Performance management tools in support of impact investing within investment funds

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PERFORMANCE MANAGEMENT TOOLS IN SUPPORT OF IMPACT INVESTING WITHIN INVESTMENT FUNDS

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Table of Contents

List of Abbreviations

AI: Artificial Intelligence

BMC: Business Model Canvas

ESF: European Social Fund

EU: European Union

GIIN: Global Impact Investing Network

GIIRS: Global Impact Investing Rating System

GRI: Global Reporting Initiative

IMP: Impact Management Project

IRIS: Impact Reporting and Investment Standards

KPIs: Key Performance Indicators

LOC: Levers of Control

ROI: Return On Investment

SMEs: Small and Medium Enterprises

SRI: Socially Responsible Investment

ROI: Social Return On Investment

ToC: Theory of Change

UN SDGs: United Nations Sustainable Development Goals

VC: Venture Capital

List of Figures

1. Introduction

Impact investments are defined as “investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return” by the Global Impact Investing Network (GIIN), the leading organization tasked with expanding the impact investing sector (Global Impact Investing Network, n.d.). The concept gained considerable momentum following the 2008 financial crisis, as investors sought to restore public trust by directing capital toward socially impactful projects. This rise was further fueled by widespread financial scandals, such as the Bernie Madoff Ponzi scheme and the collapse of Lehman Brothers, which highlighted the need for more ethical investment practices. Additionally, a growing awareness of social and environmental issues contributed to the demand for investments that could deliver both financial returns and positive societal outcomes (Henriques, 2013).

Traditional investment funds have historically been focused solely on maximizing financial returns for their investors. These funds typically deploy a variety of strategies aimed at generating the highest possible profits, with little regard for the social or environmental consequences of their investments (Schueth, 2003). This conventional approach contrasts strongly with the growing trend of impact investing, which seeks financial returns alongside positive social and environmental outcomes (Bugg-Levine & Emerson, 2011). A diverse range of investors, both individual and institutional, have shown interest in impact investing with participation from fund managers (58%), foundations (13%), banks (9%), and pension funds (4%) among others (GIIN, 2020).

Impact investing disrupts the conventional separation between profit-oriented financial activities and the domain of social and environmental responsibility, traditionally reserved for philanthropy and government intervention (Nicholls, 2010; Wood et al., 2013). Rather, impact investing shows that substantial financial gains can be achieved in addition to social and environmental advancement (Bugg-Levine & Emerson, 2011). With investments that can yield financial benefits, this sector provides investors with a wide range of feasible options to further social and environmental solutions. For instance, a survey conducted by the GIIN in 2020 revealed that the impact investing market had reached approximately $715 billion. Moreover, many diversified public equity and fixed income strategies that incorporate Environmental, Social, and Governance (ESG) factors deliver market-comparable returns (Brest & Born, 2013).

Bank of America Merrill Lynch provided a concrete example to support these comments. Figure 1 illustrates the comparison of net income volatility between the S&P 500 index and a group of top ESG performers.

Figure 1: High ESG Performers Exhibit Lower Earnings Volatility

Source: Bloomberg, Breckinridge

The data reveals that the S&P 500 index shows significant fluctuations in net income, with notable peaks and troughs, indicating higher earnings volatility. In contrast, the top ESG performers display much lower volatility. Their net income remains relatively stable over time, suggesting that companies with strong ESG practices tend to have more consistent earnings. This comparison implies that ESG-focused companies are better at managing risks and maintaining stable financial performance. This chart highlights the potential financial benefits of robust ESG practices, demonstrating their contribution to more stable and predictable financial outcomes for companies.

ESG funds appear to demonstrate a lower market beta (β)[1] compared to conventional private market strategies, suggesting a reduced sensitivity to overall market fluctuations (Jeffers et al., 2021). This could potentially lead to changes in the risk profile of investor portfolios. The financial attractiveness of impact investing may vary for investors whose wealth portfolios differ from the market (Pastor et al., 2021). The study conducted by Jeffers suggests that although impact funds might offer lower total returns, they could improve portfolio diversification by reducing exposure to market risk (Jeffers et al., 2021).

The evolving landscape of global finance is now challenging the traditional profit-centric model, as more investors and fund managers recognize the importance of integrating a 'Triple Bottom Line' (3P) approach—People, Planet, and Profit (Elkington, 1997). This shift reflects a broader understanding that financial returns and societal well-being are not mutually exclusive. Instead, they can be mutually reinforcing, driving sustainable growth and long-term value creation (Eccles, Ioannou, & Serafeim, 2014). The paradox lies in the fact that classic investment funds, originally designed to maximize profits, are increasingly under pressure to adopt impact-oriented strategies, blending financial performance with social and environmental responsibility.

The core principle of impact investing is the intentionality of impact. Investors actively seek opportunities that will produce social or environmental benefits, deliberately aligning their

[1] Market beta is a measure of the volatility or systematic risk of a security or portfolio in comparison to the overall market. A beta of 1 indicates that the security's price moves with the market, a beta of less than 1 indicates that the security is less volatile than the market, and a beta greater than 1 indicates that the security is more volatile than the market (Alexander & Chervany, 1980).

investments with these goals (Bugg-Levine & Emerson, 2011; Brest & Born, 2013). This intentionality differentiates impact investing from other forms of socially responsible investing, where the focus may not be as explicitly on generating measurable impact (Clark, Emerson, & Thornley, 2014). This requires a rigorous process of identifying, measuring, and managing the impact. Tools like the Global Impact Investing Rating System (GIIRS) and the Impact Reporting and Investment Standards (IRIS) help investors assess the impact of their investments and ensure they align with their goals (GIIN, n.d.).

Impact investing also promotes active engagement between investors and investees. Investors frequently offer strategic assistance and resources to assist organizations in achieving their social and environmental objectives (Mendell & Barbosa, 2013). This collaborative approach enhances the effectiveness and reach of investments, promoting innovation and growth in socially responsible sectors (Bugg-Levine & Emerson, 2011). Despite the recognition by the for-profit sector of the significance of investing in social and environmental aspects and their willingness to integrate these elements into business strategies, companies frequently encounter significant challenges when attempting to incorporate these elements into their operations. The primary and most apparent reason is the expectation that such initiatives could negatively affect profitability. Social and environmental efforts are often seen as secondary and detrimental to the goal of making a profit (Clarkin & Cangioni, 2016). However, this perspective may be an oversimplification, as the situation is often more nuanced, particularly when considering the human element.

As mentioned previously, the use of performance management tools and frameworks is crucial in monitoring investor performance. These tools serve as essential mechanisms for evaluating and ensuring that investments align with the strategic goals and social or environmental impact objectives of the investors. Performance management frameworks such as Key Performance Indicators (KPIs), and Social Return On Investment (SROI) are widely recognized for their ability to translate complex strategic goals into actionable and measurable outcomes (Kaplan & Norton, 1996; Nicholls, 2009). Additionally, tools like the Global Reporting Initiative (GRI) and the IRIS provide standardized metrics and reporting guidelines, enabling consistency and transparency in impact assessment (Brown et al., 2009; Clark et al., 2014). These frameworks not only help in tracking financial performance but also in assessing the social and environmental impact, ensuring that investments deliver on their intended goals (Ebrahim & Rangan, 2014). By integrating these tools into their strategies, investors can more effectively manage their portfolios and achieve their impact objectives.

The study that guides this thesis is: “Performance management tools in support of impact investing within investment funds.” This research explores the critical role that these tools play in helping investment funds accurately monitor the social and environmental impact of the companies they invest in. While performance management tools traditionally focus on tracking financial metrics, this study emphasizes their broader utility in providing a comprehensive evaluation that includes both financial returns and impact outcomes. The major contribution of this thesis lies in identifying the performance management tools and frameworks currently utilized by investment funds engaged in impact investing, while incorporating them inside the Levers of Control model developed by Robert Simons (1994) offering a critical reflection on their relevance. Furthermore, the study proposes some recommendations for practice, aimed at enhancing the reliability and robustness of these tools to boost investor confidence and support decision-making that aligns with the dual goals of profit and positive impact. These recommendations are based on an in-depth analysis of the tools’ effectiveness, ensuring that they meet the evolving needs of impact investors.

This research is organized in the following manner: the first section presents the theoretical framework of the study by examining existing literature. This literature review enabled us to learn about the main established frameworks, the performance management tools used in the investment process and the challenges faced by investment funds in measuring the impact of their investments. This section is supported by the Levers of Control model developed by R. Simons (1994), in which each of the tools

and frameworks used is detailed and linked to each of the LOC systems. The second section will present the methodology, which is based on an abductive qualitative research study conducted through semi-structured interviews with key figures in the impact investing sector in Belgium. The third section presents the findings of the study, which include an analysis of the interviews conducted with the relevant investment funds to identify the performance management tools currently used by each of them. Each of their tools and frameworks used on a daily basis will be integrated within the LOC model by R. Simons (1994). The fourth section, the discussion, will undertake a critical analysis of the interviews, with a view to comparing the different performance management tools used with the theoretical concepts developed in the literature review. This section will also present my own contribution to this study. The final section will enable us to synthesize the key take-aways learned during this study and to reach a conclusion regarding the proper use performance management tools in investment funds.

2. Literature review

The literature review will delve into the fundamental concepts and developments that have shaped the field of impact investing. Impact investing represents a shift in the investment landscape, combining traditional financial objectives with the goal of generating measurable social and environmental benefits. The following sections will explore the evolution, characteristics, and significance of impact investing, tracing its roots from socially responsible investment movements to its current prominence in addressing pressing global challenges. Special attention will be given to the tools and frameworks that have been developed to measure and manage the impact of investments, ensuring that they meet both financial and societal objectives. By examining these elements, this review aims to provide a comprehensive understanding of how impact investing has become a critical component of the modern investment landscape, and how it continues to evolve in response to growing demands for transparency and positive social change. Through this exploration, the review will set the stage for a deeper analysis of the tools and frameworks that are currently employed by investment funds to assess and enhance the impact of their investments.

2.1. Development of the impact investing concept

In this section, we will proceed to examine the fundamental aspects of the subject. Impact investing represents an investment strategy that aims to generate both financial returns and quantifiable positive social or environmental impacts, offering a synthesis of conventional investment objectives (Bugg-Levine & Emerson, 2011; Clarkin & Cangioni, 2016).

The following sections will explore the evolution, characteristics, and significance of impact investing. Beginning with a formal definition, the text will trace the development of the concept from its roots in socially responsible investment movements to its current state, where it plays a pivotal role in addressing global challenges. Key characteristics such as intentionality, impact measurement, and financial returns will be examined, alongside the market growth and the role of impact investing in fulfilling Sustainable Development Goals (SDGs) (Bugg-Levine & Emerson, 2011; Nicholls & Schwartz, 2014).

2.1.1. Introduction

The GIIN defines impact investing as “investments made into companies, organizations, and funds with the intention to generate positive, measurable social and environmental impact alongside a financial return” (Global Impact Investing Network, n.d.). This approach contrasts with traditional investments that focus solely on financial gains, and with philanthropy, which primarily seeks to create social value without expecting financial returns.

The concept of impact investing has evolved significantly since its early days, influenced by the socially responsible investment and corporate responsibility movements (Bugg-Levine & Goldstein, 2009). The term gained prominence after a 2007 meeting at the Rockefeller Foundation, which emphasized the need for investments that generate measurable social impact (Bugg-Levine & Emerson, 2011).

Over the years, definitions of impact investing have become more specific and quantifiable. Initially, the definitions were broad, distinguishing impact investing from philanthropy and venture capital. The notion is now more comprehensive and practical due to recent definitions that include components of risk, social consequences, and stakeholder participation. (Roundy et al., 2017; Rizzello et al., 2016; Tekula & Shah, 2016).

Impact investing is often compared to other forms of responsible investment, such as ESG funds and Socially Responsible Investment (SRI). ESG funds focus on how companies act on environmental, social, and governance issues, asking "how?" they perform these actions. In contrast, impact funds focus on "why?" they undertake these activities, emphasizing specific impact objectives that can be double or triple bottom-line[2] (Millar & Hall, 2013). ESG funds typically aim to achieve financial returns by investing in companies with strong ESG policies, while impact investing seeks to achieve both financial returns and measurable social or environmental impacts. On the other hand, SRI strategies aim to avoid investments that could cause harm in social, political, economic, or environmental domains. Over time, these strategies have evolved to not only avoid harm but also to proactively seek positive impacts through responsible investment strategies (Berry & Junkus, 2012). Another related concept, which is the venture philanthropy, emphasizes maximizing social returns without prioritizing financial returns, unlike impact investing which seeks to balance both (Porter & Kramer, 1999).

2.1.2. Characteristics of impact investing

The practice of impact investing is characterized by four core elements: intentionality, investment with return expectations, range of return expectations and asset classes, and impact measurement and management (IMM). These elements were developed by the GIIN.

1) Intentionality: This refers to the investor's explicit intention to achieve positive social or environmental outcomes through their investments. Without this intentionality, an investment cannot be classified as an impact investment (GIIN, 2023). According to Brest and Born (2013), intentionality is what separates impact investing from other forms of SRI by ensuring that the desired outcomes are a deliberate objective of the investment.
2) Investment with Return Expectations: Impact investments are expected to generate financial returns, whether they are at or below market rates. Studies by Thornley and al. (2013) have examined the financial performance of impact investments and concluded that these investments can indeed yield competitive financial returns, thus reinforcing the idea that social good does not have to come at the expense of financial performance.
3) Range of Return Expectations and Asset Classes: Impact investments can target financial returns that range from below market to risk-adjusted market rates and can be made across various asset classes, including cash equivalents, fixed income, venture capital, and private equity (GIIN, 2023). This diversity in asset classes enables a broader range of investors to participate in impact investing, thus facilitating the flow of capital into socially and environmentally beneficial enterprises (Agrawal & Hockerts, 2013).
4) Impact Measurement and Management (IMM): A critical aspect of impact investing is the commitment to measure and report the social and environmental performance and progress of the investments. This ensures transparency and accountability, setting impact investing apart from other forms of investment (GIIN, 2023). The development of standardized metrics like the IRIS and tools like the GIIRS have provided the necessary infrastructure for effectively measuring and managing impact, helping investors to evaluate and optimize their portfolios' social and environmental outcomes (Ebrahim & Rangan, 2014).

2.1.3. Growth and need for impact investing

[2] Business concept that states firms should commit to measuring their social and environmental impact—in addition to their financial performance—rather than solely focusing on generating profit (The Triple Bottom Line: What It Is & Why It's Important, 2020).

The creation of the GIIN in 2009 was an important step in establishing a robust network of investors and leaders committed to expanding the area of impact investing. The growing demand for private capital to solve social and environmental concerns that surpass the financial capability of governments, foundations, and non-governmental organizations is what is expected to fuel the expansion in impact investing (Reisman & Olazabal, 2016). To illustrate this request, an interesting comparison can be made between the prediction made by Lee et al. (2012) and what has been achieved today. Lee projected that the impact investing market would grow to $500 billion by 2023. However, according to the GIIN, by 2022, the market had already surpassed $1 trillion under management, doubling the initial prediction. Significant efforts are being made to increase investment in impact-driven enterprises. However, we observe that there is a gap between the amount that should be invested and the amount that is actually invested.

