In addition, Beta has plans to add a posteriori measurement: *"It's a way for us to learn from our projects – and we see that as a trend in certain kinds of projects."* Thus, measuring impacts is perceived becoming more mainstream in general, which could be the influence of impact investing logic spreading across the investing field.

For these organizations, their mission is the number one priority, but they cannot do projects that would prove financially unsustainable. Intentionality and additionality conditions are being satisfied by all the case organizations – a posteriori measurement and conditional profit model are the separating factors between operations of impact investors Alpha and Gamma, and development funders Gamma and Delta. Table 4 summarises findings of the operating logic and practices of the organizations.

Table 4. Summary of the case organizations by defining conditions of impact investing

Organization	Intentionality	Additionality	A priori assessment	A posteriori assessment	Conditional profit model
Alpha	True	True	True	True	True
Beta	True	True	True	False, but planned	False
Gamma	True	True	True	True	True
Delta	True	True	True	Partially true	False

Whether it is defined narrowly or broadly, impact investing logic is already affecting the near branches of investment industry and dragging them nearer to its logic. In justification of the narrower the definition, the simple impact models are easy and unequivocal to measure - and a posteriori measurement also adds transparency - which will further decrease the complexity of the instrument. A practical investment model is useful, but possibly even a necessary step for the investment philosophy to become wider spread and used in finance.

4.3. Impact modelling and a model of impact investing

Modelling and measuring the impacts if one of the most important aspects in impact investing. Modelling is the backbone of the investing model – it has multiple purposes. Firstly, it removes ambiguity and debate from whether the investment project or fund does good or not. It converts the goals into measurable quantifications that can be forecasted and estimated beforehand, therefore allowing the investors and the ordering party of the project to assess whether the project will be worthwhile or not. It also enables the parties to agree on concrete terms. The interviewee from Alpha commented:

> *"We are very critical in that you could just choose some scorecard or a measurement system before modelling – we believe that the (impact) modelling*

> *needs to be done first and only then it is possible to build sensible indicators to verify the wanted results of the project."*

Also, it is not the purpose to try to model and measure all the impacts of an impact investment – rather, the wanted impacts should be accurately and simply defined in advance, and the progress and realization of the impacts need to be measured and quantified during and after the projects. The more narrowly the goals are defined, the easier it is to measure the results.

> *"Calculation becomes impossible, when for example, if we speak about car manufacturing, we would have to know where the metal was manufactured, where it comes from, and what energy production mix was used, where do the raw materials for the plastic come from, and all the components, where were they manufactured, and so on… It is the same in impact measurement, if we try to include every impact it will never be absolutely accurate."* (Interviewee from Gamma)

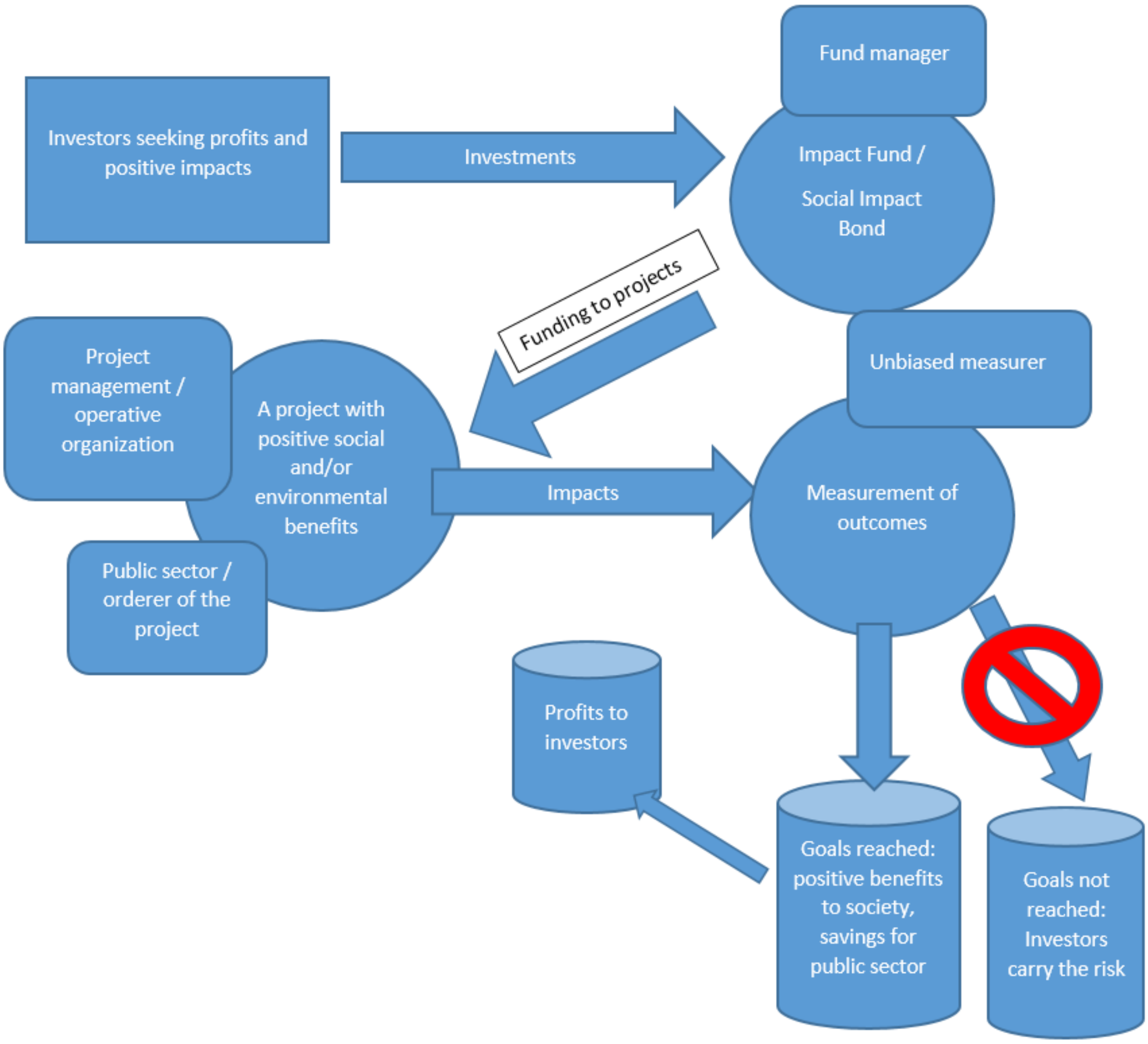
Explicit and thorough modelling also makes the measurement easier, since it removes ambiguity and decreases the possibility for different interpretations. It is also important to start with the modelling to see what could possibly be impacted, and how it could be done – only then it is time to start thinking about who to involve in the project, or who will execute it. The interviewee of Alpha described the modelling process as a preliminary, preparatory process of an investment project in general.

