

Balancing Act: A comparative study on the prioritisation of  
impact in NGO and Non-NGO impact funds in the Netherlands

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## Abstract

This study explores the operational differences between NGO impact funds and non-NGO impact funds, particularly in the context of impact investing, where the dual focus on social/environmental impact and financial return presents unique challenges. By examining the origination of these funds, the research investigates how their foundational principles influence their strategies and priorities. Key areas of focus include investment and exit criteria, fund-term flexibility, and employee compensation linked to impact metrics. The study finds that NGO impact funds exhibit a stronger commitment to prioritising impact over financial returns compared to non-NGO funds. Especially during the target selection phase. However, the overall impact investing landscape reveals a lag in adopting flexible fund terms, possibly due to stringent requirements from limited partners (LPs). Additionally, while NGO impact funds emphasize impact criteria during target selection and exit decisions, the incorporation of impact elements in employee compensation finds a larger presence at non-NGO impact funds. This inconsistency suggests a complex relationship between financial incentives and impact goals. The study discusses the risk of purpose washing, where funds claim impact without delivering genuine social or environmental benefits, and emphasizes the importance of additionality in ensuring meaningful contributions. It provides a deep dive into the evolving dynamics of impact investing and offers investors insights into the differences that may arise within funds with different origination backgrounds.

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# 1 Introduction

In the last decades, the global investment landscape has experienced the beginning of a large shift and is currently still in the middle of it. All over the world, increasing concerns around social inequality, global warming, and shifting mindsets are forcing investors to look beyond traditional finance and standard metrics for measuring success. Not only zooming in on financial returns, impact investing has emerged as a new approach, introducing it as a way to also achieve positive social and environmental goals. This investment philosophy is gaining traction among different stakeholders, such as individuals, institutional investors, and investment funds, who recognize the potential to address emerging global challenges while also achieving sustainable financial returns.

According to the Global Impact Investing Network (GIIN) definition from 2009, impact investing is described as "investments made with the intention to generate financial return along with positive, measurable social and environmental impact.". By including environmental and social objectives in investment strategies, this impact investing approach sets itself apart from traditional investing. In other words, impact investors are driven by both social and financial considerations, which can be characterised as "the intuition to achieve two goals at once," as described by Trelstad (2016) in his article on the history of impact investing. This new approach aims to provide a combination of both, contrasting philanthropy, which focuses only on charity giving without expecting a financial return. Investments are made in a variety of fields, with examples such as clean energy, circularity, healthcare, and food.

There are several reasons why impact investing is becoming more and more popular. Firstly, an increasing amount of research indicates that businesses with robust environmental, social, and governance (ESG) policies can outperform their competitors in terms of financial returns (Trelstad, 2016; Schanzenbach & Sitkoff, 2020). A result of this is a greater investor interest in sustainable investment techniques. Secondly, investors tend to move beyond purely considering ESG as one of the investment criteria and start thinking on why investments should not also be used to achieve good (Trelstad, 2016).

But despite the growing momentum, several challenges remain. In this study, the focus lies on the differences between impact investors operational practices, based upon their origination. Something necessary, given the novelty of the impact investing landscape and the lack of standardized definitions for many of its themes and concepts. While the overarching approach for these funds, nonetheless their origination, is the dual focus on profit and impact, the practical implementation of these two varies across different funds. The term "impact" itself can be applied in various ways, leading to differing business operations among funds. Also mentioned by Trelstad (2016), the definition stated by GIIN leaves room for interpretation, as it only focuses on achieving impact, not on the intention behind this. Also causing that the prioritisation on the impact and financial side can vary to both ends of the spectrum. For example, funds can be referred to as impact-first, but still apply financial criteria as important as social and/or environmental criteria within their practices. This variability and ambiguity highlights the importance of examining how different funds apply the concept of impact in their operations, especially compared to financial and commercial aspects.

Two terms that frequently emerge in the literature on impact investing are "purpose washing" (Findlay & Moran, 2020) and "additionality" (Hockerts et al., 2022). Firstly, purpose washing refers to "the practice of using the term impact investing for commercial purposes without delivering genuine social or environmental benefits.". This practice can decrease the credibility of the impact investing sector, as it prioritises financial returns under the guise of achieving social good (Findlay & Moran, 2020). This phenomena and the hand-in-hand perception that impact investing is merely a re-branded form of traditional venture capital has negative consequences for the further (positive) growth of this investment landscape. Purpose-washing undermines the credibility of impact investing and even more important,

gives the false signal of fulfilling the existing funding gap for impactful enterprises, while still focusing on businesses that also attract the attention from traditional investors. And despite the growth of impact investing, because of this, a notable gap in support for social enterprises capable of generating substantial social impact remains (Findlay & Moran, 2020). Because these investors might still prioritise financial returns, the challenges these social enterprises face in presenting strong and clear financial metrics keep this gap as wide as it is.

Secondly, additionality can be explained in the terms of impact investing as the requirement that an investment should lead to outcomes that would not have occurred otherwise. A fundamental concept when thinking about contributing to measurable impact in the world of impact investing. However, additionality is often challenging to quantify and implement consistently, as it requires a thorough assessment of what would have happened without the investment (Hockerts et al., 2022). In the context of impact investing, additionality plays a crucial role in defining and understanding the term "impact.", and in the article by Hockerts et al. (2022) additionality is used as one of six parameters that categorises impact investors. It is argued that for an investment to be truly impactful, it must be additional and generate positive return that would not happen otherwise. Indicating that additionality is not only a guiding principle on what impact is, but also a critical criteria when selecting, fostering and exiting investments. However, the question could be raised if this concept is truly applied during decision making that takes place within impact funds. Or is it more an objective that silently stays on the background?

Combining these two terms, if additionality is continuously implemented and becomes a standard practice within the impact investing landscape, it might offer a partly solution for the risk of purpose washing. By ensuring that additionality is a key objective in decision making, investors can better differentiate between genuinely impactful investments and those that simply adopt the impact label for financial gain and commercial reasons. This study specifically zooms in on the concept of the dual focus on impact and return and tries to incorporate what role additionality plays within funds, identifying where differences arise.

Elaborating on this and making the study more concrete, in an article published by KPMG in 2018 it is described that Non Governmental Organizations (NGOs) started to expand their funding opportunities by exploring the impact investing landscape. Starting in the early 2000's, NGOs were already looking for different ways to expand their influence within the Socially Responsible Investing (SRI) landscape: from NGOs as advisors and advocates evolving into shareholder activists and SRI Fund Sponsors (Guay et al., 2004). Now, this role is evolving into a new approach to attract capital while simultaneously achieving social and environmental goals. Besides that, stated by KPMG "many private donors too are thinking more like investors, seeking better value for money and returns on investments in terms of social outcomes". The rise of Non-Governmental Organizations (NGOs) within the landscape of impact investing has introduced a different type of fund with another origination background.

A research gap is found and can be partly attributed to the relatively limited body of research dedicated to understanding NGOs as a distinct category of impact investors, separate from other more traditional forms of impact investment entities. The origins and of NGO-driven funds inherently differ from those of traditional impact investors, and these differences are likely to play a role at various stages of the investment life cycle. In this paper, where the focus is on looking into the balance between impact and return, with a particular focus on the variations in operational practices among impact funds, the primary objective is to investigate the potential differences that may arise when an impact fund is established (partly) by an NGO (in this paper referred to as "NGO impact funds").

By examining these distinctions, the aim is to study how the origins and foundational principles of NGO-founded impact funds influence their strategies and priorities within decision-making, which are

indicated as different phases in this paper: during the investment selection process (phase 1), throughout the decisions made on fund term flexibility and exit decisions (phase 2), and in the compensation policies of funds that ensure that all employees are aligned and committed to realizing impact goals (phase 3).

As described previously, the impact investing landscape is also receiving some scepticism as a result from purpose washing (Findlay & Moran, 2020), a phenomenon where NGO impact funds could play a role. If indeed these funds show a relatively more impact-focused—read also more additionality-focused—strategy and operational practice, this could be of value. The significance of this study lies in exploring the meaning of being an impact fund by examining what this truly entails within the literature and subsequently using this to compare funds involving NGO participation. This study can provide investors, who must decide where to allocate their capital, with a more comprehensive understanding of how the terms impact and financial return are practically interpreted and applied. By highlighting the operational differences and similarities between standard impact funds and those with NGO involvement, this study aims to offer insights into the practical implications of these investments. Furthermore, it can guide investors in making more informed decisions that align with their values and desired outcomes, ultimately contributing to a more transparent and effective investment landscape.

In the following two sections, the relevant literature on impact investing, NGOs, target selection, fund terms, exit criteria, and employee impact engagement will be discussed. This literature review will form the basis for the (sub-)research questions stated afterward. After that, the methodological approach of this study will be explained, consisting of the datasets, research design, data analysis. Because this study contains an exploratory phase in which several in-depth interviews were conducted, the result section consists of two layers: one analysing the findings of the qualitative interviews, after which hypotheses and survey questions are formed, and layer two analyzing the results of the conducted survey testing for the hypotheses. And, to generate a more value-adding analysis (Eakin & Gladstone, 2020), an additional, exploratory cluster analysis was incorporated into the study, despite it not being linked to the initial hypotheses. This also opens the discussion for further suggested research. In the conclusion, the main research question will be answered. At the end, a discussion will combine results from both the qualitative and quantitative phase while also explaining the findings. Suggestions for further research are presented. Afterwards, the limitations of the study will be discussed.

## 2 Literature review part one

### 2.1 Background on impact investing

#### 2.1.1 History and evolution

In previous decades, traditional investing evolved from investing while avoiding harmful industries, to investing with the main objective of doing good, under the name of impact investing. Referring to the definition stated in the introduction and an article written by Trelstad (2016), the broadness of the definition of impact investing makes it hard to identify what exactly falls under impact investing and what does not qualify. To create a better understanding necessary to comprehend the research topic of this paper, this section elaborates on the origin and the evolution from traditional financial investing towards impact investing.

As described by Trelstad (2016), the definition starts with the “spectrum of capital” where until the middle of the 20<sup>th</sup> century, a dominant focus was on two categories: the fiduciary (traditional) and the philanthropic (see figure 1). The first is centred around maximizing financial gains with little to no consideration to social and environmental externalities. The latter, in contrast, is centred around maximizing social and environmental gains with no consideration for the financial return. The change started around the late 1960’s and early 1970’s, when the middle of this spectrum of capital filled with new categories, starting on the fiduciary side: SRI emerged. In research conducted by Townsend (2020), SRI originally is referred to as “sustainable, responsible, and impact investing,” and the modern SRI process has a focus on three pillars that combine old and new: 1. value-based avoidance screens, ”SRI” 2. Proactive sustainability-focused analytics, “ESG Investing”; and 3. Corporate engagement and impact capital, ”impact investing”. Looking at the origin of SRI, the focus here is on avoiding products and services that cause harm for profit. Of course, as explained by Trelstad (2016), the meaning behind this differs among people and keeps the concept vague. But during this time, the shift of focus from purely financial gains towards considerations of long-term social and environmental impact was introduced. And today, the modern definition of SRI is screening out anything that the asset owners might find objectionable, such as diamonds, tobacco, gambling, and using shareholder votes to push for better corporate social or environmental practices (Trelstad, 2016).

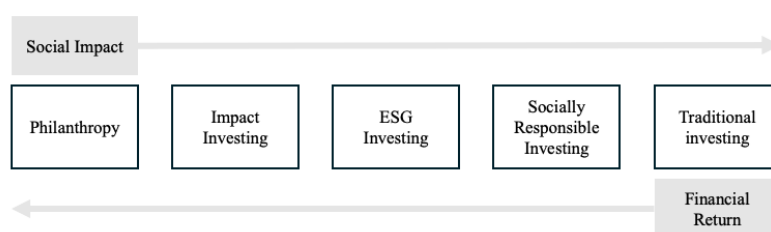


Figure 1: spectrum of capital - selfmade figure

By the mid-2000s, an increase in demand by large investors for analysis on ESG issues was caused by three main events and findings: 1. an ongoing discussion on fiduciary duty and issues of sustainability; 2. Climate change; and 3. Poor corporate governance being harmful to the markets (Townsend, 2020).

All these factors contributed to a new shift, from SRI to investing with environment, social aspects and governance (ESG) playing a role in decision making. As noted by Trelstad (2016), a group of investors began to raise concerns about the possibility of making decisions that went beyond simply avoiding and included choosing investments that could have a positive impact on the social and/or environmental

area. Elaborating on this, described in a paper by Schanzenbach & Sitkoff (2020), another factor that contributed was the believe that ESG investing could improve risk-adjusted returns, being an advantage for investors. Therefore, when talking about ESG-investing, two different definitions could apply with a distinction made on the reasoning behind the strategy: ethical reasons or benefiting a third party versus improving risk-adjusted returns.



Figure 2: (D)ABC-framework - Impact Management Platform

And it was from this meeting point - between financial driven versus impact driven sustainable investing - that the term "impact investing" first appeared in the 2000s (Trelstad, 2016). Impact investors combine both definitions and are firm believers of the idea that by investing in business models that address social and environmental challenges, they can generate market-rate financial returns while also delivering measurable impact on the targeted problem. Besides that, referring to the spectrum of capital described by Trelstad (2016), the investing strategies are moving more from fiduciary towards philanthropy. This evolution asked for clarification on the different forms of investing within the SRI/ESG/impact space. As a result, the Impact Management Platform developed impact classes using the (D)ABC-framework: D. Causing harm - impairing the welfare and failing to take action; A. Preventing damage and lessening this arm B. Increasing stakeholder benefits by taking action to lessen harm to all parties involved; C. Contributing to solutions by enhancing well-being as well (Figure 2). This (D)-ABC-framework gives a clear overview of the evolution in the approach and underlying reasoning.

### 2.1.2 Impact Investing business model

To understand the business model, a report shared by McKinsey & Company (2018) is analyzed. It explains that impact investment funds are structured similarly to standard venture capital (VC) and private equity (PE) funds. Generally, both kinds of funds are set up as limited partnerships, with the capital provided by the limited partners (LPs) and the funds managed by the general partners (GPs) (see figure 3). While the LPs receive a return on their investment, typically in the form of dividends or capital gains, the GPs are in charge of choosing investments, managing the portfolio, and ultimately exiting the investments. Impact funds go through a similar life cycle that involves fundraising, investing, managing, and exiting, just like PE and VC funds. During the investing stage, these funds distribute capital to businesses that match their impact objectives, just like VC funds do with start-ups that match with their mandate. During the holding period, the GPs work closely with the portfolio companies to increase their value, where the difference is in frequently focusing on growing social or environmental advantages in addition to financial performance. In the end, funds exit the investments to realise returns, which can then be paid out to investors or reinvested into other projects. Besides these structural parallels, impact funds and venture capital are sometimes compared because of their emphasis on new ideas and early-stage businesses. The reason behind this analogy is that fostering and expanding emerging businesses is a shared objective of impact investors and VC funds. However, the distinction lays in the dual focus (McKinsey & Company, 2018).