2.1.4. Social value creation and measurement

Ultimately, one of the key objectives of impact investing is the creation of social value, which needs be measurable. It can be defined as "measuring these wider outcomes that can be directly attributed to the actions of an organization after taking into account what would have happened anyway and the contribution of others" (Mulgan, 2010).

According to Mulgan (2010), there are three primary roles of measures of value creation:

1) Managing internal operations: Value creation measures can also be used internally to improve organizational processes and efficiency.
2) Accounting to external stakeholders: This involves reporting the social outcomes to stakeholders to demonstrate the effectiveness and impact of the investments. Transparency and accountability in reporting are critical for building trust and securing ongoing support.
3) Assessing social impact: This involves evaluating the broader social outcomes of investments to understand their effectiveness and inform future decision-making. It is essential for determining whether the social goals of the investment are being met and for guiding strategic adjustments.

In addition to financial metrics, impact investors are increasingly employing non-financial strategies to enhance value creation. In their 2019 study, Viviani and Maurel underscored the importance of forging connections among stakeholders within an investor's portfolio as a means of creating value. This approach can lead to synergies and collaborative opportunities that amplify the overall impact, thanks to the interaction between the investees.

2.1.5. Criticism on tools assessing impact

Although the concept of impact investing is widely regarded as promising, several scholars have expressed concerns, particularly highlighting potential risks associated with its implementation. There have been requests for cooperation between investors and the public sector, international development community, and larger assessment community due to the difficulty of assessing social effect in addition to financial rewards. The objective of this partnership is to set high benchmarks for what defines significant social impact (Reisman & Olazabal, 2016). Despite the numerous assessment tools available for evaluating investment performance, these tools have been subjected to criticism. For instance, tools such as IRIS and GIIRS have been the subject of such criticism (Brest & Born, 2013).

Critics argue that while sophisticated metrics and multiple benchmarks are necessary for management, they often fall short as reliable markers of public accountability because they are perceived as complex, opaque, and prone to manipulation (Reisman & Olazabal, 2014). Tools such as IRIS and GIIRS provide

factual information on the number of jobs created by a company, but they do not assess the quality or social impact of these jobs in terms of reducing poverty among the population. (Brest & Born, 2013).

2.1.6. Impact paradox

The concept of the "impact paradox" in social enterprises refers to the tensions and challenges these organizations face while trying to balance their dual missions of achieving social impact and maintaining financial sustainability. Social enterprises aim to address social problems within a market economy, which often leads to conflicting demands and priorities (Ebrahim et al., 2014). To illustrate, a social enterprise with the objective of providing affordable housing may encounter a potential conflict between its mission to serve low-income families and efforts to increase revenue by raising rents (Carmine & De Marchi, 2022).

Impact investing, which aims to generate both financial returns and positive social impact, often falls into the trap of the impact paradox. Investors increasingly claim the concept of impact investing to "do good", but often fail to measure the actual impact of their investments. Reasons for this lack of measurement include cost considerations, administrative burdens, and the difficulty of quantifying long-term social impacts compared to more immediate and easily measurable outcomes like job creation (Reisman & Olazabal, 2014).

The paradox arises because, while the intention is to generate positive social outcomes, the implementation of a financially viable business model can result in trade-offs that weaken the social mission. This tension requires social enterprises to adopt strategies that effectively balance these competing demands.

2.1.7. Conclusion

Impact investing represents a significant shift in the investment landscape, combining the pursuit of financial returns with the goal of generating positive, measurable social and environmental impact. The field has grown rapidly, driven by the need to address global challenges that exceed the funding capacities of traditional sources. As the sector continues to evolve, collaboration between investors, the international development community, and the public sector will be crucial in establishing high standards for meaningful social impact. The intentionality, measurement, and broader accountability intrinsic in impact investing set it apart from other investment strategies, highlighting its potential to contribute significantly to global development goals.

2.2. Investors categories

2.2.1. Venture Capitalist

Venture Capital (VC) refers to a type of private equity and financing that investors provide to startup companies and small businesses believed to have long-term growth potential (Gompers & Lerner, 2001). Venture capital generally comes from wealthy investors, investment banks, and other financial institutions (Sahlman, 1990). It is not just an infusion of cash, but also includes a significant amount of managerial and technical expertise that is provided to the new companies. (Zaby, 2017).

According to Gompers and Lerner (2001), VCs are professional investors who fund ventures with high growth potential. They raise funds from limited partners, such as university foundations and pension

funds, and seek to generate returns by making selective investments in innovative companies. These firms tend to work closely with the ventures they invest in, offering not only capital but also valuable guidance and strategic support (Sapienza, 1992). On average, VCs invest about $6.4 million per first-time investment, highlighting their significant financial involvement (National Venture Capital Association, 2016).

They frequently take an active role in the companies they invest in, offering expertise in business management, finance, and strategic planning, and may hold seats on the board of directors to influence company decisions (Zaby, 2017). According to Islam (2022), securing a board position allows VCs to implement control mechanisms that are crucial for managing both financial and impact risks. By being part of the board, VCs can directly influence key decisions, ensuring that the company remains aligned with its impact objectives. Nachyla and Justo (2024) further emphasize the importance of board positions in impact investing. They highlight that VCs use their board roles not just for governance but also as a platform to provide non-financial support to the investee companies. Through their board participation, VCs can offer strategic guidance, mentorship, and access to their extensive networks, which are essential for scaling the social and environmental impact of the business. This involvement goes beyond traditional governance; it actively contributes to the development of the company's impact measurement and management practices, ensuring that the company's activities are aligned with both the investors' expectations and the broader impact objectives.

Investing in high-potential start-ups represents a significant risk for investment funds such as venture capitalists, who are often reluctant to assume such risks. Indeed, such investment funds are unwilling to take the risk of investing in start-ups without first determining whether the financial returns will be proportionate to their investment. In light of this, the EU adopted the Regulation on European Venture Capital Funds (EUVeCa) in 2013 (Venture Capital, n.d.). This established a set of rules to help venture capitalists in their investments (Regulation - 345/2013 - EN - EUR-LEX, n.d.).

2.2.2. Crowdfunding

Crowdfunding is a type of investment fund where a large number of individuals collectively fund a project or business, typically via online platforms. In the context of impact investing, crowdfunding plays a significant role by democratizing access to capital, allowing individuals from various backgrounds to contribute to projects that generate social and environmental benefits (Belleflamme et al., 2014). Unlike traditional investment methods, crowdfunding enables entrepreneurs to raise small amounts of capital from a large pool of investors, often referred to as the "crowd" (Mollick, 2014). This approach has gained traction in impact investing due to its ability to mobilize resources for projects that may not attract conventional investors, especially those with a strong social or environmental focus (Lehner, 2013).

Crowdfunding platforms also facilitate transparency and accountability, as they often require detailed reporting on the progress and impact of funded projects, which aligns well with the principles of impact investing (Lehner, 2013). Additionally, crowdfunding allows investors to directly engage with the projects they fund, fostering a sense of community and shared purpose (Ordanini et al., 2011). The rise of crowdfunding in impact investing reflects a broader shift towards more inclusive and participatory forms of investment, where social and environmental impact are prioritized alongside financial returns (Belleflamme et al., 2014).

2.2.3. Incubators

Incubators play a crucial role in the impact investing ecosystem by providing early-stage social enterprises with the necessary resources and support to develop and scale their impact-driven

business models. Unlike traditional business incubators, those operating within the impact investing field often emphasize the dual objectives of financial viability and social or environmental impact, thereby aligning with the broader goals of impact investing (Cohen, 2013). These incubators provide a combination of mentorship, funding, office space and access to networks that are essential to fostering innovative solutions to pressing societal challenges (Pauwels et al., 2016).

Furthermore, impact incubators often integrate social impact assessment frameworks into their support programs, helping startups measure and manage their impact from the outset (Bocken & Short, 2016). This focus on impact measurement not only enhances the credibility of the startups but also aligns them with the expectations of impact investors who seek measurable social and environmental returns alongside financial gains (Nicholls, 2010). The incubators' role in fostering a culture of accountability and transparency in impact measurement is critical for building trust among investors and other stakeholders (Cohen & Hochberg, 2014).

Additionally, the collaborative nature of incubators fosters an environment where entrepreneurs can learn from each other, share best practices, and build partnerships that further amplify their impact (Bocken & Short, 2016). This ecosystem approach is particularly valuable in the impact investing field, where the collective effort of multiple stakeholders is often required to address complex societal challenges effectively.

2.2.4. Accelerators

Accelerators offer intensive, time-limited support programs for startups, typically lasting a few months. These programs provide mentorship, office space, and seed funding in exchange for equity (Cohen & Hochberg, 2014). Accelerators have a more competitive selection process and aim to rapidly scale ventures, preparing them for subsequent rounds of funding or market entry (Cohen, 2013). The primary goal of accelerators is to accelerate the growth of startups, helping them refine their business models, achieve market fit, and prepare for subsequent investment rounds (Bruneel et al., 2012). Recently, accelerators have become significant players in the entrepreneurial finance landscape, investing in the early stages of startups, before venture capitalists (Bergman & McMullen, 2021; Drover et al., 2017).

Accelerators in the impact investing field are specialized programs aimed at quickly propelling startups that prioritize social and environmental outcomes. These accelerators offer a condensed, intense period of support, during which startups receive critical resources such as mentoring, initial funding, and strategic connections to industry networks (Bocken et al., 2016). Unlike incubators, accelerators focus on preparing companies for rapid scaling and attracting subsequent investment by refining their impact strategies and business models (The Rockefeller Foundation, 2020). The structured environment accelerators provide is vital for startups that need to establish a solid market presence quickly while ensuring their social and environmental missions remain central to their operations (Lall et al., 2013). By accelerating growth, these programs play a key role in enhancing the readiness of startups to secure further investments and expand their impact.

2.3. Investment process

2.3.1. Active vs passive searching

The process of selecting companies can be approached through two distinct methods: active and passive searching. In an active search, the staff proactively seeks out enterprises, and especially startups, that align with specific fields or innovation needs. In contrast, passive search relies on open

calls that are broadly advertised through various channels, such as websites and newspapers. These open calls invite startups from a wide range of technological fields to apply, without targeted solicitation (Marval & Nieschke, 2023).

The selection process is not simply a matter of receiving applications. Candidates are typically required to pitch their projects, highlighting aspects such as the size of the target market, the type of product, and the dynamics of the team (Butz & Mrożewski, 2021). The assessment criteria focus on understanding the motivations and cohesion among team members, which provides insights into the potential for successful collaboration and execution (Marval & Nieschke, 2023).

It is notable that the method of candidate search affects the decision-making process. Accelerators that utilize passive search tend to involve fewer individuals in the screening and evaluation stages. Conversely, those employing active search strategies are more likely to engage a broad decision group, incorporating input from a wider range of stakeholders in selecting candidates (Marval & Nieschke, 2023). Indeed, as the findings will demonstrate, active searching necessitates a greater allocation of human resources due to the substantial workload required of the investment fund. This includes participation in trade fairs, specialist conferences, and conventions, which are essential for identifying potential opportunities.

2.3.2. Positive vs negative screening

There are two principal methods of investment, which determine the strategic direction of the investment fund. The first approach is positive screening, while the second is negative screening. In positive screening, investments are selected based on their alignment with specific positive criteria related to ESG factors. The objective is to include companies that demonstrate superior performance in areas such as sustainability, corporate responsibility, and social impact (Positive Screening Vs. Negative Screening: What Are the Differences? | ESG Explainer, n.d.). This approach is typically driven by investors with a social or environmental mission who aim to generate social and/or environmental benefits alongside financial returns, often to align investments with the investor's values (The Harvard Law School Forum on Corporate Governance, n.d.).

Conversely, negative screening is the practice of excluding certain types of industry or sector (e.g., tobacco, alcohol, or weapons) from investment portfolios. However, narrowing the investment scope in this way can significantly limit the number of potential opportunities, potentially leading to a shortfall in returns (Positive Screening Vs. Negative Screening: What Are the Differences? | ESG Explainer, n.d.; Van Duuren et al., 2015). Nevertheless, as will be demonstrated in the subsequent analysis, investment funds are already utilizing negative screening techniques, whereby they refuse to invest in specific types of company.

2.3.3. Assessment of selecting the appropriate candidate in impact companies

When an investment fund is looking to invest in an impact investing company, selecting the appropriate candidate involves a multifaceted assessment process. This includes evaluating the company's alignment with the fund's mission and impact objectives, assessing the scalability and sustainability of the business model, and analyzing the potential for measurable social or environmental impact (Brest & Born, 2013). The fund must also examine the company's financial health, management team, and operational capabilities to ensure they can deliver on their impact goals (Olsen & Galimidi, 2008). Additionally, due diligence should include a review of the company's impact measurement and reporting frameworks to ensure transparency and accountability (Ebrahim

& Rangan, 2014). Finally, it is crucial to consider the broader market context and the potential for collaborative impact, where partnerships can amplify the positive outcomes (Nicholls, 2009).

2.3.4. Monitoring and reporting

Monitoring and reporting are indispensable components of the impact investing process, serving as the foundation for ensuring that both financial returns and social or environmental objectives are consistently achieved. Post-investment monitoring involves the continuous assessment of the investee company's performance, which is critical for maintaining alignment with the original investment objectives. This process typically entails the regular collection and analysis of data related to both financial performance and the social and environmental outcomes that the investment is intended to generate (Brest & Born, 2013). The importance of monitoring extends beyond simply tracking metrics; it is also crucial for identifying emerging risks and opportunities that may affect the investment's impact, allowing for proactive adjustments and adaptive management strategies (Ebrahim & Rangan, 2014). Adaptive management, in this context, refers to the ability of investors to modify their strategies in response to real-time data and evolving circumstances, thereby maximizing the impact and mitigating any negative consequences (Ormiston et al., 2015).

Reporting, meanwhile, plays a vital role in ensuring transparency and accountability within the impact investing ecosystem. The process of reporting involves communicating the results of ongoing monitoring efforts to various stakeholders, including investors, beneficiaries, and regulatory entities. Transparent reporting is essential for building and maintaining trust among stakeholders, as it demonstrates the investor's commitment to achieving the stated impact goals (Höchstädter & Scheck, 2015). Regular reporting provides stakeholders with a comprehensive understanding of both the financial and non-financial performance of the investee company, enabling them to make informed decisions about the continued alignment with their investment objectives (Reeder & Colantonio, 2013).

Moreover, standardized reporting frameworks like GIIRS and IRIS are often employed to ensure consistency and comparability across different investments. These frameworks provide a structured approach to reporting, which includes the use of standardized metrics for assessing impact. This standardization is particularly valuable for investors who manage diverse portfolios, as it simplifies the process of comparing and evaluating the impact performance of different investees (Agrawal & Hockerts, 2013). The use of such frameworks not only enhances the rigor and reliability of impact assessments but also supports the broader goal of advancing the impact investing sector by promoting best practices in performance management (Barman, 2015).

Therefore, the integration of robust monitoring and reporting mechanisms is essential for the success of impact investing. These processes ensure that investments not only generate financial returns but also achieve their intended social and environmental outcomes. By employing standardized tools and frameworks, investors can enhance the transparency, accountability, and effectiveness of their impact assessments, thereby contributing to the growth and credibility of the impact investing field (Ebrahim & Rangan, 2014).