One of the most defining feature of impact investing may be the pay-for-results model. It is depicted in figure 4, and the organizations Alpha and Gamma use it in the projects they are involved in. According to the interviewee of Gamma, there needs to be the pay-for-results model if the term impact investing is being used: Otherwise almost anything could be labelled as impact investing.

In this model, the executing organization receives funding "for free". The payer, for example municipality or the state, pays only if the project reaches the goals that were set in advance together with investors and the executing organization and the payer. If the goals are met, the payer pays the investors their money along with return on investment.

If not, the payer will not pay anything, and the investors lose their money. With this model, the funding is risk-free for the party that receives funding, for example the public sector. I a case of failure, nothing is lost – and if the project is a success and the investors are being paid to, the paid interest is smaller than the alternative would have been, if the modelling and calculations were done correctly.

Figure 4. Model of the impact investing instrument



Source: Figure combined from the interview data and company websites

A good example given by interviewee from Alpha was an impact investment project dedicated to help families with children in danger of psychological and social problems. The project tries to prevent those problems by providing professional help for the families. It is calculated that even though the public sector would pay interest to the investors, the savings from the prevented psychological and social problems will clearly surpass the interest. Another given example was about preventing unemployment amongst refugees. In this example, the public sector will pay the investors if predetermined employment goals are met. The interviewee of Delta described a project that will take place in developing country that aims to improve the conditions and hygiene of local food production, and hence decrease illness and lower the food production costs while at the same time reducing harms to the environment. However, in the case of Delta's projects, the outcome of the project does not affect whether interest is being paid to the funding party or not.

There are, of course, conflicting interests. It would be in the interest of investors and the executing organization to declare that the goals were met, and the payers interest is the contrary. However as discussed earlier, accurate modelling prevents these situations efficiently, and in the end, it is a question of settlement between the different parties. If the conditions change from the starting point, things should be negotiated again.

> *"Usually it is agreed that if something big happens we sit down together and think about how it affects the big picture. In my opinion it is the core thing in this, that projects are done in cooperation and in positive spirit and good faith, otherwise it is hard to succeed."* (Interviewee from Gamma)

Potential conflicting situation are still possible. For example, there may be two separate impact investment instruments that have negative impacts on each other. Currently, it's not a very realistic scenario because the impact investment market is very small. However, if the market would expand the scenario would become much more likely. Impact investment advocates should prepare for the possibility. Moreover, it remains to be seen whether simple impact models will be satisfactory. It is not difficult to imagine situations where the measured impact is indeed evident but the investment has resulted in some other negative impacts that were not targeted. For example, a wind power project could provide emission-free electricity (at least when conditions are right) but on the other affect negatively the surrounding nature and people living near the plant. In such scenario, there could very well be a clash of conflicting logics. The stated and targeted impact would have happened and the investors would have received their return, but the overall impact could have been negative. In order the emerging field to succeed, these kinds of situations will hopefully be limited and prevented if possible. And sometimes, the cases may be borderline acceptable but still implemented, as interviewee from Beta discussed building roads:

> *"Even though a new road is a new road. That's negative to the environment, but it's still doable, because it has positive impact on the competitiveness."*

Moreover, in the established impact investing model the measurer or the verifier needs to be an independent operator that has no stake in the game – it needs to be an organization that has no interest where the money goes.