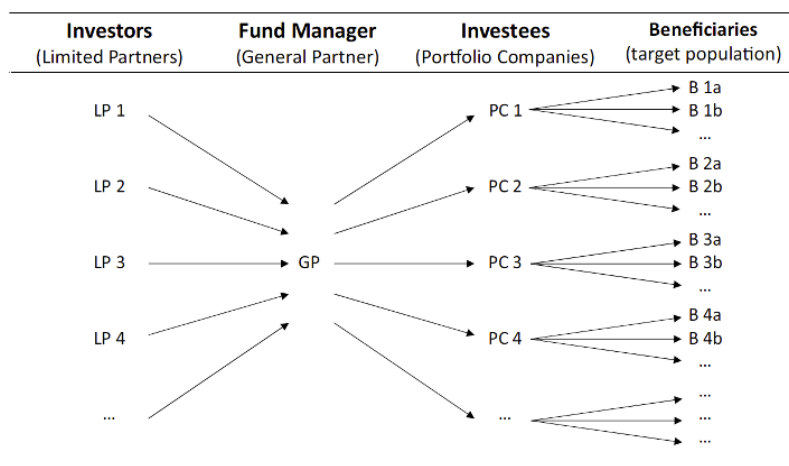


Figure 3: Fund overview - Hockerts et al. (2022)

The structural framework of an impact fund is partly similar to that of PE and VC funds and therefore the literature on these topics is used within the theoretical framework. Because these funds have a similar timeline, structure, and financial aspect they experience similar issues and phenomena that studies cover in the academic and scientific literature. Besides that, the limited amount of studies conducted particularly within the impact investing landscape on all topics discussed in this study, forces the usage for additional literature from other investment strategies such as general PE and VC.

Important to emphasize, the similarities discussed in the article by McKinsey & Company (2018) can be (partly) explained by the fact that many impact funds have their origins in the financial world, as highlighted in the previous chapter on the impact investing evolution. This origination could have an influence in practices and operational models of these funds, often carrying over methodologies from traditional finance to the of impact investing landscape. This financial background and origination are at the base of this study, as these could be an indication of why certain practices take place within impact investing funds. The traditional financial mindset, supported by traditional business model frameworks, can result in practices in impact investing that still align with this "old-school" mindset.

### 2.1.3 Intention, additionality & purpose washing

The similarities with traditional investment funds and the distinction because of the dual focus are explained in the previous section. In this section a further zoom-in on this distinction is given as it is critical to comprehend impact investing's place in relation to other investor categories in addition to its definition. What does it mean when an investment fund is called an impact investor? To specify the distinction between traditional investors, a study by Cole et al. (2023) finds that impact investors have a higher risk tolerance and patience, and that they are more inclined to invest in under-served regions of the business landscape. Impact investors are more likely to be among the first investors in a new industry than regular investors are. Being in line with the concept of additionality that was introduced in the beginning of this study.

Elaborating on this, as described in a paper by Roundy et al. (2017), impact investors can be distinguished from several other types of investors based on their expected return profiles driven by their pursuit of achieving both social and financial returns. To shed light on the distinctiveness of impact investors' motivations, the authors compared them to those of three other categories of early-stage capital sources: venture capital, traditional philanthropy, and angel investing. On the far-left side of the "continuum" of predicted returns are investors that just care about making financially profitable investments.

The classic example of this type of investment is a VC fund (Roundy et al., 2017). In this case, the focus is purely on achieving the highest financial ROI (Return on Investment). Traditional philanthropy, on the far-right side, is almost entirely focused on creating social benefit and does not target financial ROIs (called "donations"). More in-depth discussion on this topic will be in the next chapter (NGO impact investors & intention). The third category described by Roundy et al. (2017) is angel financing. If traditional charity and venture capital are at different extremes of the financial-social expected returns spectrum, angel investing lies in the middle (and has a greater ability to influence investments). Angel investors and impact investors share the ability to invest for purposes other than just profit.

In addition, Hockerts et al. (2022) discusses six dimensions of impact investing, beginning with intentionality. To define a fund as an impact investor, the first requirement is "the intentional expectation of environmental or social impact alongside financial return" (Hockerts et al., 2022). As it is possible to distinguish between the goal of generating a profit and a social impact, it could be argued that for an action to qualify as impact investment, both goals need to be met. Regardless of the real social impact after the fact, investments that generate social impact by accident—read as an unintentional side effect—should clearly not be classified as impact investing (Hockerts et al., 2022). So, the intention is on the forefront of defining an impact investor. This also emphasizes the shifting towards the middle of the spectrum of capital described in the previous chapter: moving away from both philanthropists and purely financially focused funds. In their paper, Hockerts et al. (2022), introduces a sub-cluster framework with different types of financial return intentions for impact investors. Ranging from Bubble Investments that drive up valuations because of the focus on "trendy" impactful firms to Idealist Investments where the investments do not gain any financial return. The framework shows the large differences between impact investments that vary on the financial return intention. The importance of including this finding is the fact that even if impact funds focus on both financial and impact, there is a huge difference on where the emphasis is put by these funds.

Both studies on characteristics of impact investors makes it evident that the investor's motivation, or "intention," is what propels the impact strategy. As clearly described by Roundy et al. (2017) and supported by the sub-clusters introduced by Hockerts et al. (2022), investors may have a diverse range of incentives, frequently correlating with the kind of returns that investors prioritise. Contrary to the genuine intentions of impact investors, the term "purpose washing" is introduced by Findlay & Moran (2020) in their article, highlighting a significant issue within the impact investing landscape. The article identifies two primary motivations for purpose-washing: the interest in fee generation among fund managers and the desire to demonstrate sector growth among proponents of impact investing. Fund managers may be tempted to market their funds as impact investments to attract capital and generate management fees without the real intention to (partly) focus on achieving this impact. Similarly, proponents of impact investing may exaggerate the sector's growth and success to attract more investors, even if the underlying investments do not meet rigorous impact criteria. The presence of purpose washing is a significant threat to the true intentions of impact investors as it undermines this intention by allowing funds that do not prioritise impact to be marketed as impact investments.

Elaborating on these fundamentals described by Hockerts et al (2022), the concept of additionality is pivotal for understanding and ensuring the impact of investments. This focus aligns with the broader intention of impact investing to generate significant and measurable positive changes in society and the environment. In a publication by Brest & Born (2013), it is mentioned that additionality can take place in two forms: 1. impact funds focus on investments that generate below-market returns, as these are ignored by other financiers and 2. impact funds benefit from using a dual lens, which can spot companies ignored by the market that have the best solution for social or environmental issues. The latter shows that additionality does not mean focusing on relatively worse performing companies. And to connect

additionality with purpose washing, additionality can help mitigate the risk of purpose washing. The application of additionality as a criteria can reduce the likelihood of superficial impact claims (Hockerts et al., 2022), which could ensure that investments contribute to social and environmental goals.

To summarize, the intention behind impact funds is fundamental in determining whether they truly qualify as impact investors. Purpose washing on the other hand often casts doubts on this authenticity. A critical measure to verify legitimacy of an impact fund is the degree of additionality it achieves. By targeting these under served areas, impact funds can support ventures that contribute to societal and environmental progress.

## 2.2 Background on NGO impact investing

### 2.2.1 History and evolution

NGOs are among the more recent investors to enter the impact investing space, adopting a more active position compared to their previous role. First, a brief history of NGOs' previous roles is necessary to comprehend this new position and the shift towards it. Guay et al. (2004) provides an explanation of this change in their publication. One of the biggest changes in international relations during the years 1980-2000 is the increasing power of NGOs. NGOs gained notoriety for the first time in the middle of 1984 when a variety of groups—including human rights organisations, church and community organisations, and other anti-apartheid activists—formed robust networks and forced American states and cities to remove South African companies from their public pension funds (Guay et al., 2004). These days, NGOs are frequently seen as the antithesis of global capitalism since they work to advance more moral and socially conscious corporate practices. The multiple influencing roles described by Guay et al. (2004) are shown in figure 4.

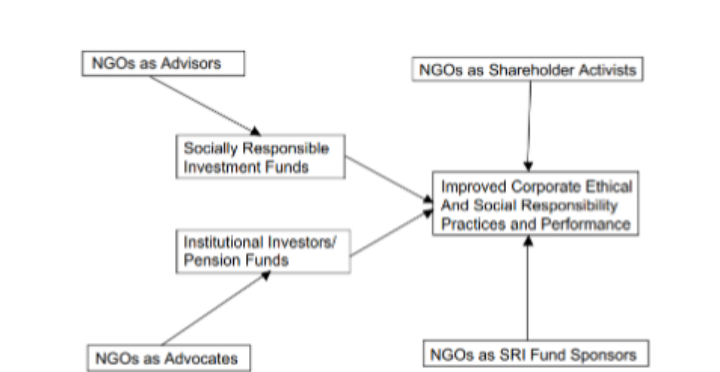


Figure 4: NGO evolution - Guay et al (2004)

At the left, it is shown that NGOs can serve as advisors and advocates towards different types of funds, both active in the SRI landscape as in the institutional investing landscape, encouraging them to make more socially conscious investments. Besides that, they can also engage in shareholder activism by applying pressure to investors using proxies and other strategies. NGOs have the ability to influence the incentives and oversight systems that exist between corporate agents and principals, in order to force the adoption of ethical and socially responsible behaviour. This may occur when NGOs take on the role of shareholders or get engaged in the collaboration between principals and corporate representatives (Guay et al., 2004).

### 2.2.2 NGO impact funds

Because NGOs focus on changing the environmental or social behaviour of companies, the effect of their activities on share prices is of little importance to them. Although advocacy-based activities of NGOs align with other SRI activities, there is a fundamental tension between stopping harmful activities and a focus on financial returns (Wagemans, 2013). As a result, NGOs are starting their own socially conscious investments, as Figure 3's lower right corner illustrates, the sponsorship of SRI funds. But the inclusion of corporations that did not correspond with the ethical criteria of NGOs frequently caused difficulties in finding the right funds to invest in. Numerous traditional finance portfolios included companies whose operations were not aligned with the social justice, sustainability, and environmental values of the NGOs. In order to better manage their portfolios and make sure that investments matched their values, NGOs started creating their own investment teams in response to this problem (Wagemans, 2013). For instance, Oxfam Novib established an impact fund to assist businesses that shared its objectives of reducing poverty and promoting fair trade. NGOs made sure their investments matched their principles and yet produced financial returns by managing their own money. A further significant reason why NGOs are starting their own impact funds is the decline in traditional donors and funding. This reduction in financing forces NGOs to look for alternate sources that provide a more solid financial base, as explained in KPMG's 2018 report. Concurrently, private benefactors (donors) have started to think like investors, looking for better returns on investment and better value for money, particularly when it comes to social benefits. People anticipate NGOs to be more open and responsible than they were in the past. NGOs can meet these changing expectations by creating impact funds and investing directly in social projects that both accomplish their missions and provide a demonstrable return on investment for contributors (KPMG, 2018).

### 2.2.3 NGO impact funds business model

To get a better understanding of the role of NGO impact funds, a report by Amplifyii (2018) is revised. Besides the similar framework as non-NGO impact funds, it is stated that NGOs have a distinct advantage in the impact investing space because of their broad worldwide networks, in-depth knowledge of local settings, and capacity to raise money from a range of sources, including grants and concessionary financing. This finding is in line with the statement by Brest & Born (2013), that impact investors leverage their unique position to find the hidden impact gems.

Their investment strategy sets them apart from more conventional, profit-driven investors because of their dedication to putting social and environmental gains first when engaging in impact investing. According to the report, because of their distinctive networks and skills, non-governmental organisations (NGOs) are becoming more and more acknowledged for their institutional responsibilities in the impact investing industry. As facilitators and middlemen, NGOs play a crucial institutional role in the impact investing environment by assisting in the structuring of financial transactions that are suited to the requirements of social entrepreneurs and the communities they serve. This function is essential in situations where traditional financial institutions back away to make investments because of perceived risks or a lack of understanding of the local environment. The paper also emphasises how NGOs are increasingly establishing frameworks to measure the social and environmental effects of their investments. By offering concrete proof of results, this approach not only demonstrates their dedication to accountability and openness but also improves the efficacy of impact investments.

One example of an NGO using impact investment to further its mission-driven goals is Pact Ventures, which supports high-impact social companies (INSPIRE issue). Pact Ventures was formerly intended to be a source of technical support, but it later changed its focus to direct investment with the goal of covering the financial gaps left by smaller organisations such as Microfinance Institutions (MFIs) and bigger

traditional investors. The realisation of the special role NGOs may play in impact investing—leveraging their worldwide networks and in-depth knowledge of local contexts—led to this strategy change. The strategy of Pact Ventures stands out because it makes use of NGO resources to assist startups that traditional investors frequently pass over. Pact exemplifies a strategy where impact investments are closely tied to the overall goal of the NGO, guaranteeing that financial inputs directly contribute to wider social results.

#### **2.2.4 NGO impact funds and intention**

To contextualise NGO impact funds within the wider impact investing framework, a study by Wagemans (2013) is used as it examines the efficacy of socially responsible investment. He accomplishes this by illuminating the various actors, each with their own set of goals and motivations, who engage in SRI through different strategies. When focusing on those strategies, NGOs typically exhibit a greater intrinsic motivation because SRI is consistent with their overarching mission and may facilitate the attainment of their goals. An example: Oxfam Novib’s mission is to reduce global poverty and promote fair trade practices. Their impact fund directly aligns with this mission by investing in enterprises committed to these values, like businesses prioritising sustainable development and fair economic opportunities for marginalized communities. By controlling the investments, Oxfam Novib ensures these businesses contribute positively to its goals, offering an intrinsic motivation to staff as they see their investments actively furthering Oxfam Novib’s core mission. Besides that, Wagemans (2013) describes a concept introduced by Beloe (2001), the distinction between ‘market-led’ and ‘value-led’ shareholders. NGOs and some individual investors are more socially/environmentally value-led shareholders, while institutional investors are more financially market-led shareholders. This possible distinction driven by the intrinsic motivation of NGOs, together with the findings by Amplifyii on the focus of NGO impact funds on the overlooked social companies, introduce the research topic of this paper, which will be discussed in the next chapter.

### **2.3 Research gap**

To significantly add to the body of current literature and reduce ambiguity regarding various impact fund types from the standpoint of the investor, the research question was developed starting with the principles presented by Beloe (2001) in the preceding chapter. Impact investors are characterised as those who value both social and financial return, but differences arise on how they balance these two aspects. The question of whether it is reasonable to believe that impact funds (partly) originated by NGOs would prioritise impact over financial return more than other types of impact funds may arise, given the history of NGOs and the background behind the founding of numerous impact funds by NGOs. From an investor perspective, understanding the differences in decision making between NGO impact funds and other impact funds is beneficiary. It allows them to decide on what exact location on this balance between financial return and impact they aspire to be and identify the impact fund that suits this. It enables them to align their investment strategies with funds that match their financial, social, and environmental goals. This alignment not only ensures that their capital is used effectively but also enhances the potential for achieving meaningful impact. Based on the existing literature and concepts, the following main research question is formed:

*Does an impact fund where an NGO was involved during origination (referred to as NGO impact fund) differ on the prioritisation of impact versus financial return compared to other impact funds (referred to as non-NGO impact funds)?*

To get an answer on this question, an example from the literature is being used. A study by Findlay & Moran (2020) zooms in on measuring and rating impact investment funds on their intention, as

three pillars for highly rated impact funds are presented with intentionality being one that is frequently overlooked. The researchers attach variables like the management mission priority and action plans to accomplish impact before other returns to examine this. In other words, they take operational practices to measure for intention. As this research studies a similar phenomenon, the decision is made to divide the research question into multiple smaller research questions, based upon factors that indicate towards the prioritisation of impact above financial return within operations of funds. In this paper the focus is on 1. Target selection; 2. Fund term flexibility and exit criteria 3. Impact metrics in place to ensure impact is achieved. In this way, the research follows a logical order zooming in on the operational practices of impact funds. If certain differences in investment criteria are found, the expectation for higher fund term flexibility and certain exit criteria should be expected. Also, a clear indication of how funds make sure that these impact goals are embedded within their practices and the initiatives to ensure employee engagement are expected as well. In the next chapters the literature on these topics will be reviewed and the sub-research questions will be introduced and follow the same order: first, literature from general VC and PE is analyzed; second, a link is made towards impact investing literature; third, the research question is formulated by linking with NGO impact funds.