2.4. The Levers of Control

The "Levers of Control" model, developed by Robert Simons (1994), is a strategic management framework designed to help organizations balance the need for innovation with the necessity of control. This model identifies four key control systems (belief systems, boundary systems, diagnostic control systems, and interactive control systems) that managers can use to guide their organizations

toward achieving strategic objectives. By effectively employing these systems, managers can maintain alignment with the company's goals while allowing for the flexibility needed to adapt to a dynamic business environment. In the following sections, each of the four systems will be developed in detail. Additionally, commonly used frameworks and tools will be integrated and discussed in the context of the system they most align with, illustrating how they can be effectively employed within Simons' framework to enhance organizational control and strategic alignment (Simons, 1994). Figure 2 shows the Simons model with the various tools and frameworks, which will be described in more detail in the next section, already integrated alongside their respective systems.

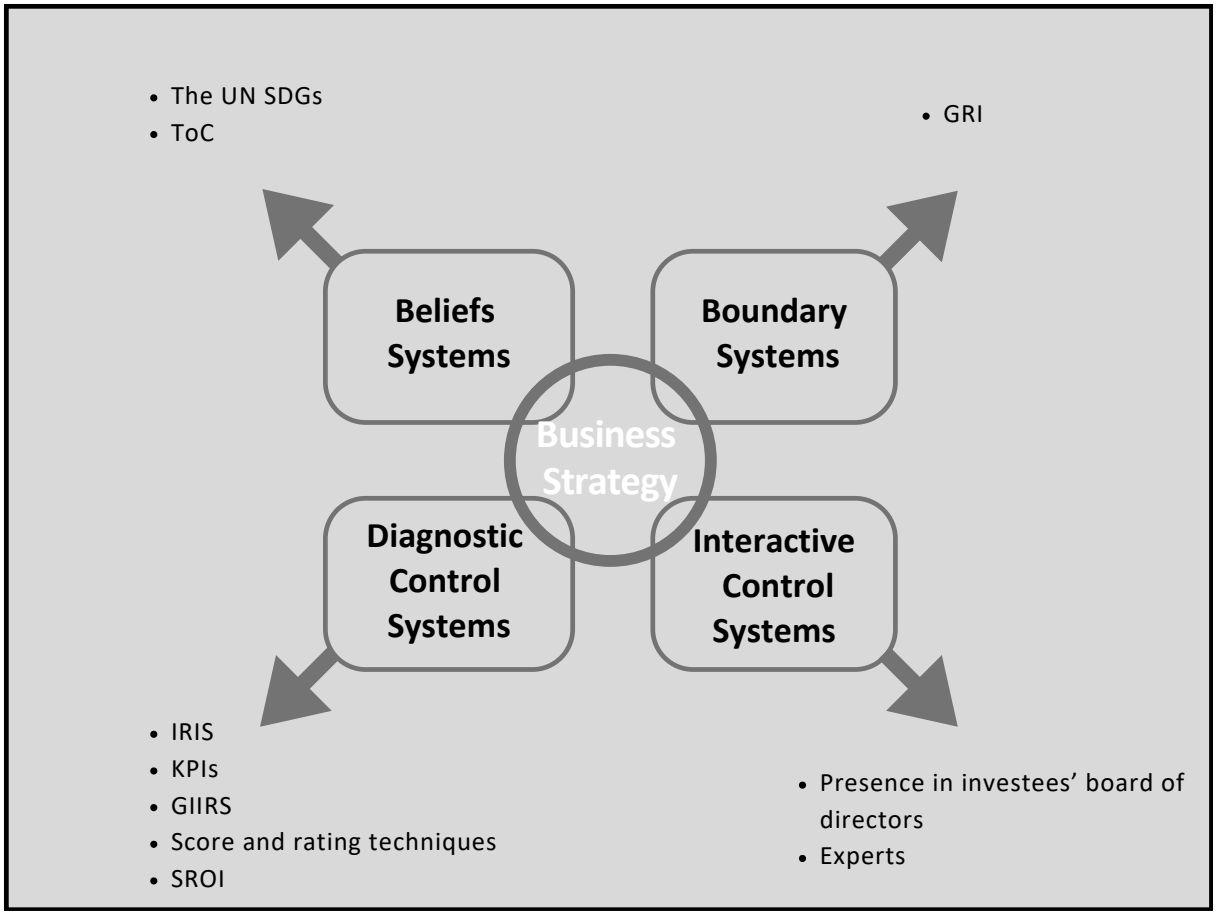

Figure 2: Controlling business strategy analysis based on Simons LOC system (1994)

2.4.1. Beliefs systems

The first systems developed by Simons are the belief systems which are formal mechanisms through which an organization communicates its core values, mission, and vision to inspire and motivate employees. These systems aim to align the workforce with the organization's strategic objectives by promoting a shared understanding of the company's purpose and direction. For example, a company might use a mission statement to emphasize its commitment to innovation and customer satisfaction, which then guides employees in their decision-making processes. Belief systems are crucial in fostering

a culture that supports the organization's long-term strategic goals and encourages employees to act in ways that are consistent with the company's core values (Simons, 1994).

2.4.1.1. United Nations Sustainable Development Goals (UN SDGs)

The United Nations Sustainable Development Goals (UN SDGs) represent a comprehensive and ambitious agenda designed to address some of the most pressing global challenges by 2030. Comprising 17 goals and 169 targets, the SDGs aim to support an integrated and interlinked approach among governments, businesses, and society (United Nations, 2024). Achieving these goals requires significant financial resources and innovative funding mechanisms.

The SDGs, which were created in 2015 with significant help from the private sector, place an important priority on the need to raise global investment capital in order to promote change on a global scale (GIIN, 2023). These goals address a wide range of social and environmental concerns, such as addressing climate change, providing high-quality education, promoting decent jobs, and reducing poverty. An estimated $2.5 trillion in yearly investments are needed to attain these targets, highlighting the crucial role that public and private capital play in closing gap (Dhar, n.d.; United Nations, 2020).

The SDGs are embedded within belief systems because they reflect the organization's commitment to global sustainability goals, aligning corporate mission and values with broader societal objectives. They also relate to these systems by setting clear guidelines on ethical and sustainable practices that organizations should adhere to. By integrating SDGs, organizations ensure that their actions align with internationally recognized standards for social and environmental responsibility (Scheyvens et al., 2016).

2.4.1.2. Theory of Change

The Theory of Change (ToC) is widely recognized as a powerful framework for planning, implementing, and evaluating social impact initiatives. Defined by the United Nations Development Group as a method that explains how specific interventions are expected to lead to desired development changes, the ToC draws on causal analysis and available evidence to map out the pathways to these outcomes. This approach is instrumental in identifying the underlying causes of challenges and selecting the most effective solutions to address them. It also guides the choice of strategies by considering various factors such as comparative advantages, effectiveness, feasibility, and uncertainties within the specific context (United Nations Sustainable Development Group, n.d.).

The ToC is particularly valuable for organizations with a clear social mission, such as impact investors. These investors use the framework to design, implement, and monitor their social and environmental impact strategies. For example, impact investors must carefully select investment opportunities that align with their desired outcomes, while tracking the social and environmental impacts of their actions. In contrast, the application of the ToC in traditionally profit-oriented companies tends to be less frequent, although it has been included in corporate sustainability guidelines for some time (Andersson, 2024).

ToC is integral to belief systems within an organization as it provides a conceptual framework that aligns activities with the organization's core mission and values. By articulating the desired social or environmental outcomes and mapping the pathways to achieve them, the ToC reinforces the organization's commitment to its strategic goals. This alignment ensures that all stakeholders, from employees to investors, understand and are motivated by the organization's overall purpose (Vogel, 2018).

A crucial aspect of implementing the ToC effectively is the selection and use of KPIs. KPIs are essential tools for measuring progress towards the goals outlined in the ToC. These metrics provide a way to quantify the outcomes and impacts that the organization seeks to achieve, ensuring that its activities are aligned with its mission. For instance, outcome KPIs might measure the direct effects of interventions, such as an increase in the employability rate or a reduction in carbon emissions, while impact KPIs could assess the broader societal changes, like improvements in community health or reductions in poverty levels (Clarkson, 1995).

Incorporating the ToC into the organization's belief systems through the use of well-defined KPIs ensures that the entire organization remains focused on its mission. This approach not only enhances transparency and accountability but also fosters a culture where everyone is motivated by a shared vision of creating positive social and environmental change. By linking strategic goals to specific, measurable outcomes, the ToC serves as a roadmap that guides the organization’s efforts and ensures that its activities are aligned with its core values and objectives.

2.4.2. Boundary systems

The second systems are the boundary systems which establish the limits within which organizational activities should occur, defining what is acceptable and what is not. These systems are typically formalized through codes of conduct, strategic guidelines, and risk management policies that prevent employees from engaging in behaviors that could jeopardize the organization’s objectives. For instance, a boundary system might prohibit investments in certain high-risk ventures or require adherence to ethical standards in business practices. By setting clear boundaries, organizations can minimize risks and ensure that all actions taken by employees are aligned with the company’s strategic goals and ethical standards (Simons, 1994).

2.4.2.1. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a comprehensive framework that provides guidelines for companies to report on their sustainability performance across environmental, social, and economic dimensions (García and al., 2024). It is not just a single tool, but a set of standards, frameworks, and guidelines designed to help organizations produce consistent, comparable, and reliable sustainability reports. These reports enable companies to communicate their impacts on critical sustainability issues such as climate change, human rights, and corruption. The GRI Standards are modular, with specific standards for various topics, allowing organizations to report on the issues most relevant to their business and stakeholders. This structured approach supports transparency and accountability, making the GRI the leading global standard for sustainability reporting (KPMG International, 2022; Marimon et al., 2012).

By utilizing the GRI framework, companies can align their reporting practices with global best practices, ensuring that their sustainability efforts are communicated effectively to stakeholders. This standardized reporting fosters trust and supports companies in demonstrating their commitment to sustainable development, which is increasingly important in today's business environment.

According to a survey conducted by KPMG in 2022, 68% of companies have adopted the GRI guidelines to support the disclosure of sustainability information. This is a slight increase of 1% from 2020. This shows a gradual but steady rise in the adoption of GRI standards. More specifically, 75% of the top 100 American companies integrated GRI standard guidelines in 2022, compared to 68% of their European counterparts (KPMG International, 2022). This disparity highlights regional differences in the adoption

rates of GRI standards, with American companies showing a higher tendency towards these guidelines compared to European firms (Giannarakis et al., 2023).

The Global Reporting Initiative (GRI) aligns with boundary systems because it sets clear standards and guidelines for responsible business practices, defining the limits within which organizations should operate. The GRI framework helps companies establish boundaries regarding sustainability and ethical behavior, ensuring that their activities do not compromise ESG standards. By adhering to GRI guidelines, organizations set clear operational limits that prevent actions contrary to their sustainability goals, aligning with global expectations for responsible corporate behavior (Brown et al., 2009).

2.4.3. Diagnostic control systems

Simons developed a third systems the diagnostic control systems as a crucial tool for monitoring and measuring organizational performance against predefined standards and objectives. These systems utilize performance indicators, budgets, and feedback mechanisms to track progress and identify deviations from strategic plans. For instance, Key Performance Indicators (KPIs) are often employed to assess various aspects of organizational performance, such as financial health, customer satisfaction, and operational efficiency. The data gathered through these tools empower managers to make informed decisions, adjust strategies when necessary, and ensure that the organization remains aligned with its strategic goals (Simons, 1994).

In recent years, there has been a notable shift towards more participatory and integrative tools within this framework. These include constituency feedback mechanisms, developmental evaluations, and network-based approaches like collective impact and outcome mapping, which are particularly suited to complex environments involving multiple organizations and sectors. Additionally, organizations are increasingly moving beyond traditional post-implementation evaluations, incorporating real-time feedback during program design and implementation to enhance effectiveness and adaptability (Ebrahim & Rangan, 2014).

2.4.3.1. Impact Reporting and Investment Standards (IRIS)

The Impact Reporting and Investment Standards (IRIS) was developed in 2008 by the Rockefeller Foundation, Acumen Fund, and B Lab[3] to address the challenges faced by microfinance and other social and environmental sectors. IRIS aims to provide a “universal language for social, environmental, and financial performance reporting,” enhancing transparency, credibility, and comparability in the impact investing industry (GIIN, 2011). It enables social entrepreneurs to quantify and track improvements in their processes, thereby documenting their successes more effectively (Achleitner et al., 2011).

IRIS is considered crucial for the evolution and maturity of the social and environmental impact investing market (Clarkin & Cangioni, 2016). The GIIN has further developed IRIS into an online database of indicators for impact investors to track their organization’s impact (Irene et al., 2016; Spiess-Knafl, 2023). In May 2019, GIIN launched the IRIS+ version, which provides an enhanced dataset of impact metrics, improving data clarity, reliability, and comparability (GIIN, 2019).

The IRIS metrics are predominantly indicators of outputs, with a few addressing outcomes. Consequently, while the GIIRS by B Lab, which is based on IRIS metrics, offers standardized

[3] [3] B Lab is a nonprofit organization founded in 2006 with the mission of transforming the global economy to benefit all people, communities, and the planet. It is most well-known for creating the B Corporation (B Corp) certification

assessments, it may not fully capture the comprehensive impact of an organization (Lehner, 2016; Reisman et al., 2018).

The IRIS is best aligned with diagnostic control systems because they provide a structured set of metrics that allow organizations to monitor, measure, and report on the social, environmental, and financial performance of their investments. By using IRIS, organizations can track progress against predefined impact goals, identify deviations, and make data-driven adjustments to ensure they are on course to achieve their objectives. This systematic approach to performance monitoring is central to diagnostic control systems, where the focus is on evaluating outcomes to ensure strategic alignment.

2.4.3.2. Key Performance Indicators (KPIs)

KPIs help investors select the right ventures and ensure that their investments align with their impact objectives. KPIs are employed to evaluate potential investee companies during the selection phase (Budzyna, 2023). Investors use predefined criteria, ensuring that selected ventures align with the desired impact objectives (Nachyła & Justo, 2024).

KPIs are critical tools in the monitoring and assessment phases of impact investing, enabling investors to track the performance of their investments in terms of both financial returns and social or environmental impact. The selection of appropriate KPIs is essential to ensuring that the outcomes align with the intended goals of the investment (Ebrahim & Rangan, 2014). They help to translate broad impact objectives into specific, measurable outcomes, making them indispensable for assessing progress toward social and environmental targets (Nicholls, 2018).

The use of KPIs in impact investing requires a balanced approach that considers both financial and non-financial metrics. Financial KPIs might include return on investment (ROI), revenue growth, and cost management, while non-financial KPIs could measure outcomes such as the number of beneficiaries served, improvements in environmental sustainability, or progress toward the UN SDGs (Weber, 2011). The dual focus on financial and impact metrics is crucial because it ensures that the social and environmental aspects of the investment are given equal importance alongside financial performance (Clark and al., 2013).