> *"It is a clear thing that the measurer should be independent from the investors, it should independent from the fund manager, because to put it bluntly, the investor and the fund manager have incentives to say that this project went well. – And then again, the one who pays for the results, it in their interest to say that results were very bad, so we are not paying anything. So these three actors should be excluded from the role of measurer."* (Interviewee from Gamma)

This guarantees objectivity and reduces conflicts of interest. However, some institutions, such as the state, is seen reliable and legitimate enough that no external verifying of the outcomes is needed according to the interviewee of Alpha.

4.4. Field-level challenges

Impact investing as field still struggles to become known, accepted and socially legitimate way of investing and impacting the world. A quote from the interviewee from Alpha is descriptive:

> *"For example real estate investors could see an opportunity and get involved, but if you put the 'impact' prefix there, they might get scared…Once again, I am not sure."*

It faces suspicion from all directions – investors are not sure if it is economically profitable to invest in impact funds, socially and environmentally aware investors and philanthropist doubt if the investment model may provide real, positive impacts, and the public sector is not sure if it should privatize services to external parties, and market economy critics are afraid that impact investing is just a new way to privatize everything and submit societies to market forces. Also, big institutional investors are yet to be engaged in impact investments. The interviewee of Gamma described some challenges they have faced that depict field-level challenges also:

> *"When we first started to raise funds, it was difficult to find investors, and when we succeeded in finding money and would have had little bit more of it, then it was difficult to find public sector's customer organizations. When we started discussing this a few years ago, nobody had heard anything about it. The investors said that no such investment instrument exists, and the public sector was in disbelief that there could be 'free' money."*

Interviewees from Alpha and Gamma believed that active promoting and sales work will make the impact investing model more known, and therefore it would be easier to build impact investment projects and funds. Unlike the interviewee from Gamma, Alpha's interviewee believed that most work would need to be done to educate and convince the public sector. One reason according to the interviewee is that the public-sector organizations are many times rigid and slow to change their practices.

Externalities may be one solution to field-level challenges. Externalities are impacts whose value cannot be captured by investors. However, externalities are born unintentionally – and this is what separates them from the intentional, measured impacts in impact investing. Paradoxically, the externalities are one reason why impact investing may become a universally significant investment vehicle. It is that the intentional impacts produce unintentional, hopefully positive externalities that benefit the society at large. Interviewee from Delta discussed:

> *"-- a project always needs externalities in development funding, because if there is none, what are you then needed for?"*

One way of seeing impact investing is that it allows the investors to partly capture the value from externalities – not all of them, as discussed earlier. Impacts, or externalities, can modelled and measured to some extent, but the modelling needs to be limited to what the stakeholders of the investment projects mutually find beneficial. Otherwise, the measurement becomes more and more expensive when trying to cover a bigger area of those externalities. Therefore, some externalities will always escape the investors and either benefit or harm the respectable society or environment. As a conclusion, although not all the impacts can be modelled accurately, there should be at least some level of analysis of the overall impacts of impact investing projects to avoid negative externalities.

In a way, impact investing needs to prove itself worthy of consideration in the investing field. One justification that every interviewee raised was the complementary nature of impact investing or development funding. To Delta it was about externalities that would benefit the society, Beta described them as a complementary to commercial finance because they offer longer term funding, and Alpha and Gamma discussed the field's role as the bridge-maker between private capital and public sector, implying that neither public sector or the markets alone could solve all the societal and environmental problems. Thus, impact investing is needed as it complements and bridges the private and public interests.

4.5. Challenges for private capital and investors

From the viewpoint of an investor, impact investing differs from traditional investing in a couple of ways. Firstly, it allows very concrete impact targets, meaning that the investor can determine whether the he or she invests is going to be used as wanted. In comparison to socially responsible investing where one hopes that investment would make the world a bit better (or at least not worse) off, impact investment could be targeted, for example, to helping immigrants to integrate to society better by helping them get jobs, or helping families by providing resources in preventive social programs. The investor will know exactly what the fund or the project is trying to achieve, but the downturn is that the investor will only get return if the project succeeds. On the other hand, this suits an investor who doesn't want to make profit from projects that are against his or her ethics.

In large scale, investing only into impact funds could theoretically decrease the diversification of the investment portfolio, therefore resulting in decreased long term returns and increased risk. However, some investors are willing to accept it – and this is what could be called philanthropy (Brest & Bonn 2013), in other words giving a part of the expected return into charity causes. In single cases, on the other hand, the profits may exceed market returns. In theory, if an investor specialized in impact investments could find underserved segments of market share that the markets by themselves for some reason wouldn't fulfil, it would be possible to continuously achieve profits bigger than market-rate.