## **3 Literature review part two**

### **3.1 Phase 1: target selection**

#### **3.1.1 Literature on target selection**

One of the main features that distinguishes impact investing from traditional investing, is the target selection process and in particular the criteria that are employed. To set the stage, the selection process is critical to VC investors' long-term performance and has been extensively documented in the literature (All found in article by Block et al., 2021). Gompers et al., (2014), as cited in Block et al., (2021) found that investment opportunities are assessed using a wide range of criteria during the first screening phase of the selection process. Furthermore, the first screening decision is usually made quickly, but the subsequent due diligence process takes months. Finding "investment-ready" options is the primary goal of the initial screening process, as is cited by Block et al. (2021). The selection criteria of an investment fund reflects their strategy and the aspects they prioritise (Block et al., 2021). To fully understand the investment process of an investment fund, first the literature of traditional investing's target selection is analysed.

At first, an article written by Mishra (2017) is revised. In his research, he identified 35 relevant selection issues experienced by VC funds in India and categorized these under six larger categories that indicate the main investment criteria. Similarity arises on aspects such as management quality and exit opportunities. Moreover, which is also in line with expectations, the study underlines the importance of financial characteristics during the investment process. VCs consider the projected financial performance of a venture before investing. Because it is mentioned that the VC landscape in India could differ from other regions, another research is included to support the theory. Zinecker & Bo (2015) conducted a study in Russia and Eastern and Central Europe, to study the crucial criterion that leads to a VC investment. Within their study, they find that above average attention is focused on the potential to generate high returns.

Elaborating on the comparison made with VC funds, in an earlier study conducted by Oppenheimer (2014), the results show that impact investors and VCs indeed originate and evaluate transactions similarly, but that some criteria are modified or added that reflect the impact investing's dual goal (social and financial). In the study, impact investors that are looking to invest in Latin America Search for trustworthy and ethical social entrepreneurs who are dedicated to making a positive impact. On the

other side it must be ventures that have large potential to become profitable with possibilities and room to grow. The deal features are determined by the investor's tolerance for risk as well as the likelihood of a profitable and well-received exit.

So, because of the nature of impact investing, these types of investors distinguish themselves, as they evaluate the social impact of their investments as well. According to earlier studies (e.g., Chowdhry et al., 2019), impact investors are likewise prepared to forgo financial gains to accomplish social goals. Besides this, other investment criteria may play a bigger role when compared to traditional investing. In a study Block et al. (2021), the authors examined the nature of these criteria and the factors that affect the prioritisation of criteria. Similar as traditional investors, the impact investing landscape exists out of a group of heterogeneous investors. In their study, Block et al. (2021) make the classification based upon the type of capital provided: equity, debt or donations. For equity investors, in exchange for ownership stakes, they invest money with the hopes of generating impact-driven returns and future growth. A concrete example is the Acumen Fund, which invests in early-stage businesses aimed at reducing poverty and helps them grow while pursuing long-term profit creation. Conversely, debt investors provide loans to social businesses with the expectation of receiving interest payments in return. This strategy is demonstrated by Root Capital, which provides funding to agricultural enterprises in underdeveloped areas. At least, donations are different because they are grants made with no expectation of a financial return and only the goal of achieving favourable social results. According to the study, there are three important investment criteria considered: the venture's financial viability, the importance of the societal issue it aims to solve, and the legitimacy of the founding team.

Also, in the study by Block et al (2021), the other findings demonstrate how donors prioritise the social issue more than loan investors, and how equity investors place a higher emphasis on widespread application and long-term financial viability. In their results, it is observed that donors place more weight on the significance of the societal issue and less weight on the financial viability, while no other differences within the criteria can be found. The finding can be explained by the fundamental nature of donors, who typically aren't focused on achieving financial returns. Their primary objective lies in achieving social or environmental impact, which allows them to concentrate their efforts entirely on these outcomes rather than financial gains. This inherent motivation shapes their investment approach, prioritising projects that align with their values and maximizing societal or environmental returns over purely financial objectives.

The relevance of the paper by Block et al. (2021) for this study, is the evidence that different underlying structures of an impact fund may affect the investment criteria.

Summarizing, the literature shows that in traditional investment funds, financial returns are prioritised in selection criteria. However, when focusing on literature about impact investing, it is clear that the distinction lies in the inclusion of impact criteria, not mentioning the priority. As the application of these criteria give an indication of the strategy of a fund, it is interesting to test these at different types of funds.

### **3.1.2 Zoom in: NGO-fund & target selection**

There are several underlying reasons suggesting that there may be a difference between NGO funds and non-NGO impact funds regarding investment criteria.

First, many impact funds originate from the world of traditional funds and share many similarities with venture capital, which, according to the literature, prioritise financial investment criteria. Second, as noted by Block et al. (2021), the underlying capital structure influences the prioritisation of impact criteria, with donors prioritising impact outcomes. As NGOs are a form of these donor- funding orga-

nizations, the origination of NGO impact funds can influence the prioritisation of impact criteria, also supporting the first reason.

The target selection criteria employed by an investment fund can serve as a key indicator of its underlying intentions and goals (Block et al., 2021). For instance, as explained in this chapter, traditional donors prioritise social outcomes, and this priority is often mirrored in the NGO impact funds they support. These funds may use specific investment criteria that explicitly incorporate social and environmental impact metrics alongside financial performance indicators. This approach ensures that the selected targets align with the broader mission of promoting sustainable development and societal well-being.

To investigate whether NGO impact funds have a different prioritisation looking at impact and financial return, it is essential to analyze their investment criteria during the target selection process. This analysis could reveal whether these funds adopt distinct criteria that emphasize impact outcomes more heavily than financial metrics. Such criteria might include the alignment with already defined impact goals set by the fund or aiming to finance companies that are otherwise overlooked by other investors. Therefore, the following sub-research question is formulated:

**Sub-question 1: Does an NGO impact fund differ in the prioritisation of impact versus financial criteria during the selection of potential investments compared to non-NGO impact funds?**

Within the literature, no exploration could be found on how impact is defined within this criteria and in what way a concept such as additionality is implemented. This gap will be further investigated within the exploratory phase.

## **3.2 Phase 2: fund term flexibility and exit criteria**

### **3.2.1 Literature on fund term flexibility**

A key component of the strategic framework of investment management, especially in the context of VC and PE, is the investment time horizon. The length of time an investment is kept can have a big impact on the investment strategy, and the other way around. Looking at traditional investment firms, explained in an online article by Moonfare (2023), most private equity firms expect an average holding period of around five years per investment. This holding period is based upon the estimated investment time horizon ranging between 3-7 years. Moreover, this number is based upon the typical private equity fund's term which generally ranges between 10-12 years. This time frame reflects the time between the first capital calls and the last received capital during the fund's lifespan by the investor. As explained in the article, this finite life span of the fund is the basis for the business model of such a fund. Investors know when to (maximally) expect the payments of the return made on the investments.

When looking at the literature on time horizon differing between investment firms, with a focus on PE and VC, one aspect that is often discussed is the level of innovation. In a study written by Barrot (2017), he explores the effect of different horizons on the probability to invest in innovative companies. He finds that the longer the time horizon of an investment firm, the higher the probability the firm will invest in younger early-stage companies with high innovation levels. On the other hand, investment firms with shorter horizons tend to focus more on less innovative targets. This finding is explained by the fact that when an innovative project starts, the expected rewards or benefits are usually not very high. However, if the project achieves some early success, these expected rewards can increase significantly. So, when looking at shorter-term investment firms which are often looking to make a quicker profit are less likely to invest in innovative target companies.

Early-stage innovative investments are related to VC, which focuses on startups and creative enterprises

with substantial growth potential but elevated risk. Also explained by Barrot (2017), VC investors' expectations and approach are profoundly shaped by this emphasis on the early phases of business development.

The concept of an investment time horizon is crucial when examining the strategic approaches of different financial funds, particularly in the context of innovation investing, which is predominantly practiced by VCs. This necessity for a longer investment period naturally aligns with the concept of "patient capital." Patient capital refers to the type of investment that is willing to forego immediate returns in favor of long-term, sustainable, and potentially substantial outcomes (Klingler-Vidra, 2016). In the paper by Klingler-Vidra (2016), the relationship between the term patient capital and VC is explained. As discussed in the previous alinea, seed stage VC involves a long investment horizon of 5-10 years, focusing on long-term value rather than immediate profits. This patient capital approach is usually extended with follow-on funding rounds, allowing VCs to maintain a close, supportive relationship with the startups as they mature. A threat described in the paper, is the pressure for rapid, significant returns that has increased, sometimes compromising the traditionally patient approach of VC. Nonetheless, at its core, seed stage venture capital remains dedicated to supporting innovative ideas over time, emphasizing long-term growth over short-term gains.

This approach is not only fundamental in supporting innovation but also for impact investing. Dee & Gill (2019) summarize the state of patient capital in a paper, where this model of venture capital emphasizes the creation of long-term value over the pursuit of short-term profits, aligning closely with the priorities often seen in impact investing. The investment strategy inherent in seed and early-stage VC and impact investing is significant aligned with the patient capital model. In line with the described connection between patient capital and impact investing, a report written by two professors at the Griffith University (2019) emphasizes the essential role of patient capital in impact investing. Impact investing requires patient funding to address long-term social and environmental issues. Lastly, to support the described relevance, the paper by Cole et al. (2023) states that impact investors are more likely to support projects that tackle social and environmental issues because they are more willing to commit to longer time horizons for successful outcomes, including initial public offerings or acquisitions. It frequently takes longer for these difficulties to produce long-term financial benefits. The study also shows that impact investors exhibit a greater patience and risk tolerance, frequently entering markets or sectors that traditional investors avoid because of perceived risks or lengthy maturation periods. Impact investors offer the patient financing required to support businesses that, although slower to turn a profit, have the potential to have a major positive social or environmental impact, especially in under served areas or emerging sectors (Cole et al., 2023).

### **3.2.2 Literature on exit criteria**

Exit criteria are pivotal in shaping the overall strategy of investment funds. Financial performance, market conditions, investment stage, investor syndication, and the existence of business angels are typical exit criteria in VC (Gillain, 2016). The portfolio company's profitability and attractiveness are directly impacted by its growth trajectory and financial performance. The state of the market is particularly important since it can help with acquisitions or initial public offerings (IPOs). The ideal exit strategy depends on the company's stage, as early-stage businesses behave differently than later-stage ones. Business angels can hasten departures through purchases, while investor syndication can speed exits and lower liquidation risks (Gillain, 2016). While many of these criteria are expected to overlap with those in impact investing, the dual mission of impact funds introduces additional considerations. Impact investors must also ensure the role of impact within the exit process (explained in a publication by Cerise-SPTF in 2024). Therefore, it is expected that impact funds prioritise mission alignment between

the fund and potential buyers to ensure the continuity of the impact mission. As discussed in earlier chapters, the time horizon plays a critical role in these strategies. Not only does this horizon affect the fund's internal operations and goals, but it also significantly impacts the selection of potential buyers during the exit phase (Cerise-SPTF, 2024). When it comes to impact investing, the focus must be on both the achieved and anticipated impacts. Therefore, during the exit phase, it is crucial to evaluate the alignment of missions between the fund and the potential buyer. Responsible exit planning should start early, incorporating due diligence to confirm that potential buyers share a commitment to the fund's impact mission (Cerise-SPTF, 2024). Achieving a responsible exit involves more than just securing a high financial return. It is crucial that the defined goals of the impact fund are achieved but also sustained and furthered by the buyer. The alignment between the fund's mission and the buyer's commitment to these goals ensures that the social and environmental impacts initiated by the fund continue to thrive post-exit. This sustained alignment helps in preserving the integrity and long-term success of the impact investments (Cerise-SPTF, 2024).

### **3.2.3 Zoom in: NGO funds term flexibility and exit criteria**

In the previous section, the idea of patient capital was presented, emphasizing how important it is for accomplishing long-term goals, especially for startups and extremely innovative businesses (Dee & Gill, 2019). Impact investors should be dedicated to promoting long-term change rather than just short-term profits (Griffith University 2019), something already reflected in their openness to longer time horizons (Cole et al., 2023). In this way, the relationship between a more flexible fund term that allows for a longer investment time horizon and the focus on social and environmental impact is shown. To investigate if an NGO impact fund shows different prioritisation of impact versus financial return, a difference in fund term flexibility (open or closed fund term) can be studied. Therefore, the following sub-research question is formed:

#### **Sub-question 2a:**

**Does an NGO impact fund differ in the fund term flexibility, offering a longer time horizon, compared to non-NGO impact funds?**

Exit criteria serve as a reflection of an investor's priorities and strategic goals, providing insight into whether the emphasis lies predominantly on financial returns or on sustaining social and environmental outcomes. By analyzing the exit criteria of NGO impact funds, researchers can assess the extent to which these funds prioritise impact over purely financial considerations. This approach will help elucidate whether the commitment to impact is fundamentally different in NGO-founded impact funds compared to other types of impact investors. So, besides fund term flexibility, to investigate whether NGO impact funds differ in their prioritisation of impact, the exit criteria they employ should be studied. Therefore, the following sub-research questions are formed:

#### **Sub-question 2b:**

**Does an NGO impact fund differ in the exit criteria compared to non-NGO impact funds?**

Following up on this, discussed in the previous chapter, additionality is a fundamental concept in impact investing, ensuring that investments lead to outcomes that would not have occurred without them. As the literature on the intersection of additionality and exit criteria is sparse, an exploration during the qualitative phase could find that the fulfillment of additionality should also be a critical exit criterion for impact investors, particularly those genuinely focused on impact, such as NGO impact funds. It is reasonable to expect that impact investors would consider exiting an investment once additionality has been achieved, ensuring that the social or environmental impact intended by the investment has been realized and can be sustained by the new owner.

### **3.3 Phase 3: achieving impact – impact element in employee compensation**

#### **3.3.1 Literature on employee engagement**

The strategic orientation and foundational intentions of a company, are often reflected in the compensation mechanisms employed. These financial reward structures serve as a revealing lens through which the priorities and objectives of a firm can be understood. In the realm of PE, the compensation model influences the behaviour and decision-making processes of fund managers. The chapter authored by Choi et al. (2011) in a publication provides a detailed exploration of these mechanisms, emphasizing the role of carried interest—a share of the profits of an investment paid to the fund manager that serves as a performance incentive. In addition to serving as a performance incentive, carried interest—which is normally fixed at 20%—also serves as a vital instrument for investor and fund manager alignment. By linking employee compensation to performance, fund managers are incentivized to exceed a minimum return threshold, so aligning their interests with those of the investors. This remuneration is conditional on the accomplishment of a hurdle rate. The model presented by Choi et al. (2011) assesses the effects of different carried interest scenarios and structures on the actions of private equity fund managers. They show how changes in the timing and distribution of carried interest can affect fund management choices, especially regarding risk-taking and fund strategy. This finding underlines the relationship between carried interest and managers motivation.

The relationship between motivation and compensation mechanisms is also underlined in a study by Mehta (2004). It is emphasized that because carried interest is only paid out after the original capital is returned to investors, it aligns GP incentives with fund performance. To further connect GPs' efforts with investor expectations and moderate risk-taking behaviours, this arrangement is supplemented with hurdle rates, also known as preferred returns, which are typically set at 8%. GPs must exceed these rates to get carried interest. This pay-structure successfully ties GP incentives to the fund's long-term performance, creating a strong alignment of interests that helps achieve greater investment returns (Mehta, 2004). When considering VC, although they focus on distinct phases of a company's lifetime, VC and PE in the investment finance industry have a similar structural foundation. Both VC and PE follow a similar business model, aiming for significant returns through strategic exits, despite the variations in target company maturity. Their similar emphasis on generating financial return forms the basis for the carried interest performance assessment, which is in place for both types of investment firms.