One of the challenges in implementing KPIs for impact investing is the lack of standardized metrics, which can make it difficult to compare performance across different investments or sectors (Brest & Born, 2013). To address this, frameworks like the IRIS have been developed to provide a common language for measuring and reporting impact (Agrawal & Hockerts, 2013). These standardized metrics help to ensure transparency, making it easier for investors to assess the impact of their investments (Murray and al., 2010).

KPIs are integral to diagnostic control systems because they provide measurable benchmarks that allow managers to track progress towards strategic objectives. By regularly monitoring these indicators, organizations can ensure that their financial, operational, and especially, impact goals are on track. KPIs offer the data needed to identify deviations from the plan and take corrective actions, ensuring alignment with the organization's overall strategy (Kaplan & Norton, 1996).

However, it is important to note that KPIs alone cannot capture the full complexity of social and environmental impacts. Indeed, qualitative assessments and stakeholder feedback should be included to complement quantitative KPIs in order to provide a more holistic understanding of the outcomes achieved (Ebrahim & Rangan, 2014). Thus, while KPIs are invaluable for monitoring and evaluation, they must be used as a broader strategy that includes both quantitative and qualitative measures.

2.4.3.3. Global Impact Investing Rating System (GIIRS)

The Global Impact Investing Rating System (GIIRS) is a framework used (B Lab) to provide a comprehensive and transparent system for assessing the social and environmental impact of companies and funds using a ratings and analytics approach (*B Lab Global Site*, n.d.). GIIRS assesses impact investment funds that integrate impact strategies with their financial strategies, using metrics from IRIS (Thirion, 2020). Despite its structured framework, the GIIRS focuses primarily on output indicators, with limited dimensions related to outcomes (Reisman et al., 2016).

The GIIRS aligns with diagnostic control systems because organizations can systematically track the social and environmental impact of their investments, compare performance against benchmarks, and ensure that their investment activities are aligned with their strategic goals. This helps managers make informed decisions and take corrective actions when necessary. By setting these boundaries, GIIRS ensures that investments adhere to specific ethical and impact guidelines, preventing organizations from engaging in activities that fall outside of their defined impact objectives. This framework helps organizations avoid investments that do not meet established social and environmental impact (Brest & Born, 2013).

2.4.3.4. Score and rating techniques

Islam (2022) develops a control mechanism using score and rating techniques. Indeed, this method helps investors evaluate potential investments based on predefined criteria. Often, the criteria used align with recognized international frameworks, such as the UN SDGs. Some scoring systems focus on both positive and negative impact risks, ensuring investments are made only when a net positive impact is anticipated. Even though one might think that these ratings are based on in-depth analyses carried out by investors, managerial judgement and experience are the main elements used to indicate scoring and rating (Islam, 2022).

This technique is well integrated within diagnostic control systems as they provide quantifiable measures of performance across various dimensions, such as financial health or social impact. These metrics allow organizations to compare performance against standards or benchmarks, facilitating informed decision-making. By regularly assessing these scores, managers can identify areas needing improvement, ensuring the organization stays aligned with its strategic goals (Simons, 1994).

2.4.3.5. Social Return On Investment (SROI)

Social Return on Investment (SROI) is an analytical framework that quantifies the social, economic, and environmental benefits generated by a project or organization by using monetary proxies to represent identified values (Nicholls et al., 2012). It is a widely used impact assessment technique that is renowned for its capacity to capture a wide range of value that goes beyond simple cash returns (Farr & Cressey, 2019). SROI involves direct engagement with stakeholders to identify and measure the value created by the organization's activities, assigning financial proxy values to these outcomes. This process results in a ratio that illustrates the generated social value; for example, a 3:1 ratio signifies that every dollar invested produces three dollars of social value (Nicholls et al., 2012; Clare et al., 2023). The basic calculation of social return is the value of benefits divided by the investment (Paneva, 2022).

$$SROI = \frac{Value\ of\ benefits\ (€)}{Investment\ (€)}$$

SROI fits within diagnostic control systems because it provides a framework for quantifying the social and environmental value generated by an organization's activities. By converting these outcomes into financial terms, SROI enables managers to track and evaluate the effectiveness of their social investments. This helps ensure that the organization is achieving both its financial and social objectives, facilitating strategic alignment and informed decision-making (Nicholls, 2009).

2.4.4. Interactive control systems

The last systems from Simons are the interactive control systems which involve active, regular engagement between the investors and their investees in discussing and refining the organization's strategy (Simons, 1994). Interactive control systems emphasize the importance of ongoing dialogue and collaboration in addressing strategic uncertainties. For example, a CEO might hold frequent meetings with department heads to discuss the investment into an impact investing-centered start-up. This system encourages learning, adaptability, and the continuous refinement of strategies, ensuring that the organization remains agile and responsive to changes in its external environment. Tools like scenario planning and strategic workshops are often used within this system to facilitate open discussions and foster innovation (Simons, 1994). In the literature, the inclusion of top management representation in investee companies and the expertise in the relevant field are two concrete examples of elements incorporated that will, hereunder, be developed.

2.4.4.1. Presence in investees board of directors

It is often the case that investors place great importance on their presence on the boards of investees. This is because they believe it is crucial for maintaining supervision and for directly influencing the company's strategy and operations (Nachyła & Justo, 2024). Board participation allows investors to ensure that the investee's activities align with the desired social and environmental outcomes, promoting accountability and transparency. This involvement also facilitates closer monitoring and better implementation of impact-oriented practices, which ultimately drives more effective impact generation throughout the investment portfolio.

The presence of investment fund representatives on investees' boards aligns with interactive control systems because it facilitates active engagement and continuous dialogue on strategic decisions. This interaction allows investors and investees to collaborate closely, addressing uncertainties and refining strategies based on real-time insights. Such involvement helps ensure that strategic goals are being met and allows for adaptive management in response to changing conditions.

2.4.4.2. On-site due diligence

There are many tools, techniques and methods that an investor can use to select the right company to invest in, but visiting the company on site gives a clear picture of how the people work, how the team gets on and what the dynamics of the business are (Patetta et al., 2023).

Impact investors utilize regular on-site visits to monitor and manage the ongoing activities of investee companies. These visits are crucial for obtaining on-the-ground knowledge, particularly in unlisted companies where ESG data are not publicly available. During the pre-investment phase, visits primarily focus on identifying negative impact risks, while in the post-investment phase, they serve multiple roles, including evaluating impact performance, validating data accuracy, and monitoring compliance with ESG standards. In addition, site visits act as an early warning tool to proactively address emerging risks and opportunities (Islam, 2022).

On-site due diligence, which involves investors visiting the site of a potential investee to better understand the investment context, aligns with diagnostic control systems because it provides firsthand, qualitative data that complements quantitative metrics. This on-site evaluation allows investors to gain deeper insights into the operational realities, potential risks, and impact opportunities of the investment, ensuring a more accurate assessment of whether the investee is meeting its strategic and impact goals. This approach to monitoring ensures that the investment aligns with the predefined objectives and helps in making informed decisions based on direct observation, therefore, by enhancing the effectiveness of the diagnostic control systems.

2.5. Conclusion

In conclusion, the integration of various performance management tools and frameworks into Simons' LOC model provides a structured approach to monitoring and managing impact investments. The belief systems, supported by tools like the ToC and the alignment with the UN SDGs, ensure that the organization's core values, and mission are clearly communicated and embraced, guiding strategic decisions and actions toward socially responsible objectives. The boundary systems, exemplified by the framework like the GRI, establishes clear ethical and operational guidelines, ensuring that investments align with global sustainability standards and operate within set boundaries. The diagnostic control systems, with tools such as IRIS, KPIs, GIIRS, score and rating techniques, and SROI enable investors to track performance against predefined objectives. These tools provide quantifiable measures of both financial and social outcomes, facilitating informed decision-making and adjustments to stay on course with strategic goals. Finally, the interactive control systems, involving the presence in investees' board of directors and due diligence, foster active engagement and continuous dialogue with investees. This approach allows for real-time strategy refinement and ensures that investments remain aligned with the intended impact objectives.

3. Methodology

The objective of this study is to determine the performance management tools that can be in support to impact investing within investment funds. Furthermore, the number of investment funds interviewed, the technique used to transcribe the interviews, and other relevant aspects will be detailed. This approach permits a comprehensive examination of the performance management tools employed by investment funds when investing in impact investing companies (Eisenhardt et al., 2016).

In order to respond to this crucial study, an abductive qualitative approach was adopted, using an exploratory analysis. The use of an abductive qualitative approach is particularly well-suited to this study, as it allows for the comparison of theoretical models found in the literature with those used in practice by funds (Gehman et al., 2018). The exploratory analysis is justified by the existence of theoretical models in the literature that can be compared with the models used by funds. However, as impact investing is a new topic, it would be interesting to observe the similarities and differences between the literature and practice. As outlined by Muchielli (1996), the objective of qualitative analysis is to reformulate, theorize or clarify practices. The objective is not merely to present numerical data but to conduct a comprehensive investigation into the manner in which performance tools play a pivotal role in monitoring investment funds' investees.

Therefore, it was determined that interviews would be the most appropriate method for gathering information from the field and comparing it with the theoretical perspectives identified in the literature review. Indeed, as we analyze the data collected, which will be explained in the subsequent section, many elements will confirm theoretical insights while also adding new and enriching dimensions to our understanding that were not mentioned in the literature (Gioia et al., 2022).

At the start of the process, we undertook a comprehensive literature review based on extensive research. This comprehensive review provided a substantial theoretical understanding of the performance tools employed by investment funds and were attributed to different systems developed by R. Simons (1994). The adoption of semi-structured interviews is justified by the flexibility it offers in exploring the nuances of practice and theory alignment, especially in novel fields like impact investing (Howard-Grenville et al., 2021). Subsequently, the data collected was used to create a tailored interview guide based on the literature.

In the final stage, following the collection of all the requisite information, the interview guide was refined and focused, ensuring that it was firmly based on the theoretical framework that had been developed. Such an iterative process is essential to ensure that practical findings are in line with theoretical expectations, allowing hypotheses to be refined on an ongoing basis. (Eisenhardt, 2021).

3.1. Sampling

Contact was made with nine investment funds, either via their websites or through our personal networks. Eight of these responded positively, thereby enabling the interviews to proceed. One fund did not respond, which can be attributed to the lack of time availability that this fund was facing. For reasons of anonymity, the names of the interviewees will not be disclosed. However, the names of the investment funds, the positions held by the interviewees, and other relevant data will be provided in a summary table hereunder.

N°	Participant code	Gender	Participant Job Title	Company Name	Type of Investment Fund	Total Investment Budget (€)
1	Participant 1	M	CEO	Industrya	Venture Capital Fund	42M
2	Participant 2	M	ESG Manager	SFPI	Regional Development Fund	/
3	Participant 3	F	ESG Project Manager	Wallonie Entreprendre	Venture Capital Fund	227,5M (only for 2022)
4	Participant 4	F	Pedagogical Development	VentureLab	Startup Incubator	0
5	Participant 5	M	Head of Industry	Noshaq	Regional Development Fund / Venture Capital Fund	700M
6	Participant 6	M	Director	Good Food Fund	Impact Investment Fund	300k
7	Participant 7	F	Impact Investment Manager	Telos Impact	Impact Investment Fund	100M
8	Participant 8	M	Co-Founder	Citizenfund	Crowdfunding / Impact Investment Fund	175k

Figure 3: Investment funds and relevant data

Source: Alexis Paques (2024)

The selection of investment funds was based on several criteria, the first of which was geographical location. The selection of funds was based on the criterion of geographical location, with a focus on those situated in Belgium given the latter's significant investment potential and numerous investment hubs. It seemed prudent to limit the scope of our interviews to funds based in the region. The decision to interview Belgian funds enabled the gathering of insights pertinent to the region, avoiding the complications that would have arisen from international interviews. Given that the funds in question are based in Brussels and Wallonia, all interviews were conducted in French to ensure clarity during the interviews. For the reader's convenience, all passages quoted by the interviewees have been translated directly into English using the DeepL Translate software. These interviews were a great help and allowed us to make links between the theory developed in the literature review chapter and the reality on the ground, which may (or may not) have points in common. Below is a table summarizing the characteristics of each investment fund to help understand the context in which each fund operates and its main objectives.

Industrya	Fund dedicated to supporting start-ups, with the goal of having approximately fifteen start-up enterprises in its portfolio by the end of its investment phase. Industrya, like other funds such as Noshaq and Wallonie Entreprendre, is increasingly emphasizing ESG criteria, although it does not have explicit impact investment objectives.
SFPI	Belgium's sovereign wealth fund, which has implemented an ESG policy across its entire portfolio. SFPI has also dedicated one of its six major investment pillars to impact investing, making it a significant player in the promotion of sustainable and responsible investment practices.
Wallonie Entreprendre	Like Noshaq, Wallonie Entreprendre has been incorporating ESG elements into its investment strategy, despite not being an impact-focused fund. The fund invests across all sectors with the primary objective of supporting employment in Wallonia.
VentureLab	VentureLab does not provide direct financial support to the companies it assists. Instead, it offers coaching sessions through volunteer professionals and facilitates connections with key industry players. This fund requires young entrepreneurs to take the initiative in seeking support, emphasizing the proactive role of the entrepreneur in the process.
Noshaq	With a capital of €700 million, Noshaq is a significant player in the investment landscape of Wallonia. While it does not primarily focus on impact investment, Noshaq has been placing more emphasis on ESG practices. The fund is deeply embedded in the local economy, making substantial investments across a variety of sectors.
Good Food Fund	This fund focuses on making a meaningful impact through its investments, prioritizing philanthropic actions over significant financial returns. Despite its modest investment budget, the fund seeks to achieve substantial and targeted impacts.
Telos Impact	This fund is exclusively focused on impact investing, with a specialized strategy centered around this objective. Telos Impact has structured its operations into two departments: one for providing guidance to investors and another for managing impact investments. The impact investing department is staffed by seven full-time employees with substantial expertise in the field.

Citizenfund	A fund with a strong focus on social and societal impact, Citizenfund selects investments based on rigorous social and environmental criteria. Unlike conventional funds, Citizenfund prioritizes long-term societal benefits over financial returns, aligning its investment scope with its mission to foster positive social change.

Figure 4: Investment funds' characteristics

Source: Alexis Paques (2024)

At the beginning of each interview, we requested that the session be recorded, and the interviewee provided explicit consent. The primary purpose of these recordings was twofold: firstly, to enable accurate transcription of the interviews and secondly, to ensure that no valuable data was lost during the interpretation of results. This meticulous approach to data collection is indicative of our commitment to capture every nuance of the interviewees' responses.

3.2. Data collection

In order to collect data, we chose to conduct semi-structured interviews, which permitted a high degree of flexibility in the interactions with the interviewees. This type of interview is particularly effective in exploratory studies, where understanding the context and nuances of each interviewee's perspective is critical (Eisenhardt et al., 2016). Moreover, during the interviews, it was possible to deviate from this guide in order to explore specific points raised by the interviewee. Among the eight funds interviewed, seven were conducted online, and only one was face-to-face. The combination of these two formats offered valuable insights into the differences between online and in-person interactions. It was observed that online interviews tended to be less dynamic, and intimate compared to face-to-face sessions, which quickly developed into more engaging and personal conversations. However, conducting interviews online saved a considerable amount of time, as it eliminated the need for travel and the associated logistical challenges. During these discussions we were able to identify direct differences in the performance tools used by different investment funds, due to the way they manage their funds and the funding available to them. Other factors, such as the size of the fund, the experience of the management and the objectives of the shareholders, also explain the differences in the use of certain performance management tools. The following table presents a summary of the data types employed to collate information from the investment funds, the data sources of the interviewees and their respective positions within the investment fund, and finally, the analysis that has been conducted based on these two data sets.