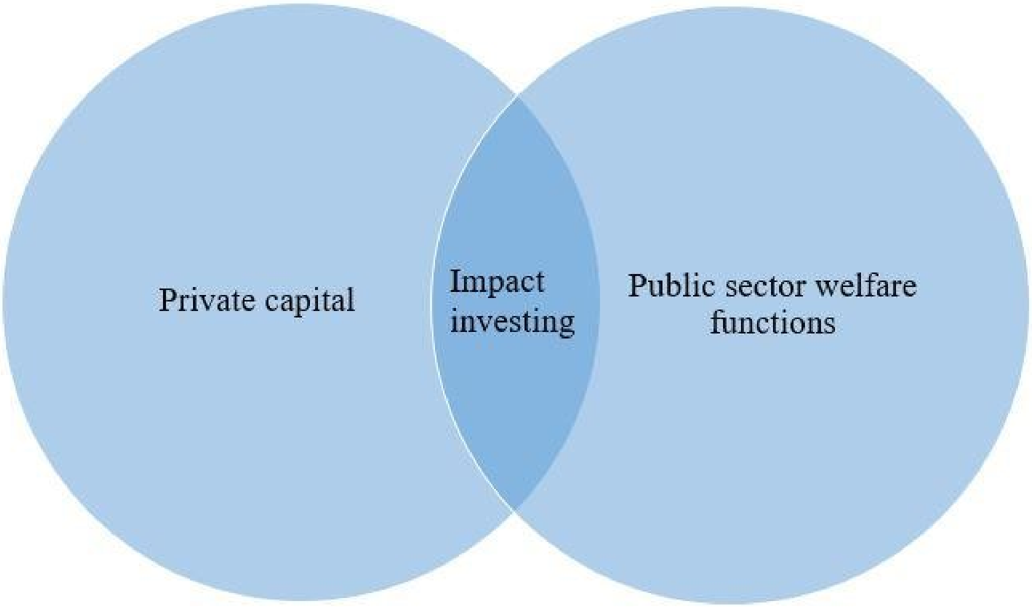
As long as impact investing is a marginal market segment the big institutional players may have doubts about entering. Usually, institutional investors have strictly defined investment policies and impact investing projects may not satisfy the conditions. Especially, if the institutional investors require market-rate returns the increased risk or decreased expected return may hard to satisfy. However, there are obviously also institutional players that are interested in trying to new model.

> *"Those institutional investors are interested and they wonder what interesting and exotic we are building here. But only when we have instruments that are in the scale of 100 million euros, with minimum investment of 10 million euros, then we can talk about having a real market."* (Interviewee from Gamma)

One of the limiting factors to institutional investors is the current size of the impact investment instruments. However, if the first small pilot projects are successful, there may very well be demand for bigger impact investment projects, resulting in even bigger interest among the institutional investors. In addition, as the market of impact investing is still very small, it is very difficult for individual investors to participate.

4.6. Public-sector challenges

Figure 5. The relation of impact investing, private capital and the public sector



Impact investing is an instrument model that bridges the gap between private capital and funding of public-sector welfare functions as depicted in figure 5. The biggest challenges are in educating the public sector about the possibilities of impact investing model as a solution for funding services that are in the domain of public sector, for example social welfare services. It seems that the financial sector is readier to adopt the new investment philosophy. However, the size of typical impact investing instruments need to grow greatly before big institutional investors enter the field. Yet, the financial organizations understand the potential of impact investing better than the public sector. Still, the players in impact investing recognize that there is a lot of work to be done to build awareness and understanding in order the field to succeed. As one of the interviewees said,

> *"It is even easier to get private investor's capital in the field than that the public sector would switch its mode of thinking. That now we shouldn't make a budget for a job but rather go after results."* (Interviewee from Alpha)

One of the key innovations of impact investing seems to be the pay-for-results model. At its core, it seems that the field actors believe that the public sector should be party that defines the development areas and social goals – for example employing immigrants to help them to integrate and reduce social expenditure, and create economic growth – and the public sector should be paying for results, not only for work, or in the worst case for work with no results. Moreover, the field actors seem to believe that private sector actors would be more efficient in creating the results:

> *"... one of the great challenges from our view is that it's specifically the public sector's budget deficit and filling the sustainability gap and everything else that leads to SIB (social impact bond) model and buying results. And before the public sector is capable in doing that... in the big picture it's about challenging this big picture with private equity and private operating logic."* (Interviewee from Alpha)

From this point of view, impact investing is a power struggle between market and public-sector logics - one that is about negotiating their roles to better suit their strengths. Another stance could be that the public sector is using the market logic as means to an end. It hijacks the appearance of an efficient market player and lures private capital.

It seems that greatest possibility for impact investment market rises from the fact that public economies are in problems resulting from growing public debt, which is a consequence of both increased public spending and reduced tax revenue. In addition, the world economy is widely believed to have entered a state of low growth compared to the last decades. Thus, novel financing models are in demand, especially in the domain of public sector responsibilities:

> *"The driver is unfortunately that the societal problems are increasing faster than the cash flows that can be used in preventing those problems, and that it's a must that something like this is being developed."* (Interviewee from Gamma)

The financial sector too experiences pressure to behave more responsibly. The mainstream status of socially responsible investing and new financial innovations such as impact investing is a legitimating effort of the industry and as a field-level response to institutional complexity, where investing logic demands profits and environmental or “green” logic on the other hand demands efforts in solving environmental problems. As the laundry of the Financial Crisis of 2008 continues, there is a need for a public facelift in the finance industry. Greenwashing is also a threat for impact investing. If the term *impact investing* is loosely used in all kinds of contexts, it will lose meaning. As mentioned earlier, symbolic use of the term may result in the loss of its legitimacy, and ultimately the legitimacy of the whole emerging field.