#### **3.3.2 Literature on employee engagement in impact investing**

Most impact funds, like traditional PE/VC funds, have embraced the traditional "2-20" structure. This means that a 2% management fee is charged to cover the fund's overhead and salary costs, with an additional payment of 20% carried interest paid at exit (Balandina, 2016). The carried interest is a fee that represents GPs portion of the fund's net earnings that are available for distribution upon liquidation, whereas the management fee is assessed annually to investors based on the committed capital (Berk & De Marzo, 2014). In classic PE/VC funds as described in the previous section, the carried interest serves as the primary safeguard against "agency problems," which occur when GPs prioritise their personal interests over the LPs' when managing money on their behalf. When the interests of principals and agents—in this case, the investors, and the fund managers—are not aligned, agency difficulties result. Similar agency issues may arise in the impact investing industry, but impact investment funds present unique challenges because they must balance financial goals with impact objectives while also ensuring that all stakeholders' interests are met (investors, fund managers, and investees), as described in the first chapter.

As a result, mission drift presents an extra risk to damage investment funds in addition to agency problem risk. The danger of mission drift pertains to the possibility of financial concerns having higher priority

over the impact goal of the fund when impact investors choose a combination of financial and impact objectives (Cetindamar & Ozkazanc-Pan, 2017). But unlike in the case of a traditional PE/VC structure, impact fund managers are less certain about the worth of financial incentives like the carried interest. For example, Balandina (2016) notes that in an organisation where impact is the primary goal and where individuals are likely to be motivated more by the satisfaction of making a bigger impact, one may wonder about the utility of a monetary award that is only linked to financial performance. Furthermore, the mission of the impact investment fund is to guarantee both financial and impact; a carried interest based just on the fund's financial performance would not be in accordance with this goal (Balandina, 2016). In contrast, a financial reward plan that is based on impact would match investors' interests with the fund managers. Fund managers are held accountable for the social and/or environmental performance of the fund by having their compensation linked to it. This could help guarantying that investments are in line with the fund's strategy and that impact objectives are given the proper weight when making investment decisions. Thus, indicating that impact could be ensured by impact-based financial reward schemes, lowering the possibility that the intended impact objectives won't be reached (Balandina, 2016).

To show an example of where such a mechanism is already in place: Social Impact Bonds (SIB), also known as payment-by-results or pay-for-success (PFS) contracts, offer a unique financing option that spurs innovation in public services and produces beneficial benefits for a community. According to the concept, private investors fund solutions to identified societal problems initially. The bond commissioner then repays the investors with a predetermined sum, contingent on the achievement of the social outcomes indicated at bond issuance (Tortorice et al. 2020). To tie compensation to performance, SIB offers an example of a system where social interventions are given a monetary value.

### **3.3.3 Zoom in: NGO impact funds on employee engagement**

In investment fund management, compensation mechanisms such as carried interest are designed to align the goals and intentions of fund managers with the objectives of the fund. Fund managers are encouraged to optimise the financial performance of their investments by carried interest (Choit et al., 2013; Mehta, 2004). However, the focus is not only on financial return and evaluating performance exclusively in terms of financial data would be inconsistent with the larger objectives of these funds. As such, it is suggested that performance assessments include an impact factor, similar as SIBs. This strategy makes sure that fund managers have an incentive to meet the social and environmental goals that are essential to impact funds' overall purpose. To investigate whether NGO impact funds differ in the prioritisation of social and environmental impact versus financial returns, one effective approach would be to examine how these funds incorporate impact metrics into their employee compensation. Specifically, this involves assessing whether NGO impact funds integrate aspects of achieved impact into their compensation structures, such as carried interest. Therefore, the following sub-research question is formulated:

#### **Sub-question 3:**

**Does an NGO impact fund differ in the linking of achieved impact with employee compensation compared to non-NGO impact funds?**

Given that the literature only discusses why including an impact element in employee compensation would be logical, there is limited context on what this might look like in practice. Consequently, this aspect will be further investigated in the exploratory phase of the study, to eventually form an hypothesis.

## 4 Method

### 4.1 Introduction to methodology: mixed method

This study has been carried out using a mixed-methods technique. This decision stems from the realisation that a some gaps in the literature to of the research requires both quantitative and qualitative data. A diverse strategy to data gathering is required due to the scarcity of available data and literature, which strengthens the validity and robustness of the results. In addition, I used research by Oppenheimer (2014) and Block et al. (2021) to look at particular study techniques. Because these studies also looked into the behavioural traits of impact investors, they were very similar. Because of the mixed method, a two-layered analysis could be conducted into the dynamics of operations within impact funds. This chapter goes into further detail on the technique that was selected as well as the particular actions that were taken to collect and process the data.

The mixed-methods approach integrates both quantitative and qualitative research techniques, enabling a more holistic exploration of the research question. By combining these methods, the research leverages the strengths of both quantitative and qualitative paradigms, while used in a sequential order. In a book by Creswell & Plano Clark (2006) a decision tree for mixed method designs is presented. First, the decision is made to use sequential timing in this study, where the qualitative method is used first. The emphasis will be on the quantitative results, as the qualitative method is to explore the topic. This leads to the exploratory sequential design (see figure 5), this design is a three-phase mixed methods design in which the researcher first gathers and analyses qualitative data (results section 1), then moves on to develop an approach or tool that is tested quantitatively based on the findings from the qualitative phase (results section 2). In the third phase, both methods are combined to analyze the outcome (takes place in the discussion section).

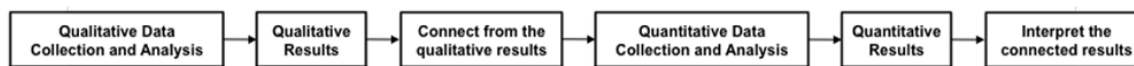


Figure 5: Detailed Exploratory Sequential Design - Creswell & Plano Clark (2006)

This implies that the strategy or instrument will be based on the opinions of the involved parties. The design name reflects the focus on exploration prior to the development phase. Explained by Creswell & Plano Clark (2006), the Exploratory Design-instrument development model suits best when the intention is to develop an instrument (e.g., a survey) on the research topic, based on the results and findings that are conducted in the qualitative first phase. In this study, this exact method is used: information gathered through qualitative interviews with experts in the field form the basis for further hypothesis statements and survey design. In this way, the exact hypothesis are formed with more understanding and the quality of the survey questions increases as the “way of thinking” by impact investors is already being analyzed. Besides that, certain (control) variables that might influence the outcome of the study are also identified. So, to first explore the topic and direction of the study, multiple qualitative interviews were conducted. Afterwards, a survey was sent to a broad range of impact investors, to capture a sufficient sample size and gather data on the subject. In the end, both data collection approaches were combined to get a broader understanding of what is really happening in the impact investing landscape. A full overview of the steps is displayed in figure 6 (see below). A more detailed explanation of these steps can be found in the next sections.

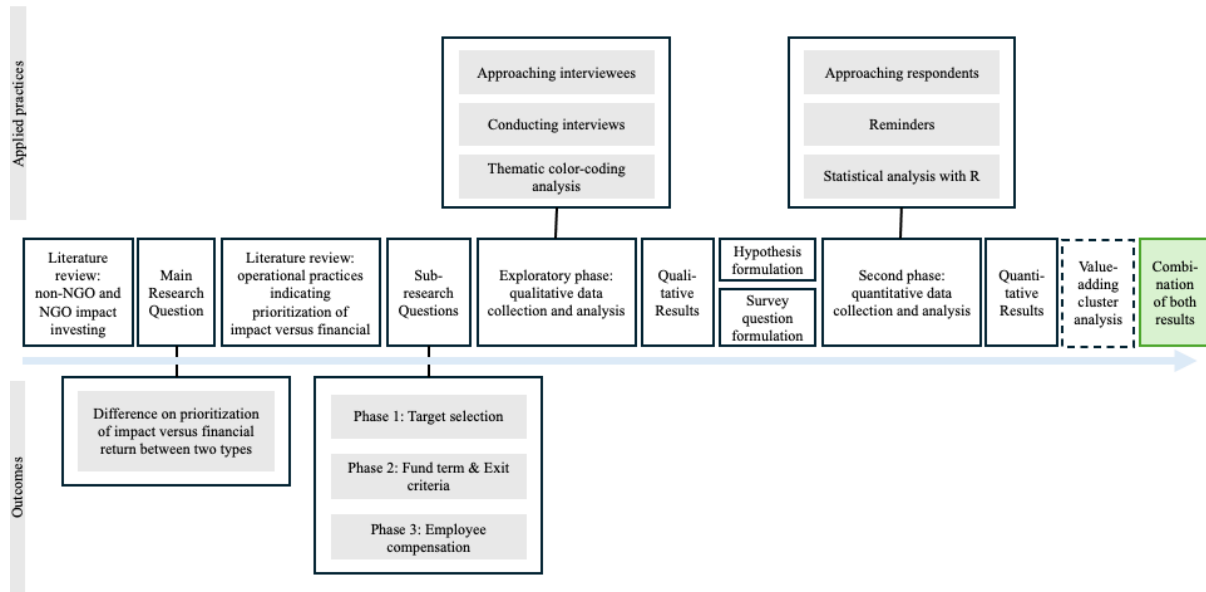


Figure 6: Framework research method - selfmade figure

## 4.2 Exploratory phase

### 4.2.1 Qualitative research design: interviews

To start the first phase, semi-structured interviews were conducted. This stage aims to investigate the experiences and viewpoints of people active at an impact investing fund, which are essential for comprehending the complexity and background of the research issue. The interviews were conducted with three objectives in mind.

Firstly, there is limited literature that rigorously investigates the connection between impact investor type and the relationship with different perspectives on financial return and impact generation. This gap calls for a more thorough qualitative exploration to identify and understand these perspectives held by investors. Interviews offer a deep, nuanced understanding that is difficult to capture through existing literature alone. According to Ruslin et al. (2022), the semi-structured interview method permits flexibility, which makes room for incorporating elements that are playing a role in current times. This makes the study more nuanced. Understanding these key elements that influence the balance between impact and financial return within funds help to ensure that formed hypotheses accurately reflect these elements. Besides that, the sub-research questions will serve as a guiding framework, ensuring a comprehensive exploration of relevant factors. This approach aims to bridge the gap between theoretical constructs and practical application, thereby enhancing the validity and relevance of the research findings.

Secondly, the research is segmented into three categories, with two focused specifically on target selection and exit criteria, last one on impact metrics in performance assessment and employee compensation. Examining the first two aspects, understanding how target selection and exit criteria are applied within these funds is essential for developing survey questions that are clear and comprehensible to all respondents. The qualitative insights gathered from these interviews will guide the formulation of survey questions, ensuring they are relevant and accurately reflect the complexities involved. Besides that, in this study, the concept of “impact” plays a large role. But to understand and afterwards use this within a survey, it is important to get the underlying thoughts on what impact is about and in what way this can be found in different criteria. A good example here is the lack of literature where the linkage between

additionality and target and/or exit criteria is mentioned.

In this way, survey respondents understand the questions asked and little ambiguity can take place (Creswell & Plano Clark, 2006). By aligning survey questions with the real-world practices and considerations identified in the interviews, the study ensures that the quantitative phase is grounded in actual industry experiences (Creswell & Plano Clark, 2006). This approach enhances the validity and reliability of the survey data, making it more reflective of the true dynamics at play in impact investing.

Thirdly, the interviews offer a chance to investigate potential (control) variables that could impact the relationship being studied. These interviews provide in-depth conversations that may reveal contexts and other aspects that could influence the main variables, which helps to clarify some other outcomes. This methodology guarantees the identification and consideration of any confounding variables in the analysis, hence augmenting the validity and robustness of the study's conclusions.

The semi-structured interview style ensures that the data captures the context of participants' experiences by allowing for flexibility and reactivity within the interview (Ruslin et al., 2022). This approach not only enables the researcher to explore predefined topics but also allows participants to contribute their own insights, thereby incorporating their expertise and unique perspectives into the study (Ruslin et al., 2022). Besides that, as the final hypotheses were not formulated before the interviews, this interview style allowed for optimal influence upon the rest of the study. A full overview of the interview questions and sub-questions can be found in the Appendix.

All interviews were conducted via video calls, ensuring a consistent and controlled environment for data collection. Each session was recorded with the consent of the interviewees. The duration of the interviews varied, with a minimum time set at 45 minutes. Some interviews extended up to 67 minutes, but this extension occurred only with the agreement of the interviewee. Afterwards, some interview parts with unnecessary information were cut to get equal-length interviews. Each interviewee participated in a single interview session, ensuring focused and in-depth discussions within the allocated time frame.

Each interview started with an introduction to the thesis topic and a summary of the different sub-research questions that had been developed. In order to obtain a deeper grasp of the subject matter, a combination of scenario-based and open-ended questions were asked throughout the interviews. After this introduction, the interviews were organised into three phases in accordance with the research's general framework. Detailed examples of the investing process within the interviewee's fund were sought in Phase 1, which focused on investment criteria. The focus was on the criteria they use and the processes involved in making decisions. In particular, they looked at prioritising criteria, weighing trade-offs, and determining which criteria are used first in the investment process. Phase 2 focused on the fund term and exit criteria, explaining the fund's open or closed term and the reasoning behind it. It also examined the fund's chosen exit criteria and the factors that went into selecting them. In Phase 3, the emphasis switched to employee motivation, with an examination of the impact measures that are present and applied within the funds, as well as the techniques by which staff are encouraged to prioritise effect in their work. The purpose of organising the interviews in this way was to guarantee a thorough examination of every subject, therefore offering insightful information on the impact investing environment.

#### **4.2.2 Data collection methods: interviewees**

To ensure a comprehensive representation of perspectives within the research, efforts were made to secure interviewees from a diverse range of funds across the Netherlands. A criterion sampling method is used (Nyimbili & Nyimbili, 2024), as this gives the opportunity to select a certain group of interviewees that reflect the background of the studied groups. So, the main objective here was to interview impact investors from both NGO impact funds and non-NGO impact funds. Due to limited contacts within

NGO impact funds, the initial plan to conduct six to eight interviews was revised to four. Although it was possible to secure more interviews from non-NGO impact funds, the goal was to maintain an equal number from each category. Consequently, the final sample comprised two interviews from NGO impact funds and two from non-NGO impact funds. This approach ensures a balanced comparison while accommodating the constraints in accessing NGO impact fund representatives.

Since access to these individuals might be more easily obtained through existing networks, it was decided to concentrate solely on Dutch funds. In the end, interviews were conducted with four participants from four different funds. This strategy made it possible for the study to include a range of experiences and backgrounds, which enhanced the data and made sure that different points of view were covered. The research is better positioned to reflect the varied landscape of impact investing in the Netherlands because it gathers insights from a wide range of funds. In addition to the transcripts of their interviews, each interviewee received a draft of the result section that included their interviews to guarantee the validity of the interviews. This process helped to ensure that the findings accurately reflect the participant's perspectives and experiences.