Data Types	Data Sources	Analysis
Interviews *(Semi-structured interviews lasting an average of 39'25")*	Industrya – CEO SFPI – ESG Manager Wallonie Entreprendre – ESG Project Manager VentureLab – Pedagogical Development Noshaq – Head of Industry Good Food Fund – Director Telos Impact – Impact Investment Manager Citizenfund – Co-Founder	Identification of regularly used frameworks, tailored-made tools, objectives of the fund, ongoing monitoring, human and financial resources at disposal
Secondary data	Website	Triangulation of data to help me understand the objectives and targets of each fund, disclosure of key investment budget, and analysis of sustainable report

3.3. Analysis of data collected

We conducted a thematic analysis of our data. This method is particularly well-suited for qualitative research as it allows for the identification of patterns and themes within complex datasets (Braun & Clarke, 2006). This analysis allowed us to gather relevant data from each investment fund, highlighting information about the funds' objectives, their methods of engaging with potential future investors, and the tools and frameworks used during screening and monitoring. Thematic analysis is effective in synthesizing large volumes of qualitative data, making it possible to discern key insights that align with both theoretical frameworks and practical applications (Nowell et al., 2017). The analysis was further enriched by incorporating Simons' LOC model (1994), which provided a structured approach to understanding how performance management tools are implemented within investment funds. By applying this model, we were able to categorize the tools and frameworks used by investment funds into the four control systems—belief systems, boundary systems, diagnostic control systems, and interactive control systems—thus, providing a comprehensive understanding of how these elements interact within the funds' strategic objectives.

In summary, our methodology involved qualitative, semi-structured interviews with a purposefully selected group of investment funds. Semi-structured interviews are particularly effective in exploratory research as they provide the flexibility needed to explore participants' perspectives while still adhering to a structured guide (Kallio et al., 2016). This approach focused on in-depth analysis and theoretical integration, providing a robust framework to address our study and offering new insights into the use of performance management tools in impact investing companies. This combination of thematic analysis and semi-structured interviews enhances the rigor and depth of the qualitative research process (Vaismoradi et al., 2013).

4. Findings

This chapter is dedicated to the analysis of interviews conducted with various actors in the field of investment funds. They provided answers to several questions, such as how they invest, their investment strategy and their outlook on impact investing as a whole. The responses to these questions are significant in that they facilitate comprehension of the fund's perspective and investment objectives. This allowed us to gain insight into the fund's management and subsequently propose a framework for addressing the study, given that it focused on the use of performance management tools that could be useful for investment funds to monitor their investees' impact. Below is the Simons LOC model adapted to the various performance management tools used regularly by investment funds.

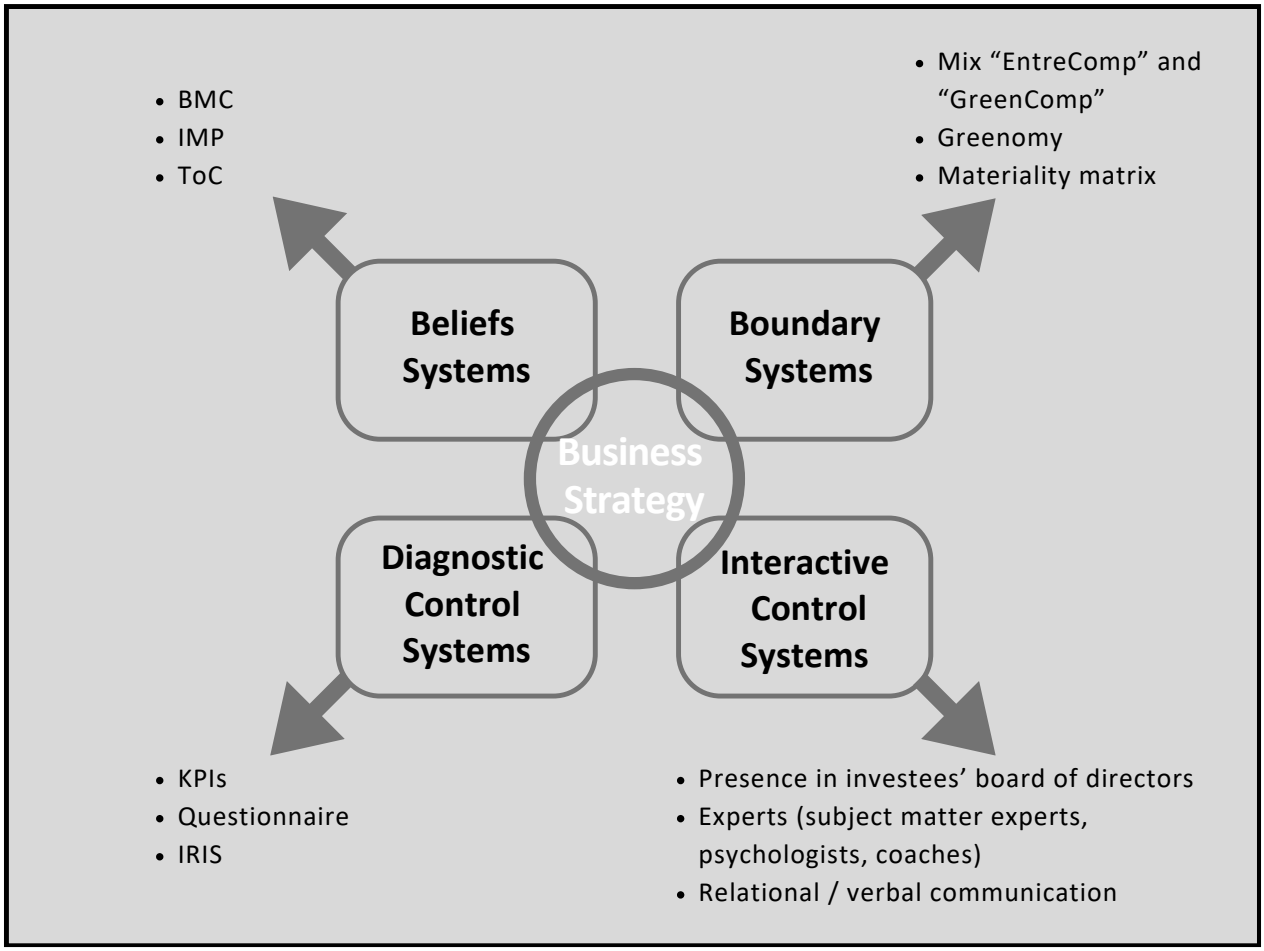

Figure 5: Regular performance management tools based on Simons' LOC model (1994)

4.1. Integrating impact investing tools within the LOC model

In this chapter, we will dig into the analysis, connection, and detailed examination of the key elements central to the performance management tools commonly employed by investment funds. Our objective is to offer a comprehensive overview, integrating each tool within the four systems outlined by Simons (1994). By categorizing these tools using Simons' framework, we can offer a structured analysis of how they operate within the context of impact investing.

4.1.1. Beliefs systems

4.1.1.1. Business Model Canvas

VentureLab employs several frameworks within the fund to assist young entrepreneurs to make the optimal decisions when developing their products or services. VentureLab initially used the Business Model Canvas (BMC) to develop a new one tailored to its specific activities, which it designated “BMC for Change”. This new BMC considers environmental, social and governance aspects in its assessment. Participant 4 explained that when entrepreneurs arrive at VentureLab, the fund allows them to integrate these ESG’s dimensions into the development of their project, but without any obligation from the investment fund. The main objective of VentureLab is to raise awareness. This model helps articulate and communicate the entrepreneur’s core mission, values, and strategy.

> *“We have different ways of making an impact on these projects that are not initially impactful. Indeed, we have a BMC, the Business Model Canvas for Change. Our BMC is a BMC that directly raises awareness of impact: that's what we present to them in the first three months, with these boxes. If they are not filled in properly at the beginning, that is not a problem at all. But we ask to them, "What are you doing in relation to People, Planet Profit? How are you going to position yourself? What is your sensibility? We plant a seed right from the start, whatever the project is.” (Participant 4)*

4.1.1.2. Impact Management Project

Telos Impact's use of the Impact Management Project (IMP) framework exemplifies how the organization integrates its strategic objectives with its core mission and values. The IMP methodology is crucial in screening and monitoring the impact of potential investments, ensuring that each project aligns with Telos Impact's overarching goals of generating positive social and environmental outcomes. By utilizing various reference systems, including the GIIN's IRIS+ database, Telos Impact ensures that the projects they support are not only financially viable but also align with their mission-driven purpose.

> *“We make extensive use of the IMP methodology to screen impact upstream and ensure that the impact assessment is complete and covers all dimensions. There are several reference systems that we use, including the GIIN, which has set up IRIS+, which is several databases on impact indicators. So, what the company does as a project is essential for us.” (Participant 7)*

4.1.1.3. Theory of Change

When integrated with the Theory of Change (TOC), belief systems help ensure that the organization’s mission is not just a statement but is actively guiding the actions and decisions at every level. For instance, in the investment process, the ToC can be used to validate that a company’s mission is genuinely aligned with addressing a specific environmental or social problem, as highlighted by one of the interviewees. The interviewee emphasized the importance of co-constructing the ToC with

entrepreneurs to ensure that there is a clear vision behind the project and that the business model is inherently designed to solve a particular environmental issue. This process ensures that the environmental focus is not incidental but is embedded in the very DNA of the business model.

> *It is a process of joint development with the entrepreneurs, so that we know beforehand that the company has a theory of change, that there is a real vision behind the project and that the solution is in fact a solution to a given problem. So, they do not just act for the environment by chance. In fact, it is in the DNA of the business model and the solution to respond to a given environmental problem. So, in terms of the theory of change, it is generally quite clear in the company's mission.*

4.1.2. Boundary systems

4.1.2.1. EntreComp X GreenComp

VentureLab has developed a specialized framework that integrates the European frameworks "EntreComp" and "GreenComp" for its new project, "Génération Transition", in response to the requirements of the European Social Fund (ESF). The "EntreComp" framework, established by the European Union (EU), provides a set of standards for assessing entrepreneurial skills, while "GreenComp" focuses on measuring sustainability skills. To meet the ESF's legal obligations, VentureLab has created a hybrid tool that combines these two frameworks, enabling young entrepreneurs to assess and develop their entrepreneurial and sustainability competencies.

As described by the interviewee, this tool is a four-page document that lists the specific skills entrepreneurs must evaluate before and after training sessions at three different intervals, tracking their progress in these essential areas. This tailored framework not only meets the ESF's legal requirements but also equips emerging entrepreneurs with essential skills, aligning with both sustainability and entrepreneurial standards.

> *"For 'Génération Transition', we are obliged to qualify, i.e. not to evaluate, but to give a qualification at the end for the ESF, so for the European Social Fund, it's a legal obligation. Therefore, I've created a tool to help people start out with 'EntreComp' and 'GreenComp' skills. I made a mix of the two. It is a small four-page file which lists the different skills that the young entrepreneur will have to assess before and after a training course, at three different times, to see how they have developed in those skills." (Participant 4)*

4.1.2.2. Greenomy

In the course of our research, we observed a recurring theme in the interviews we conducted: the use of a software package that is becoming increasingly popular among companies seeking to assess and report on their ESG implementation. The software in question is referred to as Greenomy. The adoption of Greenomy reflects a concerted effort to standardize the impact assessment process across multiple investment funds, thereby setting a uniform standard for data collection and reporting. This collaboration reduces the administrative burden on companies seeking investment, ensuring they only need to complete one comprehensive questionnaire that meets the requirements of all involved funds.

This approach taken by the investment funds represents a genuine effort to facilitate the operations of impact companies and ensure their practical use of this tool.

> *"In fact, we have joined forces with other investors, namely Finance Invest Brussels, SFPI and PMV. All four of us use the same tool called Greenomy. […] We're trying to make it as easy as possible for companies, so that they don't have to fill in many different questionnaires, making it really relevant for them to fill in a questionnaire and then see whether it adds value for them, so that they can pass it on to their stakeholders and other investors. Therefore, a company that comes to us and also goes to SFPI will only have to complete one questionnaire." (Participant 3)*

By allowing each fund to tailor specific questions and requirements to align with their unique portfolios, Greenomy ensures that while a standard framework is maintained, there is still flexibility to accommodate individual fund needs.

> *"Everyone keeps their own impact analysis because it is a bit specific to each fund. [...] It remains personalized." (Participant 3)*

Despite the adoption of this software by four major public investment funds, criticism regarding its use persist. Wallonie Entreprendre very quickly realized that it was going to be difficult for small enterprises to complete information into Greenomy. Moreover, Participant 6 highlighted the necessity for Greenomy to enhance its user interface to encourage companies to input their reporting data into the software. Furthermore, Greenomy can be utilized to assign an ESG score based on the data entered by the company, which is a crucial element for monitoring corporate performance. However, the software's scoring system is observed to assign radical scores without the inclusion of all essential data.

> *"Greenomy is widely criticized for its poor interface. What's more, if you only fill in 5 out of 60 questions in the 'environment' category, it will automatically give you 0 for all the other questions and you'll end up with a G score, even though you could be selling wind turbines." (Participant 6)*

4.1.2.3. Materiality matrix

Wallonie Entreprendre's use of the materiality matrix is a strategic approach that aligns with Simons' (1994) boundary systems, which establish the limits within which organizational activities should occur. The materiality matrix identifies and prioritizes key criteria—employment, circular economy, energy transition, and climate change mitigation—that are essential for stakeholders, as well as the management committee. Wallonie Entreprendre emphasizes employment as the most critical criterion, demonstrating its commitment to its core mission of supporting quality employment in Wallonia.

> *"We had drawn up a materiality matrix made up of four subjects that have come out, which are important for both our internal and external stakeholders, and therefore also for our management committee. They are all employment related.*

This is everything to do with employment. This is really the basis for the creation of Wallonie Entreprendre. I think it will always be an important point." (Participant 3)

4.1.2.4. Recommendations

SFPI and Telos impact made some recommendation for the future which is the introduction of impact audits. These audits involve an independent third-party assessment that verifies and authenticates the impact claims made by the investee. They act as a safeguard, ensuring that the company has operated within the boundaries set by the investment fund, particularly in terms of social and environmental impact. By undergoing this type of external audit, the impact company will be able to substantiate the impact it has created, which will carry greater weight among stakeholders. Audits also help in identifying any deviations from the expected outcomes, which can inform future boundary-setting processes and help refine the criteria for future investments.

Another recommendation from both funds emphasized the need to implement uniform reporting criteria for each sector of activity. Establishing these criteria would create clear guidelines and expectations for how impact should be reported and assessed across different industries. Telos Impact specifically highlighted that standardization ensures all companies within a sector adhere to the same criteria, which can prevent the phenomenon of impact washing[4] and enhances comparability between companies.