Moreover, there will probably be sceptics and opponents who see impact investing as just another instance of market logic extending to the domain of welfare state. The fear is that if markets are given more power it will result in a decrease of democracy and equality. However, in the impact model introduced in this thesis, the public sector is usually the institution that initiates and orders projects, and lastly if the projects are successful, pays for results. The public sector defines where the resources are used – the private sector then finances the project, which is executed by a private or non-profit organization, for example. The private sector then claims the profit and the public sector saves money because the project was executed more efficiently than it would have been possible if it had been done as a public project. From one perspective, this is not only positive since the profits that are paid to investors may drain into other investments that may not be beneficial for the public sector.

The positive overall impacts of impact investing may realize through two mechanisms in a macro level. Firstly, private sector has more available capital than the public sector. This unbalance is evened out through impact investment instrument. Secondly, it is possible that private organization get things done more efficiently than the public sector, thus consuming less resources and resulting in (bigger) profits and benefits. Ideally, it is a win-win situation.

4.7. About the unique characteristics of Finnish version of impact investing

One thing to notice is that the Finnish version of impact investing is a bit different from its American or English origin. I found that Finnish impact investors avoid talking about connections to philanthropy, but instead concentrate on talking about impacts on social improvements, and the lack of funding for public-sector services. The interviewee from Gamma descriptively suggested:

> *"Forget about the philanthropy logic, because philanthropy logic is more about giving money and hoping that there will be a positive outcome."*

Also, the institutional environment of Finland may differ from the American counterpart. Institutions may prescribe different behaviour in each country. The Anglo-American institutional environment may be more heavily affected by capitalist market logic – therefore emphasizing voluntarism and individualism. Finland, on the other hand has been affected by social liberalist ideals which results in institutional environment that emphasizes somewhat more collectivism and state control.

One explanation may be historical and cultural: In Finland, the public sector has had the responsibility in taking care of social welfare, and preventing and solving social problems. On the contrary in the USA, where the term impact investing was initially invented, the state does not have such a big role, but many social welfare functions are taken care by philanthropists and non-government, non-profit organizations. Therefore, in USA impact investing may be more of a mix of traditional investing and philanthropy – in Finland, it seems to combine investing and public-sector logics. Moreover, in USA, impact investing may be seen to target markets that the philanthropic and non-profit organizations underserve or do not cover at all, and in Finland the projects seem to be targeted to failures of the public sector.

One more thing to note is that there are cultural differences about what is valued and thought important. Interviewee from Alpha gave an example:

> *"If you talk with some bankers from the big banks in New York who say they do impact investing, there the only indicator is the number of jobs created."*

In addition, Finland does have a long experience of mixing market logics and public-sector logics and therefore know how to cope with this type of complexity, or even that a social market logic has emerged during the decades, therefore resulting in a legitimate model that can be transferred to the emerging institutional logic of impact investing. It means that instead of a contest between social and market logics they have been rather complementary. From this point of view impact investing is quite a logical continuum. New social innovations should be adjusted according to the cultures and institutional environments they are being introduced to. It is probably easier to frame impact investing being a tool to save the welfare-state rather than convincing people to shift their thinking towards philanthropy as the correct mean to solve societal and environmental challenges.

5. Discussion

In this chapter, I will take the discussion on a higher level of institutional reality – what happens there when a new institutional logic and field are emerging. I end the discussion by pondering theoretical implications of this thesis in the neo-institutional context.

5.1. Impact investing logic

The founding principles of impact investing combine logics from investing and social welfare. It adds the assessment of social and/or environmental impacts into the investment model in addition to financial assessment. This is not a new idea in principle, for social or socially responsible investing and sustainable investments have carried this combination of logics before. What is new though is the detailed and limited scope of impact investments. The investment instruments target very isolated impacts in areas that are easily modelled, measured and quantified. As opposed to socially responsible investing, impact investing adapts a more proactive approach – not only avoiding negative impacts but targeting positive impacts actively in single cases or projects. Impact investing logic is careful in the sense that it does not promote being about doing good – it simply acts as a technical investment model with technical solutions to modelling and assessment of impacts. The morality is up to the investors ethics. Impact investing seems to be an innovative instrument in luring private capital into working towards to solving and preventing social and societal problems. In order the field to be institutionalized, the public sector needs to understand what impact investing is about, for the potential for impact investing projects seem to be in the societal problem solving and prevention.