### 4.2.3 Data analysis

The interview data was extensively examined using a thematic approach during the study. Initially, Clipto AI—a program that transcribes interview recordings into text while guaranteeing privacy—was used for all interviews. After that, the transcripts were carefully reviewed several times to ensure that the topic was understood. After becoming acquainted with the data, the coding procedure started. The three main stages of the study —investment criteria (Phase 1), fund term flexibility and exit criteria (Phase 2), and impact linkage with employee compensation (Phase 3)—were the basis for the creation of themes. Sub-themes were found within each step to capture additional detailed information from the data. Each subject and sub-theme was given a colour code to make the study easier to understand and ensure a structured analysis.

Following the coding of the data, the conclusions for every theme were methodically recorded and compiled. This entailed selecting important parts from the transcripts and classifying them according to the applicable subject categories. A particular focus was placed on finding topics that were mentioned repeatedly in several interviews, as these may point to important trends. Furthermore, by cross-referencing the themes with fund characteristics to look for any correlations, the analysis investigated if these recurrent themes could be connected to the kind of fund that the interviewees represented. A detailed overview of the interview analysis can be found in Figure 7.

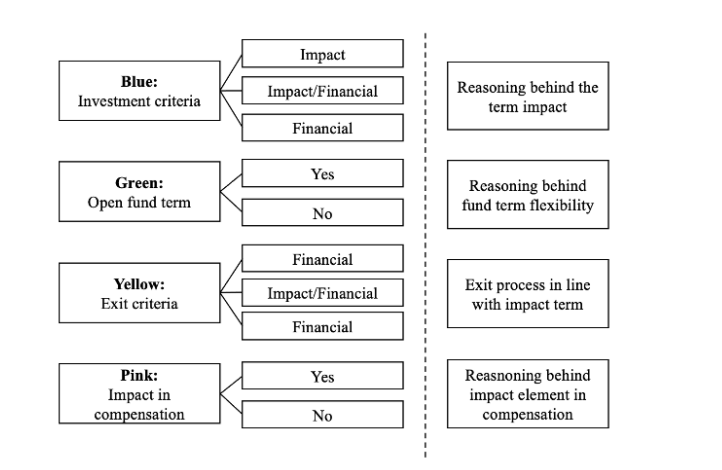


Figure 7: Qualitative interview method - selfmade figure

### 4.3 Hypothesis formation

Following the first exploratory stage of the study, essential components of impact within the investment criterion, fund-term flexibility and exit criteria, and employee compensation were identified, and these factors were examined in order to formulate hypotheses. In order to make sure they remained true to the main goals of the research, the sub-research questions were re-examined in order to identify particular facets of impact investing that need more in-depth examination. Critical questions like, "What defines impact within the context of these criteria?" had to be asked in order to accomplish this. How do the funds prioritise and operationalise impact?

To find reoccurring themes and patterns, data from Phase 1 (investment criteria) was methodically examined using these guiding questions. This thematic study revealed the difficulties and trade-offs that various funds face when interpreting and applying target selection criteria. Understanding the effects of fund term choices and exit criteria was the main goal of Phase 2. The investigation looked at the criteria funds employ to decide their exit strategies as well as the influence of choosing between open and closed fund conditions. This stage investigated the trade-offs taken into account and how these strategic choices fit with the larger objectives of impact investment. Employee motivation and the linkage with impact were the focus of Phase 3. The study focused on how funds track and measure their impact and how these indicators affect decision-making and operations. Furthermore, strategies for encouraging staff to focus on impact were investigated, offering insights into the inner workings that sustain an impact-focused culture.

Hypotheses were developed by concentrating on these themes and methodically connecting them to the sub-research issues. This methodological technique guarantees that the hypotheses are well-supported by the preliminary data and in line with the goals of the investigation, which lays a solid basis for the research's next phases. The results section will include a complete discussion and contextualisation of the empirical findings within the larger impact investment environment, along with a detailed analysis and testing of these hypotheses.

### 4.4 Hypothesis testing

#### 4.4.1 Quantitative research design: surveys

To further answer the research question and deepen the study, a survey is conducted to explore the hypotheses. In designing the survey, a variety of question types were employed, partly based on the methods described in a book on survey basics by Kumar (2023), to comprehensively capture the nuances of respondents' perspectives and practices. The survey consists of various types of questions aimed at exploring different facets of impact investing, such as investment criteria, fund structure, and impact metrics:

1. Binary questions: These questions provide a simple yes/no response to establish foundational information about the respondent's organization and its characteristics (e.g., "Does this criteria apply to the organization you work for: Referred to as an impact fund?").
2. Short answer questions: These questions are designed to collect specific information that requires a brief, precise response, such as the name and location of the organization, and the respondent's job title and role.
3. Long answer questions: These are used for more detailed responses, where respondents can elaborate on their experiences and insights. This type is particularly useful for understanding the context behind investment decisions and organizational practices.
4. Multiple choice questions: These questions offer predefined options to respondents, making it easier to categorize responses and analyze trends (e.g., "Could you indicate which types of organizations were

involved in the establishment of this impact fund?”).

5. Ranking scale questions: These questions ask respondents to rate certain criteria on a scale (e.g., from 1 to 6), providing insights into the prioritisation of different investment criteria. Important here is the emphasize on a ranking scheme.

Besides a categorization on types of questions, the survey is built up in different phases – just like this paper:

1. Background information: these initial questions establish the basic context about the organization and the respondent’s role. This information is critical for categorizing the responses and understanding the background of each participant.
2. Investment Criteria (phase 1)
3. Fund Structure (phase 2)
4. Exit criteria (phase 2)
5. Employee Engagement (phase 3)

To get a better understanding of why certain questions are included in the survey, the next chapter will also cover the connection between the formulated hypotheses and the related survey questions. In this way, it is clear in what way the hypotheses are tested.

#### **4.4.2 Data collection methods and procedures**

Several important actions were made in order to create a complete list of impact funds and NGO impact funds worldwide. The first step in the procedure was to use databases, such Climatescape and Folk, which are well-known for having comprehensive records of impact funds. These databases, which listed a large number of organisations engaged in impact investment across many countries, offered a starting point. Afterwards, lists of NGOs were taken from a variety of online websites and entered into ChatGPT in order to confirm if these NGOs had an impact fund. Afterwards, e-mail addresses on websites and LinkedIn invitations were used to approach impact investors for the survey.

But, it was soon discovered that cold approaching people resulted with little to no reaction. Strong ties to impact investors working in the Netherlands allowed for the leveraging of these contacts, which led to a methodological change and a more effective approaching strategy. Since the majority of respondents were located in the Netherlands, it was decided to avoid having an international focus and to guarantee the study’s trustworthiness. A smaller sample size was used, and only Dutch impact funds were included. In order to put this updated strategy into practice, the database method was once again used with an emphasis on the Netherlands. The first step involved creating a list of about 30-35 impact investors located in the Netherlands, some of whom were NGO impact investors. Email addresses were obtained through existing relationships, and via-via introductions lead to the first respondents (test phase).

The purpose of the sampling in this study is to achieve a 10% margin of error and a 90% confidence level, which are considered suitable. Due to time constraints, the investigation must strike a compromise between feasibility and accuracy. A much bigger sample size would be necessary to achieve a lower margin of error or a higher confidence level, which would not be possible in the allotted time. Second, impact fund managers’ willingness to answer the survey is a major factor in the research’s success. Setting reasonable expectations for response rates is essential due to the specialised nature of the area and potential participation barriers (such as respondents’ time constraints and worries about confidentiality). A 10% margin of error allows for a reasonable level of precision without demanding an excessively large sample size. Meanwhile, a 90% confidence level ensures that the findings are statistically significant and reliable, albeit with a slightly higher tolerance for variability than the conventional 95% confidence level.

The sufficient sample size for this study is calculated, starting that a Z-score of 1.645 corresponds to a 90% confidence level and applying a 0.5 projected proportion. By using these characteristics, it is aimed to gather a sample size that will, 90% of the time, guarantee that the findings will fall between 10% and the genuine population value. Afterwards the required parameters to define the sample size are the projected proportion, the margin of error, the desired confidence level, and the size of the population. By using this method, the necessary sample size for a population of between 30-35 is determined, being between 21 and 23 respondents. When totalled, this suggests that a minimum of 21 respondents in the sample are required to provide the appropriate level of accuracy and confidence.

Over a four-week period, this survey was spread with the utmost precision and devotion to ensure the collection of high-quality responses from important stakeholders in the impact investment environment in the Netherlands. After carefully identifying each possible respondent, they were all personally invited to do the survey. By making personal ties with each fund's representatives or investors, this approach made sure that survey respondents had the necessary skills and authority to offer insightful responses, while also increasing the chances of filling in the survey. The procedure of getting respondents did not involve a broad outreach. Rather, a focused strategy was used and by taking a personalised approach, it was made sure that the respondents were aware of the survey and knew how important it was to their jobs. Despite the relatively small sample size, the high level of involvement with important players in the impact investing industry is indicative of the quality of the dataset. It is acknowledged that a dataset comprising 21 respondents may appear limited at first glance. However, the significance of these data points lies in their quality rather than quantity. Each respondent represents a substantial and influential segment of the impact investing sector in the Netherlands, encompassing a wide array of perspectives and experiences. The value of the collected data is further underscored by the fact that many of the prominent and influential players in the impact investing landscape contributed to this survey. Their responses provide a rich, nuanced understanding of current trends that might influence the study's research topic.

The insightful and realistic perspectives obtained from these 21 participants accurately reflect the current dynamics in the impact investment industry. The entire picture of the industry provided by the responses' depth and relevance allows for the capture of subtleties and complexities that could be missed in a broader, less targeted sample. For the benefit of investors, the gathered data provides insights that correctly reflects the current condition of impact investment. Although a larger sample size could be possible when given more time and money, the Dutch impact investing landscape, which is not that large, naturally restricts the number of respondents that can be gathered. This automatically leads to a lower number of data points. But due to the sector's specialisation and niche character, this limited number of possible respondents still provides valuable insights.

#### 4.4.3 Data analysis

**Validity** To ensure the validity of the survey questions, a "test" phase took place by sending out the survey to six possible respondents. After an analysis, it was concluded that all questions within the survey were interpreted consistently by the respondents. Based on this observation, the decision was made to distribute the survey to all the impact investors gathered in the dataset.

**Approach** To guarantee accuracy and consistency, the survey data first went through a cleaning procedure. The data was cleared and transformed to be used in R and all further steps to test the hypotheses were conducted with the help of R. After the data was ready, descriptive statistics were computed to provide an overview of the dataset's fundamental characteristics. Statistics like the mean, median, and standard deviation were deployed to analyse the replies' distribution and core patterns. This gave a concise summary of the broad patterns and trends found in the data. Afterwards, different statistical

tests were used to investigate the relations between variables in more detail. To be more precise, t-tests, Chi-square tests and Fisher’s Exact Test were employed to ascertain whether different groups and criteria were associated in a way that was statistically significant. Through the identification of significant variations in investment habits and decision-making procedures, these tests contributed to the validation of the hypotheses. The t-test was particularly used to compare the means of two independent groups, ensuring the reliability and validity of the results through normality checks like the Shapiro-Wilk test. A thematic word analysis was used to examine the qualitative information gathered from the open-ended survey question on exit criteria. It was possible to find recurring themes and insights by coding and classifying the responses into categories. Besides that, the other open-ended survey questions asking for clarification were analyzed on reoccurring patterns and to find reasoning for certain statistical relationships found or not found.

Overall, a thorough and reliable analysis of the survey data was produced by combining descriptive statistics, statistical tests, and theme analysis.

#### **4.5 Value-adding analysis**

In an article by Eakin and Gladstone (2020), the authors argue for the need to add more value to qualitative research by engaging in deeper, more interpretive analyses. Inspired by this perspective, an additional, exploratory cluster analysis was incorporated into the current study, despite it not being directly linked to the initial hypotheses. This approach aligns with the principle of ”treating everything as data,” as outlined by Eakin and Gladstone, allowing for the examination of emergent patterns within the data that were not previously anticipated. Moreover, the method of ”reading for anomalies” was applied, where unexpected clusters within the dataset were identified and analyzed. K-means clustering was chosen for its effectiveness in partitioning data into distinct clusters. This method is particularly suitable when the goal is to categorize observations into a pre-determined number of non-overlapping groups. To determine the number of clusters, techniques such as the elbow method and silhouette analysis were conducted. The elbow method involves plotting the variance as a function of the number of clusters and identifying the point where the marginal gain decreases, indicating the optimal number of clusters. Silhouette analysis was also used to assess the clustering quality by measuring how similar an object is to its own cluster compared to other clusters. The clusters were formed using the statistical software R as well. Finally, a within-cluster sum of squares (WCSS) metric was used to validate the formed clusters.

### **5 Results part one: interviews (exploratory phase and defining hypotheses)**

The first part of this research comprises the exploratory phase, during which four in-depth interviews were conducted. As detailed in the previous chapter, these interviews were analyzed using thematic analysis, with a color-coding system to identify and categorize key themes. In this chapter, the findings from each phase of the interviews are discussed, presenting them systematically. Based on the insights gained from these interviews, the corresponding hypotheses are formulated, aligned with the sub-research questions and the specific observations made during the exploratory phase. This structured approach ensures that the hypotheses are grounded in empirical data and are directly relevant to the core objectives of the study.

## 5.1 Background information funds

At the beginning of each interview, background information was gathered from interviewees to provide context for the fund's characteristics and operations. All the interviewed funds are headquartered in the Netherlands. However, their operational scope varies. While most of the funds operate both within and outside the Netherlands, NGO impact fund B is an exception. This particular fund focuses entirely on healthcare initiatives in Africa, which sets it apart from the other funds that have a broader operational reach. The duration of existence for these funds also showed significant variation. NGO impact fund B has been established for over ten years, making it the most experienced among the interviewed funds. This longevity suggests a well-established structure and potentially more refined investment strategies. In contrast, Impact fund B has been in existence for only three years. The relatively short period since its inception might imply a developing organizational structure and emerging investment practices. Additionally, the group of investors involved in these funds exhibited a wide range of variety. The different types of investors may influence the funds' priorities and strategies, thereby impacting their overall performance and focus.

During the interview with NGO Impact Fund A, it was revealed that the fund operates as a debt fund rather than an equity fund. Despite this distinction, no differentiation was made in the paper between equity and debt funds, as it also became clear within this interview that the discussed topics and themes were applicable to both types of funding structures. The focus on investment selection criteria, fund term flexibility, and exit strategies remains relevant across both debt and equity investment contexts.

## 5.2 Phase 1: Target selection

In Phase 1 of the interviews, several key questions were posed to gather detailed insights into the investment selection processes of the funds. Questions such as: "Can you walk me through the selection process of investment opportunities?" and "When making tough decisions where not all criteria are met, are there specific criteria that take precedence?" Following this, the responses were deeply analyzed. One answer that was mentioned by all interviewees was the team and management of the company.

### 5.2.1 NGO impact funds

NGO impact fund A distinctly highlighted its differentiation from other impact funds. The interviewee stated, *"We prioritise criteria other than financial ones. We reverse-engineer from the impact vision, taking as much risk as possible, as early as possible."* This approach is the opposite of the more conventional strategies of other funds. The interviewee further explained their unique stance by emphasizing their resistance to focusing on a clear business model with a potential market: *"We try to untrain ourselves from needing something to make business sense. The genius and a crazy inventor are close, so we try not to be distracted by that."* Additionally, the fund places emphasis on the amount of CO<sub>2</sub> saved with various energy projects, aligning with their defined impact goal of reducing CO<sub>2</sub> emissions: *"Increasingly, we look at how much energy it takes to capture CO<sub>2</sub>, purely focusing on the product."* NGO Impact Fund A briefly addressed their perspective on financial criteria: *"Yes, formally we still ask how much money you think you can make with it because at some point, the impact visions have to take over since a lot of ideas still require a lot of money."* This indicates that while financial considerations and the eventual buyer of the project do play a role, they are given a lower priority compared to other criteria.