4.1.3. Diagnostic control systems

4.1.3.1. Key Performance Indicators (KPIs)

KPIs are fundamental tools widely utilized across various investment funds to assess and report on different aspects of company performance. However, their application and perceived value can vary significantly depending on the fund's objectives and approach. In the case of VentureLab, KPIs are viewed with some skepticism, as highlighted by Participant 4, who pointed out that KPIs tend to offer a snapshot of the company at a specific moment in time. This static view, according to Participant 4, can lead to a misrepresentation of the company's true and ongoing situation. Participant 4 added that KPIs have limitations in capturing the full complexity of business performance, which raises concerns that relying solely on them might overlook important aspects. Conversely, Noshaq adopts a more traditional and comprehensive approach to KPIs, employing them across a range of performance metrics, including balance scorecards, management charts, and roadmaps.

Telos Impact, on the other hand, emphasizes the customization of KPIs, tailoring them specifically to meet the unique needs and preferences of each investor. This bespoke approach allows Telos Impact to ensure that the KPIs used are as relevant and accurate as possible, directly aligning with the specific objectives of the investment and providing a more nuanced and precise measure of impact.

"We held a meeting on our KPIs and in conclusion, it raised a lot more questions than increasing the confidence. A KPI is really a choice, at a given moment, to highlight an element that is obscuring. In fact, when you choose to show a KPI, you

[4] Similar to greenwashing but happens in the investment world. It occurs when a fund hides or falsely claims an investment has positive impact.

are not giving two pages of explanations for each KPI on how you obtained your KPI and what influence it has on what. The KPI allows you to make big choices, but in my opinion, using only performance tools of this type allows you to make big mistakes because you think you can trust this figure, except that it hides lots of others." (Participant 4)

"KPIs are balance scorecards, management charts, financial tables, a technology roadmap, a sales roadmap, etc." (Participant 5)

"We produce tailor-made KPIs. In direct investment, it is really tailor-made because we are dealing with companies that are very different from one another." (Participant 7)

4.1.3.2. Questionnaire

The questionnaire represents one of the most frequently utilized performance management tools among the investment funds that were interviewed. Wallonie Entreprendre invests in a diverse range of companies across multiple sectors. In view of the public purpose of the fund, it is its duty to provide Walloon businesses with the best possible financial support. Consequently, the fund supports companies from a wide variety of sectors and of various sizes, which complicates the implementation of standardized tools across its entire heterogeneous portfolio. As previously stated, the utilization of Greenomy was considered to be excessively complex for smaller organizations. Consequently, the decision was taken to revert to the Microsoft Forms questionnaire for smaller companies, while keeping Greenomy for bigger companies.

"We realized that for companies with less than 50 FTEs[5], Greenomy was too long and too detailed. And we got a lot of feedback saying that it was not relevant for companies with 20 people to have to fill in a questionnaire like that. So, we decided to go back to a Forms system, where there are around thirty questions, and the company still gets a score." (Participant 3)

The SFPI's implementation of a general questionnaire across its heterogeneous portfolio is a strategic tool designed to monitor the performance and impact of its investments. The annual completion of this questionnaire ensures that SFPI can systematically collect and analyze ESG-related data, providing consistent metrics that allow for a year-on-year comparison and performance evaluation across its diverse portfolio. This structured approach aligns with the diagnostic systems' goal of ensuring that organizational activities remain aligned with strategic objectives.

"This questionnaire will be submitted annually. We will also publish a report before each investment. We have described a series of detailed ESG questions that we will send to our entire portfolio. We have already done this for companies. We are going to start it after that for the funds in the coming weeks." (Participant 2)

[5] Full Time Equivalent (FTE) is a metric used to calculate the total number of full-time work hours contributed by all employees in a company (Danao, 2024).

Industrya's approach to developing a questionnaire highlights the challenges faced by investment fund with a diverse portfolio. Industrya is currently developing a questionnaire to address and account for all the constraints that the fund is facing. The complexity of creating a standardized questionnaire that can be applied across a heterogeneous portfolio of start-ups underscores the diagnostic system's focus on identifying deviations and ensuring alignment with strategic objectives.

> *"So, we are not measuring yet. That is all the work of our trainee who is doing her thesis with us. We are starting to receive questionnaires from our investors to measure our own impact, and therefore the impact of the fund. And we are still scratching our heads about how we are going to do it. […] We have started looking at how we can measure this, but it is going to be complicated because our start-ups are extremely heterogeneous." (Participant 1)*

The use of Noshaq's questionnaire as a performance management tool, emphasizes its role in both pre- and post-investment phases to ensure that companies meet specific ESG standards. The questionnaire is divided into two distinct stages. The first stage involves a benchmark-based questionnaire that includes several prohibited sectors, such as prostitution and gambling, ensuring that investments align with the fund's ethical guidelines. The second stage requires the investee company to commit to ongoing ESG objectives, such as reducing CO2 emissions. This dual approach not only helps in assessing the initial suitability of potential investments but also serves as a continuous monitoring tool to ensure that the companies remain aligned with Noshaq's strategic and ethical objectives throughout the investment period.

> *"We have drawn up let's say a B-Corp Light, with a list of sectors prohibited from investment. So, we are not going to invest in prostitution, we are not going to invest in gambling. […] We have defined around thirty sectors in which we no longer wish to invest. […] Before making the investment, we will go through a questionnaire with the company, again consisting of around thirty questions, in which, in fact, ten or so subjects are mandatory, and then pick up and choose for the twenty or so other subjects. And according to this questionnaire, there are things on the E aspect, there are things on the S aspect, and there are things on the G aspect. For example, "for aspect S, are you pushing for digital disconnection? [For the G aspect] what are you doing to avoid concerns about conflicts of interest in your company?"" (Participant 5)*

Moreover, Noshaq implemented a ranking system from A to E, where A represents the highest quality investments and E signifies areas to avoid. This ranking system allows Noshaq to systematically assess and categorize potential investees based on their responses to a set of predefined questions, thereby ensuring that only companies meeting specific ESG standards are considered for investment. Companies are awarded points based on their responses, which determines their category placement. Noshaq has also established internal targets for the distribution of investments across these categories, ensuring a structured and strategic approach to investment decisions.

> *"Depending on the answers to these questions, the 'yes' questions will be given a certain number of points, and the companies will be classified under categories A, B, C, D and E. Category E, we must not invest there, D, it is difficult, C, we will invest,*

and we will ask them to commit to moving towards B within three years. The target is to have X% of companies in C, Y% in B, within three years." (Participant 5)

Finally, when these questions are completed, Noshaq has the company's roadmap, and they can attend the various board meetings to participate in the decisions that need to be taken. In addition, once a year, Noshaq will ask the company where it stands in relation to the basic objectives agreed between the two parties. If the company is following the original plan perfectly, no changes need to be made. If the company falls short of expectations, Noshaq will provide financial and non-financial resources to meet the company's needs. Finally, if the company refuses to follow the plan, the contract can be terminated by either party.

Good Food Fund's innovative use of an internally developed Excel spreadsheet reflects a practical approach to impact measurement that is aligned with its budgetary constraints. This tool, although less sophisticated than Greenomy, serves as an essential mechanism for evaluating the potential impact in an ex-ante investment context. The Excel file covers broad categories such as products and services, sustainable business practices, and ESG aspects, which were selected to align closely with the fund's specific objectives. Importantly, the criteria embedded in the Excel tool are drawn from the UN SDGs, ensuring that the fund's impact monitoring process is both comprehensive and aligned with globally recognized standards. In Simons' (1994) diagnostic control systems, this tool plays a critical role in systematically evaluating and monitoring the alignment of investments with strategic impact goals. Despite the inability to conduct regular ex-post monitoring due to financial limitations, the Excel tool provides a valuable means of scoring and comparing the performance of companies within the portfolio based on their alignment with the SDGs.

"So, we have a tool for measuring impact. It is not financial, but we have created it ourselves. It is not a software; it is an Excel file. With our budget, we could not afford big software packages. […] The various themes: product/service, sustainable business practices. These are the important themes for us. And then social, environmental and governance. So, there are quite a few criteria that do not always apply to all projects. Especially as we have just arrived in the early stages. This was done in relation to the Sustainable Development Goals. For each objective, there are sub-objectives and then, finally, there is the score that you can compare. It does not work on a single project. But on several projects, you can compare them." (Participant 6)

4.1.3.3. Recommendation

VentureLab suggested the implementation of Artificial Intelligence (AI) at all stages of the investment process, and especially in the monitoring. By implementing AI in the diagnostic phase, investment funds can continuously monitor KPIs, track financial and impact outcomes, and detect deviations from strategic goals in real-time. This also could be of significant benefit, not only to larger organizations, but also to smaller ones as the implementation of AI would result in significant savings in terms of time, cost and increased efficiency.

4.1.4. Interactive control systems

4.1.4.1. Presence in investees' board of directors

In the context of impact investing, the integration of a member from the investment fund onto the board of directors of the investee company is a critical interactive control mechanism. This practice was consistently highlighted across several interviews, with the primary motivation being the need for active engagement and oversight in the strategic decisions made by the company.

Investment funds such as SFPI, Industrya, Noshaq, and Telos Impact exemplify this approach, using board membership as an essential tool to maintain close ties with their investees. This involvement is particularly vital given the substantial financial stakes often involved, where investments can reach thousands or even millions of euros. The presence of a fund representative on the board ensures that the fund remains well-informed about the company's strategic direction and can intervene if necessary to safeguard its investment.

In the context of Industrya's investment strategy, the integration of a fund representative into the board of directors of each investee company is a non-negotiable aspect of their investment. This strategy ensures that Industrya maintains a significant influence over the strategic direction and operational decisions of its portfolio companies, which is crucial for monitoring and guiding the companies towards achieving their growth objectives. Industrya's CEO said that the integration on the board allows the fund not only to oversee the financial performance but also to contribute valuable knowledge and experience, particularly during critical phases such as fundraising, capital allocation, and subsidy sourcing.

Upon joining the board of directors, Industrya aims to play an active and engaged role, seeking to pose challenging questions that foster constructive dialogue and drive performance improvement. This approach is designed to provoke critical thinking among the company's management, ensuring that all strategic alternatives are considered.

> *"One of the special features of our investments is that we always ask for a seat on the Board of Directors. That is non-negotiable for us. Our USP, our differentiator for start-ups, is that we bring money, but we do not just bring money, we bring knowledge. And we want to play an active role on the Board of Directors. […] I define our role as asking the tough questions. We have to challenge the management to find out whether they have thought through the alternatives, whether they have considered the pros and cons, and bring them our experience. And then, between board meetings, on a case-by-case basis, we have discussions with start-ups." (Participant 1)*

This direct involvement, coupled with the necessity for investee companies to proactively seek Industry's support, is important. The maintenance of continuous and active communication is vital for the adaptation of strategies and the management of uncertainties.

> *"A start-up will contact us to find out if we know someone in a major Belgian or European group, or if we have knowledge of a particular market. [...] We regularly remind the start-up that we are there to help them. We will try not to look for too much information, but rather for them to come to us with questions." (Participant 1)*

When Noshaq invests in a company, especially through equity, they make sure to secure a seat on the board. This gives them a front-row seat to monitor the company's progress closely. They typically have four board meetings a year, but if a company is facing difficulties, these meetings can happen monthly or even weekly. This frequent interaction allows Noshaq to keep a close eye on the company's strategic initiatives, like whether they are following through on planned investments.

> *"We are involved in board meetings because we do not want to be kept informed only at annual general meetings. We have 4 Board meetings a year, so at these quarterly meetings we will be monitoring the company's entire strategic plan. [...] We monitor each of our companies fairly closely and periodically. The 4 Board meetings are when things are going well, when things are not going well it is a monthly meeting, and there are even some companies where we have weekly meetings, so when things really are not going well at all. So yes, we have a strong involvement in the company's activity once we have invested in it. […] As soon as you invest in equity, there is a member of the board, however, in a loan from a company where you are sure it is going to be repaid, you do not need to follow the company." (Participant 5)*

SFPI's portfolio includes investments in over 170 companies. Given this large number, it is not feasible for SFPI to systematically integrate its representatives into the boards of every investee company. This challenge is further compounded by the nature of SFPI's financial assistance, which often takes the form of loans. In cases where loans are provided, SFPI does not typically seek board representation for this type of investment, as the repayment of the loan does not require any supervision. SFPI bases its level of involvement on the size of the investment, ensuring that the larger the financial commitment, the greater the fund's involvement in the governance of the investee company.

> *"It always depends a bit on the amount you put in, etc. But most of the time we try to have an administrator." (Participant 2)*

Telos Impact adopts a strategic approach to board involvement that is closely tied to their investment strategy, which aligns with interactive control systems. Rather than taking a majority position, Telos Impact often prefers to share the operational responsibilities and risks associated with early-stage companies by maintaining a significant minority stake. This approach allows them to secure a place on the board of directors while sharing the risks with other investors, which is particularly important in companies that are still in their growth phases and facing high operational risks.

Regular monitoring and close contact with the investee companies are integral to Telos Impact's strategy. They ensure that they remain engaged with the company's progress through frequent board meetings, often held every two months, and more frequent communication during crises. Monthly calls with entrepreneurs to discuss specific operational KPIs reflect Telos Impact's commitment to active involvement in the companies they invest in.

> *"We do not go into a financing round if it is a very small ticket and if we are too much of a minority, we will avoid it as well. We prefer companies in which we have a significant minority stake. Which means we are one of the top 4-5 investors. As a result, we can negotiate a place on the board. […] And sometimes you are even the lead. […] We like to share, to be co-lead on growth phases with companies that are*

still young and have a lot of operational risk. We like to share the risk. […] Board meetings are often held every two months. And then in the event of a crisis, it can be more regular. And we set up monthly calls with the entrepreneurs to discuss very precise operational KPIs and see that everything is running smoothly." (Participant 7)

4.1.4.2. Experts

In order to facilitate a more rigorous monitoring of their investments, both pre- and post-investment, Industrya, VentureLab, and Good Food Fund engage experts who possess expertise in the specific field of the companies in which the fund has invested or will invest. While the fund itself has accumulated experience, it may lack the specialized knowledge required to fully evaluate the company's growth and development potential.

Industrya engages two distinct types of experts in its decision-making process. Once a company has been approved by the selection committee, Industrya conducts what it terms an "in-depth analysis" of the company. As part of this analysis, the first type of subject matter expert is brought in to evaluate the company's project and assess whether the concept is technologically feasible. Since Industrya primarily invests in start-ups, the ideas it funds are often highly innovative, which can sometimes raise doubts about their practicality and effectiveness. As a result, Industrya must adopt a critical opinion, especially when receiving reports from experts who are skeptical about the project's viability.

"We find a technology expert who gives us a technical and technological analysis. Is the technology unique? Does it hold up? Is it feasible? Is it scalable? We try to find someone with good experience in this area. She/He will always have a slightly skeptical opinion, because innovation is all about doing something that everyone thinks is impossible. So, we have to calibrate our reading of the reports in relation to that, but it is always interesting to look at the technology. To take a critical view of the reports we receive." (Participant 1)

The second expert Industrya engages is a psychologist, whose role is crucial in providing a unique and highly effective ex-ante analysis of the company. While Industrya's team conducts financial assessments, such as analyzing ratios and business plans, the psychologist focuses on the psychological and relational dynamics among the company's members. The psychologist interviews each team member for three hours and then submits a detailed report to Industrya. According to Participant 1, the insights provided by the psychologist have been instrumental in helping to avoid investments in certain start-ups, even when the companies had passed all Industrya's financial checks and were approved by the selection committee. This highlights the pivotal importance of the psychologist's role within Industrya's evaluation process.