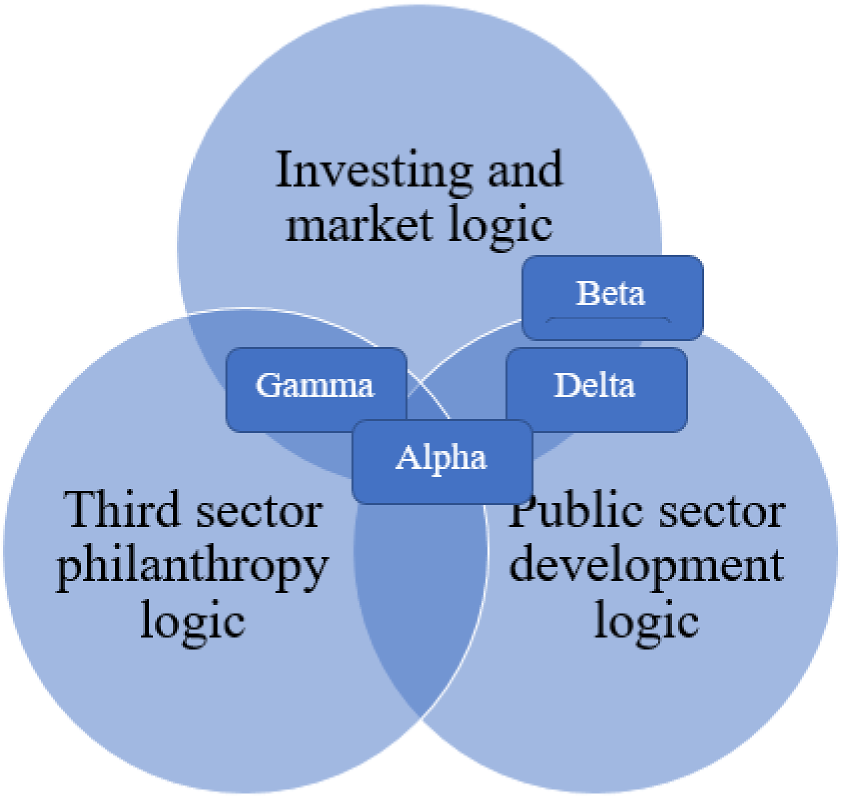
Also, the complexity is reduced because impact investors don't necessarily claim to be "doing good" but rather state their goals of impact in a clear fashion. Therefore, impact investing is not necessarily combining philanthropy and investing logics. Let's say that an impact investment fund is dedicated to improving job wellbeing by reducing sick leave days. It is up to the investor to judge whether it is a good goal and worth pursuing. If the goal is achieved, that is the sick leave days have been reduced, the investor is paid the capital back along with the agreed returns. However, if the goal is not met, the investor loses her or his capital. Therefore, there are no conflicts of legitimacy due to the complexity of logics. Contradictory situations, such as the case of gaining financial returns but failing to create measurable impact, are avoided with the impact investing model. “The doing good” logic and the financial logics are either both met, or none of them. To put it simply, impact investment instruments are built so that the prescribing logics have mutual goals, which may lead to an “especially” legitimate outcome in case of success. This could be defined as a creative an innovative response to an originally complex environment stemming from institutional complexity and conflicting logics.

One point of view is that with impact investing the public sector may hijack the market logic and appear as an efficient, productive player. Thus, from the public sector’s view impact investing would be a vehicle for luring private investments to projects that are in the public interest.

5.2. Classification of the organizations by the type of institutional complexity and their strategic responses

In figure 6 I have illustrated the case organizations by their position in the institutional environment and the type of complexity they theoretically experience. In the picture, a more centrefold position indicates higher complexity. The further away an organization is from the centre, the less complexity it experiences. My categorization is based both on the interviews conducted with the experts working the organizations, and by what they tell about their mission, strategy and operations on their websites.

Figure 6. Institutional logics and the location of organizations



Because Alpha and Gamma are in the centre of the emerging field, where they draw equally from investing logic, philanthropic logic and social welfare logic, I have categorized them as organizations experiencing volatile complexity. Gamma, as a social enterprise, draws considerably from the philanthropic logic too, as they donate a part of their profits to chosen causes. Beta is closer to traditional investing but it is taking steps towards impact investing logic. However, it will not probably reach the position of Alpha and Gamma but will remain closer to traditional investing. Delta comes from the other side of the emerging field where social development logic is the priority, while financial reality still sets boundaries for their actions. As their operations target third world countries, they also draw from the third sector logic. I consider that they have the possibility to start moving to a more central position towards volatile complexity. Table 6 presents the types of complexity per each organization.

Table 6. Organizations by type of complexity

Organization	**Type of complexity**
Alpha	Volatile
Beta	Restrained
Gamma	Volatile
Delta	Restrained

Moreover, the Alpha operating in the field-advocate needs to convince actors from various institutional fields and speak their language, and embrace multiple logics simultaneously. Especially when trying to legitimate the impact investing field in long-term, the clash of market logic and social welfare logic is a serious possibility. The biggest challenge of impact investing is to gain legitimacy as an institution that balances between market logic and welfare logic, as opposed to being a new instrument that diffuses market logic by hijacking social welfare logic to its subordination, like individuals have been shown to do inside organizations (McPherson & Sauder 2013). It is indeed a requirement for an organization to remain close to the central point, equally far from both fields, in order to appear as a legitimate bridge-builder that can be trusted by parties from both fields. Moving closer to the other field would question the Alpha's legitimacy as a creator of novel innovations in an emerging field, as is the risk with symbolic coupling.