Similarly, NGO impact fund B also has a clearly defined impact goal—improving the healthcare system in Sub-Saharan Africa. The rationale behind this focus is rooted in the NGO (involved at the origination) foundational purpose: *"Hospitals and clinics are perceived as more complex and therefore riskier, so at*

*that time, the bank wouldn't give financing to clinics and hospitals.*" One of the primary criteria for this fund is being the lead investor: *"Being the primary investor shows a real commitment of putting money where it hasn't gone before."* Despite the challenge of pinpointing specific criteria, the interviewee provided an example from an investment in a psychiatric hospital in Kenya: *"One of the theses is that there's a significant gap in mental health treatments in Africa. It's almost non-existent in many places."* The interviewee also underlines the limited expansion plan for this investment, which underscores its appeal to the fund as it addresses a market neglected by other financiers. The fund also specified the financial criteria involved in their decision-making: *"It varies, for instance, financing company X was our first investment with the rationale that currently 98% of people are uninsured. So the investment thesis was, if this is successful, we can scale it up to millions of people."* This highlights a financial and impact criteria in one, as the scaling opportunity is beneficial for both financial return and achievable impact.

### **5.2.2 Non-NGO impact funds**

Impact Fund A emphasizes the importance of clearly identifying the problem that the enterprise aims to solve. The interviewee stated, *"We need to see what problem is being solved. So, it must have a good impact."* The concept of problem-solving is further elaborated: *"But solving the problem is twofold. On the one hand, there needs to be an impact-related issue addressed. On the other hand, there must be a demand from consumers."* This explanation highlights the fund's approach to ensuring that the enterprise not only focuses on impact but also focuses on market needs. From a commercial perspective, the fund delves deeply into market analysis: *"So we delve deeply into where and what the market is."* Elaborating on this, the interviewee stated, *"So essentially, whether it is commercially interesting, but also significantly impactful."* The impact is then defined by its potential scale: *"The question is whether you will make a large-scale impact. If it's just a very specific product, we wouldn't step in quickly."* This indicates that the fund prioritises investments that have the potential to create widespread impact, thus linking the scale of impact to the reach of the product. Impact Fund A also establishes a key condition that an investment must not be dependent on subsidies: *"Subsidies and especially donations, you know, are essentially a no-go. It must work according to economic laws, meaning that money is made, and people are willing to pay for it."* The interviewee further elaborated, *"So the financial return is not so important to us, but we do strive to maximize returns. Why? Because that's the way everyone works and thinks."*

Impact Fund B places a strong emphasis on the degree of impact. The interviewee stated, *"For us, there are actually two very important criteria on which we reject 99 out of 100 pitch decks: the degree of impact—how significant it is—and whether we believe it can be a game changer. Additionally, we look at whether it truly addresses a number one, two, or three problems for the intended customers."* The interviewee elaborated on this point: *"We focus heavily on the concrete aspect, particularly the commercial success. There are so many good and interesting ideas that, in practice, simply don't have the intended customers."* Besides this, the interviewee mentioned the opportunity to be a catalyst as something that scores both on the impact and commercial side. The fund also emphasized the phase-specific nature of their financial criteria: *"It depends a bit on the stage the company is in. But in 80-90% of cases, it's still early. Then we mainly want to see the cash flow for the next 18 months."* The interviewee underlined that while they do not expect exponential growth, they seek stable cash flow and *"we just want to see a solid financial return. So, we make that trade-off."*

### 5.2.3 Hypothesis (1) formulation and related survey questions

After analysing the results from phase 1 (target selection) several recurring themes emerged: Firstly, both non-NGO impact funds mention clear financial conditions that an investment must meet. However, in interviews with NGO impact funds, these financial criteria were more considered as secondary requirements. This suggests a potential difference in prioritisation. Secondly, both NGO impact funds emphasize the uniqueness of their investments, focusing on filling gaps where other financiers are absent. Thirdly, both NGO impact funds invest based on predefined impact goals, whereas the impact focus non-NGO impact funds was more in a broader sense. These three findings form the basis for the following hypothesis 1:

*An NGO impact fund has a positive relationship with the prioritisation of impact-related criteria, such as clearly defined fund impact goals and additionality (defined as financing where there is a market gap), over financial criteria during the investment selection process.*

To test for this hypothesis, we test for the following in the survey questions:

**Independent variable:** test for NGO involvement during origination (question 6)

**Dependent variable:** prioritisation of impact criteria over financial criteria (question 8)

In designing the survey, a ranking question was chosen to avoid simplistic yes/no responses and to capture a more nuanced understanding of the priorities among different criteria. Six distinct criteria were included in the ranking question, all of which were (repeatedly) mentioned during the interviews. In these 6 criteria, a distinction is made between full impact-focused criteria (neglected by others and defined impact goal), a combination of impact and commercial-focused criteria (clear market and possible catalyst) and fully financial-focused criteria (future cash-flow and independence from subsidies).

## 5.3 Phase 2: Fund-term flexibility and exit criteria

In Phase 2 of the interviews, several key questions were posed to gather detailed insights into the fund-term flexibility and exit criteria of the funds. Questions such as: "What is the typical time horizon for your investment?" and "How flexible are you with this timeline?" along with "What are certain criteria you use to decide if an investment is ready for exit? Can you provide examples?" was asked. Following this, the responses were analysed.

### 5.3.1 NGO impact funds

NGO Impact Fund A operates without a defined fund term, as it invests using its own capital. This distinct approach involves providing loans where the investment only needs to be repaid with interest once the venture becomes profitable. Due to time constraints, it was not feasible to delve into specific exit criteria. However, the fund did highlight that an exit would occur only when a buyer capable of continuing the growth is found. As the interviewee noted and stated before: *"the impact visions have to take over since a lot of ideas still require a lot of money."*

NGO impact Fund B operates with a closed fund term. As the interviewee explained, *"So in short, we follow the template in private equity, as most private equity funds are set up this way. So, with a general partner and a limited partner, this exists for 10 years."* This structure mandates the return of all invested capital within a decade. The interviewee expressed concerns about this structure: *"So after 10 years, they want all the money back, which is super problematic. When you think about impact, that is really like stupid!"* He emphasized his efforts to change the structure for future fund raises to better align with the fund's goals. Regarding exit criteria, the interviewee described a focus on future plans: *"Or you get someone with a real plan. It's like, okay, we're going to take this model to other countries"*

for which we need capital.” Second, they assess the growth potential: *”So that’s kind of the second point. I think knowing how saturated the growth curve is.”* In this way, they decide if an investment is at its peak or if an investment is not doing well and taken too much of the time.

### 5.3.2 Non-NGO impact funds

Both Impact Fund A and Impact Fund B have flexible fund terms. Impact Fund B elaborated on this flexibility, stating, *”But actually, when you look at the early stage in which you invest, especially with a type of fund like ours, those companies often need more time. So, that’s why our fund is open.”* This highlights the necessity for extended timelines to accommodate the growth needs of early-stage investments. Furthermore, Impact Fund A noted that they invest using their own capital, allowing for greater flexibility in their investment horizons.

When discussing exit criteria, Impact Fund A highlighted various aspects ranging from exiting if the board position is lost to ensuring that the buyer aligns with the mission of the investment. The fund also acknowledged the inherent difficulties in managing exits as an investment fund: *”Yes, you know, at some point, the unhealthy situation of an investment fund, especially for an impact fund, is that you naturally have conflicting interests. In the sense that at some point, you need to return that money, you need to show that you have a return.”* This challenge was also echoed by Impact Fund B, which emphasized the importance of continuity in the business under new ownership. The interviewee stated, *”But if another VC were to step in, then I think you need a certain revenue level and potentially the ability to roll out in other countries where that VC already has access.”* This statement underscores the financial and operational criteria that must be met for a successful exit, ensuring that the acquiring entity can sustain and expand the business.

### 5.3.3 Hypotheses (2a & 2b) formulation and related survey questions

After analysing the results from phase 2 (fund term flexibility and exit criteria) still ambiguity stayed. In terms of fund term flexibility, there was no direct relation with the presence of an NGO at origination. But, as this exploratory phase did indicate the importance of a flexible fund term to achieve impact (as emphasized by NGO Impact Fund B), this variable can indicate on the prioritisation of achieving impact over returning capital to investors (financial return). Besides that, from two interviews it became clear that the presence of own capital as source of the fund had an influence on the decision for an open fund term. Therefore, the following hypothesis (2a) is formulated:

*An NGO impact fund has a positive relationship with an open fund term.*

To test for this hypothesis, we test for the following in the survey questions:

**Independent variable:** test for NGO involvement during origination (question 6)

**Dependent variable:** test for the presence of an open fund term (question 9) and underlying motivation (question 10)

**Extra possible independent variable:** test for own source of capital (question 7)

Secondly, this exploratory phase of this research, has inherently yielded some vague and varied responses on exit criteria. All funds mentioned impact when discussing exit criteria, but no distinction between NGO and non-NGO funds was clear. This lack of concrete answers what we aim to look for is typical for exploratory research, as the primary goal is to uncover insights and directions rather than definitive conclusions. Despite the initial vagueness, the findings from Phase 1 (target selection) have revealed clear trends and themes and given the consistency of these emerging themes with the literature, we anticipate

that these directions will continue into Phase 2 (fund term flexibility and exit criteria). Therefore, the following hypothesis (2b) is formulated:

*An NGO impact fund has a positive relationship with the presence of certain exit criteria related with impact, especially in the form of fulfilled additionality, during the exit decision.*

To test for this hypothesis, we test for the following in the survey questions:

**Independent variable:** test for NGO involvement during origination (question 6)

**Dependent variable:** test for the mentioning of specific exit criteria related with achieving predefined impact goals and completion of additionality (question 11)

In this case, the choice is made to do an open answer analysis, as there are no specific criteria found within the interviews. In this case it is tested if "impact" is mentioned when talking about exit criteria and if this impact is also linked to terms such as defined impact goals and additionality.

## 5.4 Phase 3: achieving impact – impact element in employee compensation

In Phase 3 of the interviews, several key questions were posed to gather detailed insights into the presence of impact metrics in performance assessment and impact element connected with employee compensation. Questions such as: "Do your performance evaluations include impact metrics?", "What are they?" and "Are these impact measurements also considered in employee compensation?" were asked. Following this, the responses were deeply analysed.

### 5.4.1 NGO impact funds

NGO Impact Fund A does not have impact elements linked with compensation; to provide context, it is important to underline that NGO Impact Fund A does not operate with a bonus or carry system. As the interviewee explained, *"The reason person X and I do what we do is because we have completely moved away from having any incentives at all. We are paid because we need to live, but that's all there is to it."* Furthermore, the interviewee raised critical questions about adopting traditional VC and PE structures in impact investing: *"How do impact VCs fit into this? When can they start sharing? For example, if I were to start a fund with returns now, but the carry wouldn't go to me, it would go to a foundation. So, the surplus of my effective economic model would then go to the next investment. Why should that even end up in an LP's pocket?"*. But besides their own relatively radical approach, they acknowledge that integrating impact-related incentives could be a positive first step for other impact funds.

NGO Impact Fund B explains regarding compensation, that it is not linked to impact and provided an explanation: *"In sub-Saharan Africa, if you look at fund performance, there are barely any funds that achieve a significant net return unless they focus on dirty businesses. So, linking carries to impact is nice, but the first question is if there is even a carry?"*. Highlighting the challenging environment in which they operate.

### 5.4.2 Non-NGO impact funds

Impact Fund A explained in terms of compensation, they currently do not integrate an impact element. The interviewee noted, *"On the other hand, we are now fully on financial metrics.. Why? Because we invest in start-ups that are just managed as traditional companies, in that sense."* This indicates a focus on financial performance metrics in their compensation structure, reflecting the traditional management practices of the start-ups they invest in. The interviewee mentioned that moving towards an impact-linked compensation system would be a logical next step.

Impact Fund B utilizes a specific software tool to measure impact, a necessity due to reporting requirements under Article 9 of the Sustainable Finance Disclosure Regulation (SFDR). Regarding an impact element within compensation, the interviewee noted, *"We don't have, like some funds, a carried interest where a portion of the bonus depends on meeting our impact goals. We only focus on positive impact, so it's already important before you join us that you're motivated enough to do that. There's no additional bonus attached."* This indicates that Impact Fund B operates without a bonus structure, so bonuses linked with impact is not possible here.

### 5.4.3 Hypothesis (3) formulation and related survey questions

The interviews revealed a partly consensus among NGO Impact Fund A and non-NGO impact fund A that integrating impact metrics into compensation structures would be logical and beneficial for achieving genuine impact. This insight forms the basis for the following hypothesis:

*An NGO impact fund has a positive relationship with the presence of an impact element within the fund performance that is linked to the compensation of employees.*

However, some responses indicated that such structures (bonus/carry) are not present at all within certain funds, and this raises the question of understanding why there is (or is not) an impact element connected with compensation. This is also covered within the survey.

To test for this hypothesis, we test for the following in the survey questions:

**Independent variable:** test for NGO involvement during origination (question 6)

**Dependent variable:** test for the connection of an impact element with employee compensation (12) and ask for how this is structured or why it is not incorporated (13)

## 6 Results part two: surveys

In this study, the choice to not use regression analyses is because small sample sizes causes challenges and potential inaccuracies, particularly when the response rate from specific subgroups, such as NGO funds, is below 10. The statistical power of a regression model is highly dependent on the sample size, with larger samples generally providing more reliable and valid estimates of relationships between variables. In the context of this study, the response rate from NGO funds is notably low. This low response rate exacerbates the issues associated with small sample sizes in several ways: lack of statistical power, high variability and unstable estimates, over fitting and violation of assumptions. Given these considerations, it is evident that performing regression analyses with fewer than 10 observations from NGO funds is not advisable. Alternative statistical methods, Fisher's Exact Test (Nowacki, 2017) or the Mantel-Haenszel Test, which are more robust to small sample sizes, or test with justifying pre-tests (Shapiro Wilko test), should be employed to explore the relationships between variables in this study.

### 6.1 Descriptive statistics

Table 1 provides an overview of the respondents' characteristics. The table shows the total number of respondents ( $n = 21$ ), with a breakdown of senior and junior levels, as well as previous experience in financial and other sectors. The majority of respondents (80.95%) hold senior positions, while 19.05% are at the junior level. This finding indicates that most respondents have decision-making authority within the funds, giving them more insights on operational practices. Additionally, 42.86% have previous experience in the financial sector, compared to 57.14% in other sectors. This finding shows an equal distribution.

	Frequency	Percent
Number of respondents (n)	21	100
Senior level	17	80.95
Junior level	4	19.05
Experience in financial sector	9	42.86
Experience in other sector	12	57.14

Table 1: Discriptive statistics respondents

Table 2 provides a detailed overview of the characteristics of the funds included in the study. The table shows the total number of funds ( $n = 21$ ) and provides a breakdown of the NGO and non-NGO statuses, as well as the various sources of capital. Specifically, 28.57% of the funds are NGOs, while 71.43% are non-NGOs. Regarding the sources of capital, it is important to note that funds can have multiple sources of capital, meaning that a single fund may draw from more than one type of capital source. The data indicates that 57.14% of the funds have family capital as one of their sources of capital. Additionally, 9.52% of the funds utilize NGO capital as a source. It is noteworthy that a fund may report multiple sources of capital. However, in the case of funds with their own source of capital, which constitutes 14.29% of the total funds, this indicates that these funds rely solely on their own internally generated capital.