"We spend a lot of time and resources analyzing the team and management. We have a psychologist who tests 3, 4 or 5 people from the company, as well as the founder and the manager. She then spends 3 hours interviewing each of them. So, if there are 5 people, that is 15 hours of interviews. And she gives us a report containing an individual analysis of each person and an analysis of the team. How is the team now? Is the team capable of growth? […] In fact, many of the investments we didn't make were the result of this HR analysis report because we

saw major problems in the team or major potential problems in the team." (Participant 1)

VentureLab offers an incubator environment for entrepreneurs, helping them develop their projects through a structured monitoring system. This system includes a network of coaches, consisting of both VentureLab staff and external experts, who provide guidance and support to emerging entrepreneurs. The primary resource VentureLab employs is the coach, who offers regular support throughout the incubation period. Coaches play a crucial role in connecting young entrepreneurs with external resources, such as potential funding sources. Establishing a positive and constructive relationship between the entrepreneur and the coach is essential, as the success of the project largely depends on effective communication and collaboration. In fact, Participant 4 mentioned that many project failures can be traced back to weak relationships between these parties.

In addition to coaching, VentureLab staff contribute their experience and knowledge, organized into various "sections" that focus on specific themes. These sections offer valuable insights on financial, legal, and marketing issues. Finally, entrepreneurs have access to external experts providing them with additional information and expertise that may not be available within VentureLab or through their coaching sessions.

"First of all, the young person is accompanied by his coach, who acts as a sort of common theme. He sees him once or twice a month to take a look at things, to move forward, to say what follow-up is needed. Then you have the staff who can be helpful in the different specific sections. Finally, you have a connection to the experts. We have a network of experts who have committed to giving X hours of their time per year, free of charge, so that our entrepreneur can find more specific information in a field in which we are not experts. The relationship with the coach is the key to success. When there are drop-outs, it is also the point that is highlighted as being the relationship with the coach that was not great. The matching that we have to do in the admissions committee to find out who is taking who is super important in the success of the support." (Participant 4)

Despite the budgetary constraints of Good Food Fund, one of its shareholders has provided access to a pool of 120 volunteer coaches, each with expertise in specific fields. This allows the fund to hire a subject matter expert tailored to the needs of any company it invests in and request relevant guidance. According to Participant 7, all four companies that received coaching were satisfied with the interactions and found them valuable for their development. Additionally, the Good Food Fund utilizes the WikiFlow platform, which centralizes all the coaches' reports into a single database.

"And we have a coaching network that allows us to monitor projects via a coach, a mentor who will be assigned to each project. For monitoring purposes, because we have coaching, we also use WikiFlow, where you can put reports. We do have coaching reports. So that is intangible. Every month, I receive a coaching report for each project." (Participant 6)

4.1.4.3. Relational / verbal

Another key element in the pre-investment phase is the relational and verbal aspect, which involves actively listening to the company's project. This process allows the investment fund to gain a deeper understanding of the company they are considering for investment and to better evaluate the potential value of the investment.

Citizenfund's approach to building a strong relational aspect with entrepreneurs highlights the importance of trust and personal connection in impact investing. By placing significant emphasis on understanding the story and motivation behind a project, Citizenfund fosters a deeper relationship with entrepreneurs, which enhances the confidence in both the initial investment decision (ex-ante) and the subsequent monitoring of impact (ex-post). This personal connection assures the fund that the entrepreneurs are genuinely committed to creating a positive social impact, mentioned Participant 8.

> *"And so, in the end, getting to know entrepreneurs, projects, etc. personally reassures you of the real impact they can have." (Participant 8)*

Good Food Fund's approach highlights the importance of the relationship and confidence in the entrepreneurs behind the companies they invest in. As Participant 6 highlighted, the fund's decision-making process goes beyond financial considerations; it includes a deep conviction in the potential of the company's idea or concept. By investing in the people behind the projects, rather than just the projects themselves, Good Food Fund leverages this interactive system to ensure that their investments are aligned with both the financial and impact goals, while also adapting to the evolving needs of the companies they support.

> *"You invest in people before you invest in projects, especially at this early stage. Because if the person stops, the project stops" (Participant 6)*

Participant 4 highlighted the importance of the relational aspect and trust in evaluating potential investments, suggesting that these elements often outweigh the significance of KPIs typically found in financial or non-financial reports. According to Participant 4, numerical data can be easily manipulated or misrepresented, failing to accurately reflect the true condition of a company. Furthermore, corporate communications, while essential for enhancing a company's image and attracting potential investors, might not always reveal the underlying issues, such as the mental state of the management team. Participant 4 specifically emphasized the need to engage directly with the people within a company to gain a more accurate understanding of its health and potential challenges, which cannot be fully captured through KPIs alone.

> *"Discussion is an important tool for me. I do not trust the figures because they are given by the company itself. They can be changed, they can be falsified, they can be absolutely wrong. […] For example, a KPI is not going to enable you to understand that in fact the management is completely close to burn-out and is going to leave. When you go and meet the people, and not just the management, but the people in the company, etc., you will get a much better idea of whether the company is healthy or not." (Participant 4)*

However, Participant 4 also acknowledged that this approach could vary depending on the type of investment fund involved. For larger investors who manage vast portfolios, there is often less emphasis on personal stories or the company's dynamics. Instead, these investors tend to focus more on financial metrics and the overall movement of capital, as they may not have the capacity to delve into the personal stories behind every potential investment.

> *"But when you talk to big investors with companies in front of them, talking to their bankers, they do not start listening to the stories of 25 million people. They look at where the money is." (Participant 4)*

5. Discussion

In this discussion section, we will analyze the various tools and strategies employed in the investment process, structured around four key phases of investment: first contact, screening, monitoring, and exit strategy. These phases represent the fundamental stages of the investment lifecycle, each playing a crucial role in ensuring that impact goals are achieved. For each phase, we will explore the specific tools that are utilized to monitor the impact of the investees, and I will link these tools to the four systems developed by Simons— belief systems, boundary systems, diagnostic control systems, and interactive control systems. By organizing the discussion in this way, we aim to illustrate the complex interaction between strategic governance systems and the practical tools that investors use to manage and monitor their investments, ensuring that both financial and impact objectives are met.

5.1. First contact

In the initial phase, the fund will endeavor to establish contact with potential investment partners. During the interviews, it was revealed that two solutions had been put forward. The first involved a proactive search for companies at various trade fairs, specialist conferences, and conventions. The second strategy was to submit applications to the investment funds' websites on behalf of companies seeking to join them. The literature by Marval & Nieschke (2023) expands upon these themes, which are referred to as active and passive search. Active search is compared to the fund's participation in various events, while passive search is compared to the submission of applications on the investment fund's website.

Regarding the initial practice, it was observed that this approach proved considerably more effective in uniting investment funds and companies. This was attributed to the fact that the latter engage in discussions within a context of mutual research, which enhances the efficacy of this type of event. The second practice resulted in a lack of notable outcomes due to the absence of direct contact. These two types of practice are also employed by SFPI and Noshaq, which are distinct investment funds in terms of size and financing when compared to Industrya. This practice of actively seeking out companies is intrinsic to the investment fund's DNA and objectives. In comparison, VentureLab only conducts passive searches, whereas Good Food Fund only conducts active searches. The choice of active and passive search practices is determined by the fund's initial objectives and, obviously, by the financial resources available to it. Consequently, it would be advantageous for investment funds with an active search perspective to invest in this type of participation, which has proven to be successful for those who have taken part.

5.2. Screening

Telos Impact demonstrates a commitment to aligning its investments with its core mission by utilizing comprehensive and recognized tools such as the ToC and the IMP. Unlike the Good Food Fund, which relies on a simpler Excel-based system, Telos Impact dedicates substantial resources to ensure that the companies they invest in have a clearly defined potential for impact. The ToC, a well-established framework, plays a crucial role in this process. By mapping out the expected outcomes and the pathways to achieve them, the ToC helps Telos Impact clearly articulate the change they intend to create through their investments. This aligns closely with Simons' belief systems, which focus on promoting and communicating the core values and strategic objectives of an organization. By

employing the ToC, Telos Impact not only ensures that its investments are aligned with its mission but also reinforces these core beliefs within the organization and to its stakeholders.

Furthermore, the use of the IMP framework allows Telos Impact to assess and manage its impact in a structured way, ensuring that the organization's values and objectives are consistently upheld throughout the investment process.

Therefore, by integrating the ToC and the IMP framework into its investment process, Telos Impact exemplifies how belief systems can guide investment strategies, ensuring that each decision reinforces the fund's core mission and values.

Good Food Fund's approach to using screening tool, i.e. their customized Excel file based on the 17 SDGs, highlights an interesting aspect of their investment strategy. This approach, although modest compared to larger funds, aligns well with the diagnostic control systems as outlined in Simons' (1994) LOC model. Diagnostic control systems are typically used to monitor and measure organizational performance against predefined standards. In this case, the Excel-based tool serves as a structured method for assessing potential investments by assigning scores to various objectives and sub-objectives, ultimately yielding a comparative score that helps in decision-making.

However, the limitation of this tool becomes evident in its inability to track the impact post-investment, a crucial aspect for ensuring that the initial goals and objectives continue to be met over time. The critical point is, while the diagnostic tools employed by the Good Food Fund provide a structured framework for initial assessment, they fall short in their capacity to offer ongoing performance monitoring. This gap is significant, as diagnostic control systems are not just about the initial measurement, they are also about continuous tracking and corrective actions based on performance data.

Participant 6's awareness of this shortfall and the intention to address it in the future reflects a critical understanding of the limitations within their current diagnostic system. He also underscores the importance of financial resources in the effective implementation of diagnostic controls. The lack of funding constrains the fund's ability to carry out long-term monitoring, which is essential for aligning with the broader goals of impact investing. This situation illustrates a broader issue within the field, where smaller funds often struggle to monitor impact investing targets.

Finally, Industrya represents the last fund in this discussion to implement a thorough screening process before committing to an investment. Like Telos Impact, Industrya takes a rigorous approach to ensure that its investments align with its goals. Their process is quite comprehensive, involving several steps to vet the potential impact company. The fund employs two key experts: a subject matter expert who provides an in-depth analysis of the company's operations and potential, and a psychologist who interviews both employees and managers to gain insights into the company's internal dynamics.

This process is robust, ensuring that each potential investment is analyzed from multiple perspectives. By involving both a subject matter expert and a psychologist, Industrya strengthens its confidence in the companies it invests in, knowing that these companies have been carefully vetted. This approach fits well within interactive control systems, where active engagement and continuous feedback between the investor and the investee play crucial roles. The involvement of experts in the screening process encourages dynamic discussions and ongoing adjustments, ensuring that the investment aligns well with Industrya's strategic goals and the broader impact objectives of the company.

One of the reasons why Good Food Fund does not implement a screening system which is as robust as that employed by Industrya is due to a lack of financial resources and consequently, human resources.

Given a budget of €300,000, it is not feasible to implement comparable resources to those of Industrya and Telos Impact, which has respectively, a budget of €42M and €100M. Nevertheless, despite the budgetary constraints of Good Food Fund, it is noteworthy that the fund has succeeded in establishing a high-performance screening system based on a recognized framework.

Only three funds employ screening methods prior to investment. This is likely due to two factors:

1) These tools are recent and therefore, there is a lack of confidence in these ex-ante tools

2) The objectives pursued by management do not include such a strategy, i.e. screening the investee.

Good Food Fund's simpler approach underscores the difficulties that smaller or less-resourced funds encounter in adopting best practices. In contrast, Telos Impact and Industrya adhere more closely to academic recommendations, such as IRIS+, IMP, or BMC analysis. The interviews revealed that those funds implementing these thorough screening processes at the outset tend to have greater confidence in the impact their investments will generate. As a result, less monitoring is required post-investment because the fund is already assured of the impact potential established during the initial screening phase.

While the human, relational aspect is valued by some fund managers as a tool for assessing the potential of impact enterprises, it may not be sufficient on its own, particularly in environments where financial returns are heavily prioritized, as is the case with Noshaq. The reliance on personal relationships and direct communication could introduce subjectivity into the evaluation process, potentially leading to biases or inconsistencies. On the other hand, Noshaq's emphasis on financial returns despite acknowledging the importance of human relationships indicates that a balanced approach, integrating both relational and quantitative tools, might be necessary for a more holistic and effective assessment in impact investing. This dual approach would allow funds to benefit from the insights gained through human interaction while still maintaining the rigor and objectivity provided by financial metrics.

5.3. Monitoring

Monitoring allows the investment fund to track the impact generated by the investee, enabling a continuous record of the company's day-to-day activities. To achieve this, various tools have been developed, both in academic literature and by the funds themselves, tailored to their specific activities. Some of these tools may align with those found in the literature, while others may differ, reflecting the unique needs of the funds.

The initial tool that is most frequently utilized in the context of interviews is the practice of engaging the services of coaches. Whether on a regular basis or more occasionally when the need arises, coaches provide the company with advice and recommendations to facilitate the development of their project. Participant 6 stated that the majority of companies in his portfolio had utilized the coaching services provided by the fund, and that they had all expressed high levels of satisfaction with these interactions. Participant 4 noted that many successful projects were the result of optimal interaction between the entrepreneur and the coach. Of the interviewees who referenced the utilization of coaches, not a single individual expressed a negative opinion regarding their deployment. This high level of satisfaction and the consistent positive outcomes linked to coaching services can be critically analyzed through the lens of Simons' interactive control systems. These systems are intended to improve dialogue and continuous interaction within the organization. This alignment between coaching and

interactive control systems suggests that the success of these projects may not only be due to the advice provided by the coaches but also because the process itself stimulates a more engaged and dynamic form of management. By encouraging entrepreneurs to interact with external coaches, companies effectively leverage a form of interactive control, ensuring that critical strategic areas are continuously scrutinized and refined. This perspective underscores the importance of not merely the content of the coaching but also the process of engagement itself, which fosters a culture of continuous learning.

The second tool is the increasing prevalence of Greenomy reporting software in Belgium. The software enables companies to collect sustainable data in order to comply with new reporting regulations, including the CSRD and the European Taxonomy (ESG Reporting Software | CSRD & EU Taxonomy | Greenomy, n.d.). SFPI and Wallonie Entreprendre have implemented this platform within their respective investment funds. However, one negative aspect of this software is the complexity with which impact businesses have to complete it. In the interviews, the opinion was expressed that Greenomy should be used by SMEs of a certain size. The feedback from interviews suggests that the current use of Greenomy, may be too stringent or complex for smaller enterprises to navigate effectively. This could lead to unintended consequences, such as smaller SMEs struggling to comply or being excluded from the reporting process. The implementation of Greenomy software can be seen as a form of boundary control, where the platform serves to delineate the acceptable parameters of business impact reporting. By using this software, investment funds like SFPI and Wallonie Entreprendre establish a clear boundary around how impact assessments should be conducted, ensuring that companies within their portfolios adhere to specific reporting standards.