Gamma is in a similar situation as Alpha. They have been cooperating with Alpha in building the first social impact bonds in Finland, so their position is truly significant in the cross-section of institutional logics. Their status as a social enterprise also contributes to the legitimacy as a true bridge-builder between institutional logics. They experience volatile complexity.

Beta and Delta, on the other hand, have it easier since they aren't bombarded with so conflicting demands as Alpha and Gamma, but they are in position where they may benefit from the new emerging logic. They may commit symbolically to impact investing without big risks of losing their legitimacy, as they already work in more the field of more established institutional logic of development funding – if for some reason impact investing would not become socially legitimate as a field, Beta and Delta could lean again towards the old established logics. On the other hand, if impact investing becomes a legitimate field and a mainstream investment philosophy, they may claim that they have been doing impact investing for decades and borrow the new logic. Thus, for organizations Beta and Delta, symbolic coupling is a useful strategy in benefiting from institutional complexity.

Selective decoupling (Pache & Santos 2012) was an important strategy used by the organizations that experienced volatile complexity, Alpha and Gamma. In practice, the interviewees of organizations Alpha and Gamma emphasized that the Finnish model of impact investing is not a form of philanthropy, but should be considered as a technical instrument to solve a problem of public funding instead, and as a solution for saving the welfare state. Framing impact investing this way dissolves its contradictory nature.

However, this was not the case with organizations that I categorized under restrained complexity, Beta and Delta. On the contrary, those organizations rather emphasized or exaggerated their similarities and connections to impact investing, or in other words used strategy of selective coupling. It is in their interest to try to benefit from the emerging field by at least symbolically coupling with impact investing logic. Beta also deployed hierarchical structuring by prioritizing the established financial logic over impact investing logic in their operations and communications.

It could be argued that all the organizations used a creative form of logic hijacking – they wanted to use each logic at least as a rhetoric asset when appropriate situations were identified. For example, Delta claimed to assess impacts a priori and posteriori, therefore hijacking logic from impact investing, without committing to the technical impact investing model where profits are tied to the social and environmental outcomes. Alpha, on the other, interacted with parties from all logics – they used different kinds of rhetoric when talking to investors and public-sector actors. Beta communicated the willingness to start a posteriori measuring of projects to appear committed to impact investing logic.

Table 7. Organizations and their strategic responses

Organization	Type of complexity	Strategic responses	Structure
Alpha	Volatile	Selective decoupling, logic hijacking	Task-based with semi-autonomous units
Beta	Restrained	Symbolic coupling, hierarchical structuring	Hierarchical, separated units
Gamma	Volatile	Selective decoupling, logic hijacking	Federated
Delta	Restrained	Symbolic coupling, logic hijacking	Not categorized

However, it seemed that the organizations were not married with their strategic responses, and the lines between those responses were not always easily defined. For example, a strategic response may have characteristics from symbolic coupling and logic hijacking simultaneously. I have summarized the findings in table 7.

5.3. Theorizing the legitimacy-seeking process of an emerging field

How does an emerging institutional field and its logic gain legitimacy? Based on the cases investigated in this thesis it can be argued that a new field benefits from a pioneer organization such as Alpha, that takes up the mission to build its legitimacy. It means that the pioneer organization needs to be in a bridge-builder position – it needs to be legitimate in the eyes of all the institutional fields it seeks to unify. It needs to selectively adapt and hijack logics from those institutional fields and use them to convince the actors, pulling them simultaneously towards the emerging field. If the pioneer organization, or multiple pioneer organizations succeed in this, the new emerging field will start to generate its own pulling force towards itself, affecting the near fields and dragging organizations closer. This, I think, is already at play in Finnish impact investing field. Some organizations, represented by Beta and Delta in this thesis, are already thinking ways to benefit from the emerging field – they are using the same vocabulary and adding practices that the impact investing pioneers are using.

In this stage, the public in general will become more and more aware of the emerging field – and when it proves itself successful, a new level of social legitimacy will have developed resulting in an established, legitimate field. Another possibility is that the emerging institutional field will assimilate into the near fields, if they are strong and established enough. In this scenario, the logic that emerged in the emerging field will affect the logics of the established fields, possibly changing them temporarily or permanently.

5.4. Theorizing the emergence of new institutional logics

How are new institutional logics born? Some suggestions have been actor-based, like institutional entrepreneurs that grasp the opportunity and give birth to new institutional forms, while other explanations emphasize the role of institutional reality – the established institutions co-create and shape new institutions in cooperation with those individuals (Purdy & Gray 2009). It seems that logics emerge as the institutional environment is affected by changes in the real world and through individual and organizational sense-making. The logic of interest in this thesis, impact investing logic, is the result of multiple things. In my thinking, this thesis shows the importance of actor-based creation of institutional logics – in the Finnish impact investing scene there is a clear pioneer organization that could be thought as an institutional entrepreneur.