	Frequency	Percent
Number of respondents (n)	21	100
With NGO involvement	6	28.57
Without NGO involvement	15	71.43
Family capital	12	57.14
NGO capital	2	9.52
Own capital	3	14.29

Table 2: Descriptive statistics respondents' funds

## 6.2 Hypothesis 1

To evaluate the impact criteria preferences among different groups, each respondent was asked to rank a set of criteria based on their importance. Specifically, respondents assigned a ranking from 1 to 6 for criteria, with a score of 6 indicating the lowest priority and a score of 1 indicating the highest. For criteria purely focused on impact (neglected by other financiers and aligned with defined impact goal), a score of 6 was given if ranked first, a 5 if ranked second, and so on, decreasing incrementally to a score of 1 if ranked sixth. The aggregate scores for impact-focused criteria were then used to compute a target-selection score for each respondent, descriptive statistics can be found in table 3. In this case, there is a binary independent variable of 1 or 0, respectively indicating an NGO impact fund and a non-NGO impact fund. And there is one continuous dependent variable ranging from 2 to 11, indicating the prioritisation of the two impact criteria. The goal is to investigate the relationship between being an NGO impact fund or non-NGO impact fund and the scores of the dependent variable.

	NGO Fund	Non-NGO Fund
Mean	10.33	7.53
Median	11.00	7.00
Sd	1.51	2.00
Min	8.00	4.00
Max	12.00	11.00

Table 3: Descriptive statistics hypothesis 1

Given the nature of these variables, a Welch t-test is conducted because of the following reasons: 1. the test does not assume equal variances between the two groups; 2. the test is more robust than the standard t-test when dealing with unequal variances and different sample sizes between groups (which is the case for NGO and non-NGO group). This test is used to examine a difference in the mean scores between NGO and non-NGO impact funds.

However, the validity of the t-test depends on the assumption that the data are normally distributed within each group. To verify this assumption, we first conducted the Shapiro-Wilk normality test for both groups. The Shapiro-Wilk test is a widely used method to assess the normality of a dataset. It evaluates whether the data distribution deviates significantly from a normal distribution. By confirming that the target selection scores are normally distributed within each group, we ensure that the t-test results are reliable and valid.

### 6.2.1 Shapiro-Wilk test

The p-values for both Shapiro-Wilk tests are greater than the threshold value of 0.05, indicating that we cannot reject the null hypothesis that the data are normally distributed. In other words, there is no significant evidence to suggest that the target selection scores deviate from a normal distribution within either group. Specifically, for the group with NGO involvement ( $W = 0.87$ ,  $p = 0.21$ ), the p-value exceeds 0.05, suggesting that the data are likely normally distributed within this group. Similarly, for the group without NGO involvement ( $W = 0.90$ ,  $p = 0.11$ ), the p-value is also greater than 0.05, indicating that the data are likely normally distributed within this group as well. Since the Shapiro-Wilk tests do not provide significant evidence against the normality of the data within both groups, it is appropriate to proceed with a t-test to investigate whether there is a significant difference in the mean target selection scores between the groups with and without NGO involvement.

	W-value	p-value
With NGO involvement	6	28.57
Without NGO involvement	15	71.43

Table 4: Statistics Shapiro-Welk test

### 6.2.2 Welch Two Sample t-test

To determine whether there was a significant difference in the target selection scores between respondents with and without NGO involvement, a Welch Two Sample t-test was conducted. This test is particularly suited for comparing means between two groups when there is a possibility of unequal variances. Besides that, it suits the smaller sample size. The following hypotheses are tested:

*Null Hypothesis: There is no difference in the mean score between NGO and non-NGO impact funds.*  
*Alternative Hypothesis: There is a difference in the mean scores between NGO and non-NGO impact funds.*

The results of the Welch Two Sample t-test (Table 5) revealed a significant difference between the two groups. Specifically, the test yielded a t-value of -3.50 with 12.32 degrees of freedom, and a p-value of 0.0043. The mean target selection score for the group without NGO involvement was 7.53, while the mean score for the group with NGO involvement was significantly higher at 10.33. The 95% confidence interval for the difference in means ranged from -4.54 to -1.06, indicating that the true difference in means is likely to fall within this interval and does not include zero. These results suggest that NGO involvement is associated with higher target selection scores, indicating a greater emphasis on purely impact criteria over (partly) financial criteria. The statistically significant p-value of 0.0043 strongly supports rejecting the null hypothesis that there is no difference in target selection scores between the groups. Consequently, it can be concluded that the presence of NGO involvement significantly influences the prioritisation of impact criteria.

Statistics	Value
t-value	-3.49
p-value	0.0043
Degrees of freedom	12.32
95% Confidence interval	-4.54 to -1.06
Mean (group 0: without NGO involvement)	7.53
Mean (group 1: with NGO involvement)	10.33

Table 5: Statistics Welch t-test target selection

## 6.3 phase 2: hypothesis 2a and hypothesis 2b

### 6.3.1 Hypothesis 2a

To test for hypothesis 2a, the relationship between NGO involvement and fund term flexibility, also two variables are used. One independent binary variable is the indication of an NGO or non-NGO impact fund. And one dependent binary variable is an indication of an open fund term. In the initial analysis, a Chi-square test was considered to examine the relationship between NGO involvement and having an open fund term. A

First, a contingency table is formed to test for frequencies. However, it was found that some of the expected frequencies were less than 5 (table 6). This is problematic because the Chi-square test's validity relies on the assumption that expected frequencies are sufficiently large, typically greater than 5, to ensure accurate approximations (Nowacki, 2017).

NGO Involvement	Open Fund-Term	No Open Fund-Term	Total
Yes (1)	6	4	10
No (0)	5	6	11
Total	11	10	12

Table 6: Contingency table fund-term flexibility

Consequently, Fisher's Exact Test was employed to test for the following hypotheses:

*Null Hypothesis: There is no association between NGO involvement and having an open fund term.*

*Alternative Hypothesis: There is an association between NGO involvement and having an open fund term.*

The contingency table is used to conduct the test with R. The Fisher's Exact Test results table 7) yielded

a p-value of 0.36, indicating no statistically significant association between NGO involvement and having an open fund term. The estimated odds ratio was 2.84, suggesting higher odds of having an open fund term with NGO involvement; however, the 95% confidence interval (0.29 to 41.11) highlights substantial uncertainty in this estimate. Therefore, the observed association should be interpreted with caution, considering the limited sample size and resulting variability.

Statistic	Value
p-value	0.36
Odds Ratio	2.84
95% confidence level	0.29 - 41.11

Table 7: Statistics Fisher’s Exact Test fund-term flexibility

Further analysis of the average holding period for NGO funds provided additional insights. Specifically, three NGO impact funds fell into the 7+ years category, indicating a long-term investment horizon. Meanwhile, two NGO funds were categorized within the 5-7 years range, and only one NGO fund fell into the 3-5 years range. This distribution highlights a variability in the holding periods among NGO funds, with a larger share in relatively longer holding periods.

These findings underscore the complexity and diversity of investment approaches within impact-first funds and suggest that factors other than NGO involvement may play a more critical role in determining the structure and duration of investment horizons in these funds.

### 6.3.2 Hypothesis 2a - testing the influence of own capital

During the interviews, it was suggested that having own capital influences the likelihood of an open fund term more significantly than the presence of an NGO. Initially, own capital was tested as a control variable to understand its impact on the relationship between NGO involvement and open fund term. However, the small sample size limited the effectiveness of the control variable test. Specifically, the Mantel-Haenszel test did not yield significant results due to the limited number of observations, which affected the statistical power and the ability to detect significant associations.

Statistic	Value
p-value	0.035
Odds Ratio	infinity
95% confidence level	0.85 to infinity

Table 8: Caption

Given these limitations, a separate Fisher’s Exact Test, for the same reasons as explained, was conducted to directly examine the relationship between own capital and open fund term. The following hypotheses were tested:

*Null Hypothesis: There is no association between an open fund term and investing with own capital.*  
*Alternative Hypothesis: There is an association between an open fund term and investing with own capital.*

The results of Fisher’s Exact Test indicated a statistically significant association between own capital and having an open fund term, with a p-value of 0.035. The estimated odds ratio was infinite, suggesting that the presence of own capital is a strong predictor of having an open fund term. The 95% confidence interval ranged from 0.85 to infinity, highlighting the robustness of this finding despite the small sample

size. This result confirms the initial insights from the interviews, emphasizing the importance of own capital in determining open fund terms.

### 6.3.3 Hypothesis 2b

In the analysis of exit occurrences within impact investing funds, it was found that a total of 12 out of the 21 funds had experienced exits (see Table 9). Of these, 3 were NGO impact funds and 9 were non-NGO impact funds. When comparing this distribution to the overall composition of the funds, which includes 6 NGO funds and 15 non-NGO funds, it becomes apparent that the proportions are relatively similar. Specifically, 50% (3 out of 6) of the NGO funds had exits, while 60% (9 out of 15) of the non-NGO funds had exits. This distribution indicates that exits are slightly more common among non-NGO funds compared to NGO funds. However, the difference is not substantial enough to suggest a significant deviation from the overall fund composition.

To further illustrate, the overall fund composition is approximately 28.57% NGO funds (6 out of 21) and 71.43% non-NGO funds (15 out of 21). The exit occurrences show a similar pattern with NGO funds representing 25% (3 out of 12) of the exits and non-NGO funds representing 75% (9 out of 12) of the exits. These findings suggest that the likelihood of experiencing an exit is comparable between NGO and non-NGO funds within this sample.

Category	Funds with exits	Funds without exits	Total
NGO-fund	3	3	6
Other fund	9	6	15
Total	12	9	21

Table 9: Overview exits per type of fund

To investigate whether respondents consider impact or its derivative, additionality, when contemplating an exit, I first conducted a qualitative screening through a word analysis of all "open entry responses." Each response was categorized based on the type of exit criteria mentioned. It is noteworthy that some respondents kept their answers very general, using terms such as "liquidation" and "exit opportunity." After excluding these, 10 respondents were left. In Table 10, the various exit criteria identified through the word analysis are presented along with their frequency of mention among the remaining 10 respondents.

Criteria	Count
Additionality Fulfilled	3
Impact	2
Return/Liquidity	4
Market Conditions	2
Management Trouble	1
No Strategic Fit	2
Less Performing Asset	4
Interest from Strategic Buyer	3

Table 10: Overview exits per type of fund

As seen in Table 10, additionality was mentioned three times and impact was mentioned twice. However, these references do not correspond to five distinct funds, as one fund mentioned both aspects. In total, four funds meet the expectation of considering impact, especially additionality, in their exit criteria. This count includes all types of funds, regardless of whether they are NGO or non-NGO funds. This

observation aligns with the hypothesis that a portion of the funds would take impact-related factors into account when evaluating an exit.

To see the distinction between the two types of funds, table 11 is conducted. It shows that NGO impact funds are more likely to mention additionality, with two mentions compared to one by non-NGO impact funds, suggesting a higher emphasis on achieving unique social or environmental benefits. Impact is only mentioned by NGO impact funds, indicating their greater inclination to consider social or environmental outcomes when deciding on an exit. Conversely, non-NGO impact funds predominantly cite return/liquidity as a criterion, with four mentions, highlighting their focus on financial returns. Market conditions are considered only by NGO impact funds, suggesting a responsiveness to external economic factors. The lack of strategic fit is noted more frequently by non-NGO impact funds, indicating their concern with alignment to strategic goals. Both types of funds consider under performance as an exit trigger, though it is more prominent for non-NGO impact funds. Interest from strategic buyers is exclusively mentioned by non-NGO impact funds, reflecting a greater focus on market-driven exit opportunities. Overall, NGO impact funds prioritise social and environmental impacts and additionality, while non-NGO impact funds focus on financial returns, strategic fit, and market opportunities, underscoring their different priorities and missions in exit strategies.

Criteria	NGO Fund	Non-NGO Fund
Additionality fulfilled	2	1
Impact	2	0
GP Return	0	4
Market Conditions	2	0
Management Trouble	0	1
No Strategic Fit	0	2
Less Performing Asset	1	3
Interest from Strategic Buyer	0	3

Table 11: Overview exit criteria per type of fund

Due to the minimal sample size of 10 respondents who correctly completed this question—and the fact that nearly no respondent actually provided three criteria—conducting a statistical test in R is challenging. The small sample size limits the power and reliability of any statistical analysis. However, the qualitative method of word analysis proves to be sufficient in confirming the hypothesis. This method allows for a detailed examination of the responses and the identification of key themes and patterns.

From the analysis, it is evident that only three NGO impact funds exited companies with their funds. Importantly, all three of these funds met the expectation of mentioning the completion of additionality and/or the role of impact in their exit considerations. This consistency among the NGO impact funds supports the hypothesis that impact-first funds prioritise impact-related criteria when considering an exit. Also, within non-NGO impact funds this criterion was only met once. Therefore, despite the small sample size and the challenges it poses for statistical testing, the qualitative word analysis validates the hypothesis.

## 6.4 Hypothesis 3

Based on the initial insights from the interviews, it was hypothesized that NGO involvement might influence the presence of an impact element in employee compensation, as this indicates an element that encourages the achievement of impact goals. Given the binary nature of both variables and the small

sample size, Fisher’s Exact Test was employed to examine this relationship, similarly as hypothesis 2a. First, a contingency table was formed (table 11).

NGO Involvement	Impact linked	Impact not linked	Total
Yes (1)	1	5	6
No (0)	8	7	15
Total	9	12	21

Table 12: Contingency table impact linked employee compensation

The following hypotheses are tested with the Fisher’s Exact Test:

*Null Hypothesis: There is no association between NGO involvement and linking impact with employee compensation.*

*Alternative Hypothesis: There is an association between NGO involvement and linking impact with employee compensation.*

Statistic	Value
p-value	0.18
Odds Ratio	0.19
95% confidence level	0.00 - 2.32

Table 13: Statistics Fisher’s Exact Test impact link employee compensation

The results of Fisher’s Exact Test (table 13) indicated no statistically significant association between NGO involvement and the presence of an impact element in employee compensation, with a p-value of 0.18. The estimated odds ratio was 0.1894046, suggesting that the presence of NGO involvement is associated with lower odds of having an impact element in employee compensation. However, the 95% confidence interval ranged from 0.00 to 2.32, highlighting substantial uncertainty in this estimate. Therefore, despite the observed pattern, the statistical test did not confirm a significant association. However, the open question asking on explanation indicated that 5 funds that clicked ”no”, mentioned that they do not include a certain form of employee compensation within their organization.

## 6.5 Cluster analysis

An exploratory cluster analysis is presented in this chapter, expanding on the quantitative findings covered in Chapters 6. By looking for naturally occurring clusters within the dataset, the cluster analysis provides additional insights and reveals patterns that drive the strategic distinctions between impact funds with different levels of NGO involvement. The primary findings are reinforced by this value-adding analysis, which also proposes new directions for future study. By examining the heterogeneity within impact funds according to their features—such as market focus, staff pay plans, and holding periods—cluster analysis was carried out. There were three different clusters found, each of which represented an impact investing strategy that was distinct.