The third tools are the use of KPIs, whereby Nachyla (2023) posits that they are utilized for the continuous monitoring of investee companies, with the objective of ensuring that they remain aligned with their pre-defined impact goals. This principle is widely observed as a result of the utilization of Greenomy software, which is employed for the generation of KPIs for impact monitoring purposes. The application of KPIs across Noshaq's diverse portfolio exemplifies a traditional diagnostic control approach, where standard metrics are applied universally to ensure consistency and alignment with impact goals. However, this uniform application may also highlight a potential limitation of diagnostic controls: the risk of oversimplification when dealing with a heterogeneous portfolio. Telos Impact, however, employs a distinctive approach, implementing these KPIs in direct collaboration with the entrepreneurs and developing tailor-made solutions, thereby enhancing their robustness. By customizing KPIs to the specific context of each investment, Telos Impact enhances the precision and relevance of its performance measurement. This approach necessitates a more comprehensive and meticulous preliminary phase than that employed by Noshaq, which applies identical KPIs to its entire portfolio, regardless of its inherent heterogeneity.

A key differentiating factor between the SFPI, Wallonie Entreprendre, and Telos Impact funds is the degree of rigor with which Telos Impact implements performance measurement tools. This rigor may be attributed to the fund's legal form. On the one hand, SFPI and Wallonie Entreprendre are public funds, which aim to invest in a plethora of heterogenous sectors, whereas on the other, Telos Impact is a private fund whose clients are wealthy families seeking to invest in specific impactful businesses. This reinforces the notion that the objectives of the various funds are distinct, thereby influencing the rigor of impact measurement.

A fourth tool that emerged from the interviews was the appointment of a representative from the investment fund to the board of directors of the invested company. This tool is directly related to the literature, as discussed by Islam (2022), who notes that when a fund acquires a position on the board of directors, it facilitates enhanced scrutiny of investments and grants a significant degree of control in evaluating the impact of the investee. Furthermore, he states that because of this membership, in

the event of a change or specific event, the individual is able to react directly and issue a negative opinion. This concept is further supported by Nachyla (2023), who argues in her study that the presence of investors on the boards of their investees represents a tool used by many investors. Furthermore, Zaby (2017) observes that a significant number of venture capitalists play a strategic role on the board, providing advice and influencing certain resolutions.

A common theme from the interviews was that if the fund is part of a board, it should be proactive and support the investee company as much as possible. While Industrya, Noshaq and Telos Impact are non-negotiable members of the investee's board, SFPI does not automatically join these boards. This suggests that integration, and therefore active participation by the fund on the board, is primarily determined by the amount invested in the impact company. It can be concluded that the level of follow-up and support provided to the investee company, and the impact of this support, is dependent on the amount invested. This may be detrimental to companies receiving a smaller amount, as the investee will consequently receive less support from the fund. On the contrary, Industrya has stated that it will provide the same level of support regardless of the amount invested, underlining its intention to monitor investee companies over the long term. The appointment of a fund representative to the board can be seen as an illustration of the interactive approach, where direct participation in the governance of the investee company allows for real-time monitoring, guidance and intervention. This board involvement allows for a more dynamic and responsive form of control, where the investor does not just passively monitor performance, but actively engages with the investee to shape outcomes.

The final tool for regular monitoring of funds is the use of recognized frameworks. These include Telos Impact, which uses the IRIS+ metrics system developed by the GIIN. This tool, which is widely used in the literature, was cited by Clarkin & Cangioni (2016), who explained that the IRIS initiative aims to establish a standardized language that facilitates comparison and communication among organizations focused on social or environmental impact. The IRIS+ metrics system, as used by Telos Impact, is an example of a diagnostic control system. These systems are designed to monitor and measure performance against established targets, and IRIS+ provides a standardized set of metrics that allow for consistent and comparative impact measurement across different organizations. By employing IRIS+, Telos Impact ensures that its impact measurement processes are not only rigorous but also aligned with standards.

On the other hand, the utilization of the European EntreComp and GreenComp frameworks by VentureLab can be interpreted through the concept of boundary control systems. By combining EntreComp and GreenComp into a comprehensive four-page document, VentureLab provides a clear set of guidelines that entrepreneurs are expected to follow. This approach helps to ensure that all entrepreneurial activities are conducted within the predefined boundaries of competence and sustainability, thereby minimizing risk and promoting responsible business practices.

It can be concluded that a variety of tools are employed by the diverse range of funds, with the specific tools utilized depending on the fund's particular needs and, most importantly, on its core objectives. Additionally, the monitoring of impact businesses and the rigor with which the work is conducted are also key factors. This diversity in approach highlights the necessity for flexibility and adaptability within the impact investing sector, ensuring that each fund can effectively measure and manage impact in a manner that aligns with its distinctive context and objectives.

5.4. Exit strategy

The final stage is the exit of the investment fund from the investor. This stage is of great significance, as it allows for the evaluation of the ultimate impact of the investment, considering the resources invested in the venture. This process of exit comprises the assessment of the overall impact achieved during the investment period. The evaluation process allows investors to discern which elements were effective and which were not, and to refine future investment strategies accordingly. Despite the critical importance of this stage for final evaluation, the funds do not currently use any specific tools. However, during the interviews, they have several recommendations for impact assessment, highlighting both the lack of such tools and the urgent need to develop them.

5.5. Recommendations

In consideration of the aforementioned discussion, a number of key recommendations can be formulated with the objective of optimizing the efficacy of performance management tools and frameworks in impact investing. Firstly, it is recommended that investment be made in active search strategies with a view to identifying and engaging high-potential impact companies. We advise organizations to participate in trade fairs and conferences, as this can facilitate the formation of more fruitful partnerships and better alignment with impact objectives. These events allow investors and entrepreneurs to meet in an environment aimed at a common goal: a partnership.

Furthermore, it is vital to guarantee an adequate distribution of resources for the screening procedures. It is recommended that smaller funds develop efficient screening tools that are tailored to their resource constraints. In contrast, larger funds are better positioned to implement more comprehensive processes. The integration of AI will significantly develop opportunities for monitoring, assessment, and reporting technologies. The sharing of best practices among funds has the potential to facilitate the enhancement of screening methods on a broader scale. Even in the post-investment phase, we recommended the fund to continue monitoring the impact implemented in order to track the long-term impact of investments. This continuous evaluation process guarantees that investments remain aligned with the initially defined impact goals, thus allowing for strategic adjustments to be made in a timely manner.

It is crucial for impact investing companies to incorporate regular coaching and customized support mechanisms into their development strategies. The involvement of coaches and mentors has been proven to significantly enhance project outcomes by providing guidance, encouraging entrepreneurial skills and facilitating problem-solving.

A further crucial recommendation is the simplification and customization of reporting tools. Although Greenomy and similar tools offer valuable information, their complexity may constitute a challenge for smaller enterprises. It is therefore recommended that user-friendly, scalable reporting tools that align with the size and capacity of the investees be developed or adopted. This will ensure better usability and efficacy in impact measurement.

Priority should be given to developing KPIs in collaboration with investors or the investee. The involvement of entrepreneurs in the creation of customized KPIs ensures that these metrics are relevant, achievable, and aligned with both the company's and the fund's objectives. This practice improves the robustness and applicability of performance metrics.

It is imperative that funds engage in strategic involvement in board membership in order to facilitate ongoing impact assessment and guidance. To achieve impact goals, funds should adopt a consistent

approach to placing representatives on the boards of investee companies, ensuring active engagement and strategic oversight.

In conclusion, we believe that in order for an investment fund, regardless of its size or budgetary constraints, to make the most optimal investments, it is essential that the investment fund is able to combine a number of performance management tools in a manner that is aligned with its objectives and resources that are most suitable for it. The ability to strike the right balance between these different tools is of significant importance with regard to the success of an investment.

5.6. Limitations

After a thorough review of our study, we have identified several limitations that could impact the findings and overall conclusions of this study.

The majority of the funds under review are headquartered in Belgium. This geographical focus may introduce a bias into the findings, given that the economic and regulatory environments in Belgium may differ from those in other countries. It would be beneficial for future research to aim to include a more geographically diverse sample in order to capture a wider range of impact investing companies.

Another limitation of our study is that we only conducted interviews with eight investment funds. While qualitative research often relies on smaller sample sizes to gain in-depth understandings, this limited number may restrict the diversity of opinions and experiences. A larger sample size would provide a more comprehensive understanding of the performance management tools and frameworks used in impact investing, thus making the findings more robust and reliable. Furthermore, the insights gathered are based on responses from individuals within the funds, which may be subject to personal bias and therefore affect the accuracy and objectivity of the findings.

Despite the triangulation of interview data with other sources of information, such as the website, the use of financial reports or impact assessment documents may help to increase the accuracy of the research. The quality and availability of data from investee companies can vary, affecting the accuracy of impact assessments. It would have been beneficial to have access to all the performance tools and to analyze the quantitative data on the results obtained. Future research should address the challenges of data collection and suggest methods to ensure quantitative data are gathered across the different investment funds.

5.7. Future research

This study suggests future research on the geographic aspects of impact investing. One potential area of exploration could involve conducting comparative studies on the performance management tools used by investment funds in different regions. For example, comparing investment funds from Western and Eastern Europe could reveal how varying cultural, regulatory, and economic conditions influence the effectiveness of these tools.

Future studies could also focus on assessing the long-term effectiveness of these tools in driving social and environmental impact, both qualitatively and quantitatively. This would involve revisiting the same investment funds in a few years to analyze how their use of performance management tools has evolved and whether these tools have contributed to achieving the intended social and environmental outcomes.

From a broader perspective, future research could investigate the potential trade-offs between financial returns and social or environmental impact in impact investing, examining whether performance management tools can effectively balance these competing objectives.

Conclusions

The objective of this study was to identify and categorize the performance management tools that are used in impact investing within investment funds. To this end, a comprehensive literature review was initially conducted in order to establish the theoretical foundations of the topic. The Simons' LOC model was developed in detail and provided the framework for the structure of this dissertation. As the research progressed, performance management tools were analyzed and detailed, including KPIs, the ToC, scoring and rating techniques, and recognized frameworks such as GRI, IRIS+, GIIRS and the UN SDGs. The detailed development of these performance management tools enabled the observation of which Simons' systems they belonged to and their insertion into them.

This research was conducted using an abductive and qualitative approach. Data collection was carried out using semi-structured interviews, which allowed us to be flexible with the answers given and to interact during the interviews. We were able to interview eight different investment funds, headquartered in Belgium and the interviewees were active members of the ESG/Impact Investing departments of their respective investment funds, which means that their responses were of high quality.

Thanks to this data collection, we were able to link the main themes developed in the literature review with the identification of the tools used within investment funds. This collection of information has provided insights into how and when these tools were applied at different stages of the investment lifecycle, from initial contact to the final exit strategy.

The results of this study highlight the different approaches taken by each fund in implementing performance management tools. The size, resources and objectives of each fund have a significant impact on the selection and use of these tools. Smaller funds, such as Good Food Fund, tend to rely on simpler tools, such as the use of Excel spreadsheet during the pre-investment phase. In contrast, larger funds, such as Telos Impact and Industrya, use more recognized frameworks, such as the ToC, the IMP, and experts thanks to the financial and human resources at their disposal.

One of the key findings of this research is the importance of tailored approaches to impact measurement. The study shows that while recognized frameworks offer robustness and credibility, their effectiveness can be enhanced by customizing them to the specific needs and capacities of investee companies. This is particularly evident in the creation of KPIs in Telos Impact, which ensures that these metrics are relevant and aligned with both investors and fund objectives.

The study also highlights the value of strategic board membership involvement as a tool for ongoing impact monitoring and guidance. Funds that actively engage with their investees' boards, such as Industrya and Noshaq, are better placed to ensure that companies remain aligned with their impact objectives throughout the investment period.

The research also identifies several areas for improvement. The complexity of some reporting tools, such as Greenomy, poses challenges for smaller companies, suggesting a need for simpler, more user-friendly alternatives. Furthermore, there is an opportunity for standardization and comparability in impact measurement, particularly if there is an increasing demand from funders for this type of regulation, as evidenced by the funds surveyed. The interviewees also recommended the implementation of AI, the standardization of monitoring tools across different sectors, and the conducting of an impact audit during the exit phase.

In conclusion, this paper contributes to the understanding of the support the performance management tools can be used for effectively to monitor impact investing within investment funds.

By adopting the recommendations provided, investment funds can improve their performance management practices, leading to more effective social and environmental outcomes. The study highlights the importance of a balanced approach that combines recognized frameworks and specific customized tools to achieve sustainable outcomes in the field of impact investing.

Appendix

Interview guide

1) Context
- Could you please introduce yourself and describe your role?
- Could you describe the company you work for? What type of fund is it?

2) Investment Strategy
- Do you have a department entirely dedicated to impact investing?
- How do you identify promising impact investing companies? Is it solely based on their application through your website, or do you actively seek them out?
- During the investment phase, do you use performance tools to decide whether to invest? If so, which ones?
- After you have invested, do you use the same performance tools to measure the social and/or environmental impact of the companies you invest in, or do you use other more suitable tools?
- What are the main challenges you face in measuring this impact?
- What other management resources could contribute to the success of an investment?

3) Investment Process
- How often do you invest in new impact investing companies?
- How do you manage relationships with companies after investing? Is there regular follow-up, or do you only attend general meetings?

4) Challenges and Solutions
- How do you reconcile the pursuit of financial returns with the pursuit of social and environmental impact?
- In your opinion, what role do performance tools play in impact investing within investment funds?
- Is there a particular example where performance management tools played a key role in the success of an investment? Confidentiality applies.

5) Future Perspectives
- How do you see the impact investing sector evolving in the coming years? Is it promising, or will other types of investments take precedence? Which ones?
- What innovations or developments in performance tools do you anticipate as being crucial in future investments?

- Do you have any additional information that was not covered in this interview that you would like to add?

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Executive summary

This thesis delves into the critical role of performance management tools in optimizing impact investing within investment funds, framing these tools within Robert Simons' Levers of Control model. The growing field of impact investing demands rigorous methods to ensure that financial returns are coupled with measurable social and environmental outcomes. The research is systematically organized around the four systems developed by Simons (1994): belief systems, boundary systems, diagnostic control systems, and interactive control systems, with each systems scrutinized to incorporate the tools, methodologies, and frameworks that support effective impact monitoring and management.

Throughout the thesis, specific tools such as the IRIS, Greenomy reporting software, and Key Performance Indicators are examined for their effectiveness in aligning investments with strategic impact goals. These tools are linked to Simons' four systems, providing a comprehensive framework for understanding how these mechanisms function in practice.

The study integrates qualitative insights from interviews with key stakeholders in the impact investing sector, offering a nuanced perspective on the practical application of these tools. The findings underscore the importance of continuous dialogue between investors and investees, robust impact measurement frameworks, and adaptive management strategies. Additionally, the research highlights the varying degrees of rigor and strategic focus among different investment funds, ultimately providing valuable recommendations for enhancing the reliability and effectiveness of performance management tools in impact investing. This thesis contributes to a deeper understanding of how investment funds can achieve both financial and impact objectives through strategic alignment and rigorous performance management tools.

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