The other viewpoint emphasizes the institutional environment itself. There is an institutional pull from the rising social and environmental awareness. Those institutions are forces that make the resources available for new institutional forms such as impact investing organizations, possibly resulting in new institutional fields. But what is socially legitimate and what is not varies from time to time. In that sense, emerging institutional logics are the embodiment of changes in the common values – if we believe there are such – and the intermediary that spreads those values amongst individual, and ultimately, organizations.

6. Conclusions

In this thesis, I have added insights into how organizations cope with institutional complexity when they operate in or close to a new emerging field with a new emerging institutional logic. I have also outlined some general notions about how emerging institutional fields and logics are born. This contributes to the existing body of literature in neo-institutional research on legitimacy, institutional complexity and institutional logics. Also, the literature on hybrid organizing is close to the empirical findings of this thesis. While research on this topic exists to some extent, the findings have not been consistent and the theoretical concepts are not well-established and clearly defined to study these institutional phenomena.

This thesis confirmed that organizations use various strategic responses in dealing with complexity and using it for their advantage. Some of these strategic responses include hijacking logics, selective decoupling and symbolic coupling, and hierarchical structuring. This echoes the findings of Greenwood et al. (2011), McPherson & Sauder (2013), Pache & Santos (2013) and Raynard (2016).

In addition, I discovered some practical information about impact investing as an investment philosophy and investment instrument. My empirical contributions conclude that it seems that impact investing is not a universally unified investment philosophy but rather and investment instrument or a model that can be tailored to suit each culture. I found interesting differences between the original version of impact investing that originated in USA, and the Finnish version. In USA, the connection between investing and philanthropy is being emphasized. In Finland, the mix is more about public-sector services, the preservation of the welfare state and private capital.

I also described the emerging field of Finnish impact investing and discovered some of its key challenges. The field is still quite small, players are only a few and the instruments are not yet big in size, but it is definitely attracting a lot of attention, even from the institutional investors. The success or failure of the first impact funds, that are being implemented during the near future, will set the direction of the field. If the field goes mainstream it will be easier for individual investors to participate – now it is still a niche.

In the bigger picture, impact investing is hoped to help the welfare state to continue providing services – or at least in Finland it seems to be its biggest priority. For individual investors it also provides a good way to choose how their money works and for what causes.

6.1. Managerial implications

Business managers working in institutionally complex fields and organizations should be knowledgeable about the underlying complexities and contradictory demands from different institutional logics. Managers should address these issues in strategic decision-making. Managers should approach this issues from twofold perspective. First, institutional complexity should be viewed as a risk to organization's legitimacy. Failing to address institutional complexity may lead to a total loss of legitimacy in the worst case, therefore limiting the organization's access to vital resources. Second, complexity should be taken as a possibility for innovation, and as an opportunity to gain legitimacy. Successful execution of institutionally complex innovations can result in extraordinarily legitimate outcomes.

Managing complexity should happen in different layers and functions of the organization. For example, communicating the organization's mission through channels should be based on realistic goals and expectations. Promising too much, for example targeting mutually excluding goals will probably lead to legitimacy problems. In addition, the structure of the organization should mirror the organization's institutional environment. For instance, if the organization experiences volatile complexity, federated and task-based structures should be considered. In restrained complexity, a hierarchical structure may be the best solution. The strategic tools should be carefully chosen to suit the organization's position in the matrix of institutional complexity, and the risks and rewards associated to each strategic response should be weighted. Symbolic coupling, selective decoupling, logic hijacking and hierarchical structuring all have their benefits and downsides as strategic responses.

6.2. Theoretical contributions

My research contributes to the existing body of theory of institutional complexity and organizational responses to it. I identified selective coupling and decoupling and logic hijacking as effective strategies in reducing complexity under its restrained and volatile forms echoing preceding research. As theory suggests, selective coupling and decoupling are used especially under restrained complexity. I discovered that logic hijacking is at play under volatile complexity in an organizational level.

I also theorized about the process of institutionalization of emerging fields and logics. It seems that an emerging field benefits from a pioneer organization that has the resources and freedom to balance in the intersection of old established institutional fields. It is also a great benefit if there are other organizations in the proximity that may follow the pioneer organization and help in the development of the field. It also seems that societal change and development in information and communication technologies allow faster transition of institutional logics. In a higher level this means that the institutional reality is not detached from the "real world" – rather it is affected by it, but it also changes it.

6.3. Future research suggestions

Future research needs to shed light on the mechanisms how individual actors make sense about the institutional environment and complexity, and how individual actors influence the organization's collective understanding about the institutional environment. In addition, I suggest research on how individuals facilitate change in institutional logics inside organizations. Impact investing organizations would provide good case studies for research. Perhaps a longitudinal case study with daily observation inside and impact investing organization could be done. A longitudinal study would make it possible to research changes over periods of time, thus shedding light on the importance of individual sense-making in the case of emerging institutional logics. Impact investing deserves further research regarding its financial performance in comparison to traditional investing.

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