	Cluster		
	1	2	3
NGO involvement	-0.31	0.10	0.25
Family capital	0.37	-0.37	0.15
NGO capital	-0.32	0.42	-0.32
Own capital	-0.12	0.08	0.02
Open fund	-0.09	0.37	-0.54
3-5y HP	0.80	-0.40	-0.40
5-7y HP	0.10	-0.77	1.24
7y+ HP	-0.65	1.02	-0.93
Impact linked compensation	0.56	-0.41	-0.06
Clear market	-1.02	0.13	1.19
Stable cashflow	-0.48	0.87	-0.90
Indepence from subsidies	-0.21	0.06	0.19
Aligned with impact goal	-0.21	-0.46	1.11
Potential catalyst	0.93	-0.61	0.21
Neglected by other financiers	0.84	-0.12	-0.96

Table 14: Outcome cluster analysis

Cluster 1, demonstrates limited NGO involvement (-0.31), with a preference for shorter holding periods of 3-5 years (0.80) and a decreased focus on holding periods of 7+ years (-0.65). Employee compensation in this cluster is more linked to impact (0.56). For investment criteria, there is a strong emphasis on clear markets (-1.02) and stable cash flow (-0.48). However, there is less focus on an investment potentially being a catalyst (0.93) and on investments neglected by other financiers (0.84).

In contrast, Cluster 2 is defined by long-term, impact-aligned funds, exhibiting moderate NGO involvement (0.10) with notable NGO capital influence (0.42). These funds show a strong preference for holding periods of 7+ years (1.02), and unlike Cluster 1, employee compensation is not linked to impact (-0.41). For investment criteria, the focus here is on aligning with defined impact goals (-0.46) and catalytic potential (-0.61), while less emphasis is placed on stable cash flow forecasts for 18 months (0.87).

Cluster 3 shows a higher level of NGO involvement (0.25) and a preference for holding periods of 5-7 years (1.24). With no significant relation with employee compensation being linked to impact (-0.06). For investment criteria, this cluster prioritises stable cash flow within 18 months (-0.9) and investments neglected by others (-0.96), with less attention given to clear market opportunities (1.19) and strict alignment with defined impact goals (1.11).

## 7 Conclusion

To answer the research question, this study confirms that NGO impact funds and non-NGO impact funds do, in fact, have differences looking at operational practices involving the prioritisation of impact versus financial return. The results show that these differences are especially noticeable when it comes to investment and exit criteria. When choosing investments, NGO impact funds frequently give greater weight to social and environmental results. They also place a strong emphasis on mission alignment and additionality when developing their exit strategy. In terms of fund term flexibility, the entire impact investing scene seems to be falling behind. The fund parameters of impact funds, whether NGO or non-NGO, are not very flexible and might be impacted by the demands and expectations of their LPs. This implies that structural limitations like to those seen in traditional investment funds persist in the impact

investing industry, notwithstanding the dual emphasis on impact and financial returns. NGO impact funds and non-NGO impact funds do not clearly differ in the relationship between impact linked to employee compensation. But, given the complexity of this relationship, more research may be necessary to fully comprehend the variables impacting the incorporation of impact criteria into pay.

Regarding the questions of NGO impact funds use additionality in an efficient manner to avoid purpose washing, the findings find partial support. When comparing NGO impact funds to their non-NGO counterparts, it is easier to see how the idea of additionality plays a role in the operations. This is explained by the underlying factor that an NGO was present during the establishment of these funds. Because of their mission-driven beginnings, NGO impact funds naturally give priority to additionality in order to guarantee that their investments provide real social and environmental benefits. On the other hand, non-NGO impact funds, which are frequently founded with substantial backing from the financial industry, could not place as much emphasis on additionality as it might underscore the financial viability of an investment.

By identifying naturally occurring clusters within the dataset where specific patterns fit in and correspond with the anticipated operational procedures of NGO versus non-NGO impact funds, the exploratory cluster analysis provides additional evidence in favour of these conclusions. But the data also reveals several areas that need more research, especially when it comes to the subtle ways in which various funds balance effect and financial returns. These findings pave the way for additional research, especially when it comes to examining the factors that influence the strategic decisions made by various kinds of impact funds.

To sum up, this research sheds light on the unique ways that NGO impact funds operate, especially when it comes to applying additionality and setting impact priorities. Though there are issues with fund term flexibility and incorporating impact measurements into employee compensation that the impact investing space as a whole faces, NGO impact funds show a higher dedication to attaining significant social and environmental benefits. These results highlight how crucial it is to comprehend the various ways of implementing impact that influence the methods used by various kinds of impact funds.

## 8 Discussion

First, it is important to emphasise that the factors that non-NGO funds prioritise are not the focus in this research as much as the behaviour of NGO funds. The criteria prioritised by other funds is not analyzed, as a large variety of other factors, that are not tested could influence these decisions. The focus is on creating a better understanding of NGO impact funds' distinct decision-making procedures.

The acceptance of hypothesis 1's can be explained by the underlying reasons discussed in the literature on NGO impact investing. First, NGOs generally focus on one or more specific themes that result in certain goals they want to achieve (Wagemans, 2013). A good example given here is mentioned by Impact fund B in the interview, as their impact goals is in line with the NGO. This focus provides a logical explanation on why NGO impact funds prioritise the criteria "well aligned with defined impact goals of the fund", as these funds might experience a roll-over effect of the NGO that was present during the origination. The NGO impact fund takes over this specific goal and therefore implements it in their target selection criteria. Moreover, Wagemans (2013) explains that one of the main motivations for NGOs to set up an investment vehicle as an impact fund, is to increase the influence of the NGO in areas where this NGO is active. This finding supports this relationship, as this roll-over effect was also one of the reasons NGOs started with setting up funds. This also provides a form of assurance for NGOs that indirectly having influence through an impact fund is indeed effective. This assurance could be of value, as it confirms that in the first phase the NGO mission is aligned with that of the originated impact fund

and it supports the validity and efficacy of using impact funds as strategic tools.

Additionally, insights from the interviews conducted showed that both NGO funds explicitly mentioned their defined impact goal, while in contrast, the other two funds showed a broader perspective on the impact they aimed to achieve. Both NGO impact funds mentioned that their selection criteria was also linked to this. This combined result also creates the subtle assumption that having a defined impact goal supports the implementation and emphasis of impact criteria during target selection. With a specific impact topic/theme in mind, it could be more straight-forward to select investments on this criteria, eventually making it more tangible and easier to prioritise.

An explanation on why NGO impact funds prioritised the criteria of "neglected by other financiers" can be partly found in the journal published by Amplifyii (2018). The role of NGO impact funds is underlined as crucial in areas of the market where traditional financiers back away because of the perceived risk levels. Because of their broad networks, NGO impact funds might be more able to act as an important shareholder to facilitate these transactions for under served social and/or environmental enterprises. The interviews also showed that both NGO funds emphasized their additional role, highlighting the importance of supporting businesses that are overlooked. This view on achieving impact through additionality was less prominent in the interviews with the two other funds. Including the result of the survey, an assumption may arise that linking impact to this concept of additionality is something that may not yet be a well implemented criteria in the impact investing landscape. However, the survey result indicates that it already receives higher priority within NGO impact funds, in line with the statement made by Amplifyii (2018), and that this crucial role in phase 1 is reflected in their investment criteria prioritisation.

For phase 2, since there was no significant relationship between having an open fund term and having an NGO at the time of origination, hypothesis 2a could not be accepted. This result is against the assumption that by applying the notion of patient capital, NGO impact funds prioritise impact. On the other hand, an estimated odds ratio showed that the likelihood of an open fund period is higher for NGO impact funds. Due to the focus of this research, the assumption was made that the presence of an open fund term automatically lead to the accommodation of patient capital. Therefore, to understand the result, it is important to analyze the outcomes irrespective of whether the fund is an NGO impact fund or not. Less than half of the respondents (10 out of 21) reported having an open fund term, indicating that having an open fund is not yet a widely accepted characteristic within impact investing. A possible explanation for the not significant relationship and the low presence of open fund terms is the fact that in the literature on time horizons (e.g., by Cole et al., 2023) it is highlighted that a longer investment period is associated with impact investing. This does not specifically addresses the link with having an open or closed fund term. Moreover, as mentioned in the interview with Impact Fund B, the structure of an closed fund term when labeled as an impact fund is one of the most illogical decisions a fund can make. It raises the question why closed fund terms are still such a large thing within this landscape.

An example from the interviews might be used to support the lack of a significant relationship and lack of more open fund terms. Impact Fund A specifically mentioned that they can more easily adopt a flexible fund term because they only invest with their own capital. They pointed out that a closed fund term is mainly required to provide investors a greater sense of physical investment; this requirement can be removed when fund managers contribute the capital themselves and do not have to attract external LPs. This highlights an important reason why certain funds can choose to use an open fund term. A Fisher's test further supports this link by showing that, for this sample size, own capital always leads to an open fund term. This result highlights a fascinating facet of the conversation that is not addressed in this research: the function of other stakeholders, such as LPs, and their impact on impact fund operations. The additional cluster analysis also underlines this relationship, as it is found that cluster 2, with higher

presence of NGO capital, has more open fund terms and the longest holding period (7+). Future research on this topic would be interesting because the type of fund term and the type of LP involved are related, and this was not further explored in this study.

Considering the exit criteria and hypothesis 2b, a word analysis revealed a pattern: when questioned about exit criteria, NGO impact funds never fail to emphasise impact. They also rarely (though not always in the same terms) indicate the end of additionality. This conclusion is consistent with Hypothesis 1, which found a connection between these phrases and NGO impact funds. There's not much evidence in the literature to support the precise linkage of additionality to exit criteria. But going further into its fundamental meaning—which is essentially defining an impact form—it underlines the connection between impact and exit criteria. The Cerise-SPTF (2024) article emphasises that defining oneself as an impact fund ought to align with a focus on attaining and sustaining impact when contemplating exit strategies. Furthermore, it is emphasized that an impact investor is expected to combine both financial and impact aspects because of their dual focus.

The findings show that when asked about factors that drove previous exits, none of the non-NGO respondents—aside from one—mentioned impact. One could read this as worrying. Impact is not taken into account throughout the exit phase, which suggests that other factors—like making money and generating liquidity—continue to be prioritised. This pattern indicates that although NGO impact funds follow their objective to prioritise impact, other funds could continue to focus largely on financial results during the exit decision-making process. As previously mentioned, this study solely focuses on the distinction made between NGO impact funds and other funds and therefore no deep dive is done on the lack of impact playing a role during exit decisions. This gives a possible suggestion for more investigation and enhancement, stressing the necessity of a well-rounded strategy that incorporates both financial returns and impact in the exit plans of all impact investors.

Testing hypothesis 3, which looked at the relationship between attaching an impact aspect to employee compensation, no significant relationship was found. It even turned out that non-NGO impact funds would have been more inclined to include an impact element in employee compensation if there had been a significant relationship between the two. This result is at odds with previous research, particularly that of Balinda (2016), who highlighted that the lack of an impact component in the employee compensation plan of an impact fund is indicative of not-aligning business operations from an impact standpoint. Why shouldn't fund managers receive incentives based on KPIs that complement the fund's dual focus?

Some interview responses already hinted at this outcome of the hypothesis: achieving carried interest, according to NGO Impact Fund B, is irrelevant because their investments frequently don't produce large returns. Moreover, NGO Impact Fund A emphasised that their impact-first business strategy does not align with the presence of an employee compensation system. In a similar way, Impact Fund B declared that they had no carried interest since they don't think financial rewards are appropriate for an impact fund. In line with this, according to survey data, five of the twelve funds that do not linked carried interest with impact mentioned they do not have a carried interest structure at all. This finding raises an interesting question: when should impact funds stop using structures similar to PE and VC? Is adding an impact factor that leads to employees receiving financial reward ultimately the same in essence? Does the focus on money rewards stay in place in this way? The distinction is that while the fund's objective is supported differently, the reward is still given. These findings imply that although impact-oriented compensation seems to have a clear intention, its actual execution and alignment with real impact objectives are multidimensional. It raises questions on the legitimacy of using bonus and carried interest structures in the first place.

This leads us to a fundamental question regarding impact funds' purpose: should their design and

methods actually set them apart from ordinary funds? Or should they adopt comparable structures in order to continue drawing in and persuading investors, given their need to exist inside the limits of economic laws? An example of this is the necessity by many LPs for funds to have a carried interest component. This criterion is based on the idea that carried interest encourages staff members to optimise the performance of the fund. This necessity to implement VC/PE-like structures is also mentioned in the interviews, as Impact Fund A mentions the reason for using financial metrics is because everyone in the financial world works like that. Similarly, NGO Impact Fund B explains the reasoning behind a closed fund-term was to follow a similar to PE life cycle. On the one hand, implementing traditional structures like carried interest could appear incompatible with impact funds' mission-driven values. However, in the absence of such procedures, these funds may find it difficult to acquire the expertise and funds needed to run efficiently. Finding a sustainable strategy that honours the distinctive objectives of impact investing while yet appealing to conventional investors is a challenge.

This study's cluster analysis raises new questions that need to be investigated further and provides a number of important insights that are consistent with the conclusions of previous investigations. The relation between NGO involvement and the investment time horizon is one area where the cluster analysis agrees with the information obtained from previous tests. The results verify that NGO impact funds typically have longer time horizons than non-NGO funds. This is consistent with findings from earlier experiments that demonstrated the need for longer investment periods because NGO impact funds frequently prioritise long-term social and environmental objectives.

The correlation between impact results and employee compensation is another area where the cluster analysis and other findings agree, against the stated hypothesis. The preceding finding that non-NGO impact funds are more likely to link reward structures to impact metrics is supported by the cluster analysis. This conclusion makes sense considering that NGO impact funds might not have the pay plans required to establish these connections, which would explain their automatic refusal to answer questions about it. Crucially, this does not necessarily mean that NGO impact funds prioritise impact less; rather, it can be an indication of structural variations in the ways in which these funds function, especially with regard to the form and measurement of compensation.

The ranking of investment criteria is the area where the cluster analysis sheds light. Although there is a clear general consistency between these criteria and the expectations and assumptions developed in Phase 1, a closer look at cluster 2 reveals a distinction. This cluster shows that there is a sizable amount of NGO capital invested in the fund, even though it is unclear whether NGOs are involved or not (more towards NGO involved). Although it wasn't the main focus of the study, the distinction between an NGO's involvement during the origination and its role as an LP could have significant effects on how impact is incorporated into the fund's strategy. This observation suggests that the nature and timing of NGO involvement may influence the degree to which impact goals are prioritised and executed within the fund's operations.

An unexpected finding in cluster 3, where greater NGO involvement is observed, is the reduced emphasis on aligning with a defined impact goal. This outcome deviates from first assumptions, which were that the NGO's presence would result in a closer alignment of its effect goals with the fund's. One possible explanation is that a greater emphasis on adhering to these impact goals can occur when an NGO also makes capital investments in the fund. This implies that NGOs' roles in a fund—as investors or as founders—might have differing effects on how impact goals are prioritised. A difference between cluster 2 and 3 is the focus of cluster 3 on the criterion "neglected by other financiers," which appears prominently in this group. A preliminary explanation for this could be that the distinction arises from the lower presence of NGO capital, leading to a shift in focus towards impact metrics that have broader applicability across the landscape, such as additionality. This distinction between how an NGO is

involved and the relationship with how impact is implemented in target selection offers an interesting suggestion for further research.

Lastly, a surprising criterion that shows up in cluster 3 is the importance of stable cash flow for the following 18 months. It is surprising yet interesting and, when looking from a different perspective, also logical to combine the two strategies of focusing on steady cash flow and pursuing investments that other financiers have overlooked. Stable cash flow becomes essential while concentrating on additionality and funding businesses that are disregarded by others. This is because these kinds of investments are probably riskier; nevertheless, a steady cash flow acts as a safety net against this risk, keeping the investment viable even while it achieves its effect goals. As explained earlier, impact ventures might lack the ability to show appropriate financial metrics, making them often overlooked. A deep dive into which financial metrics can be applied by impact funds to still mitigate a part of the risks while still including this group of investments is another suggestions for further research. In this study, only stable cash-flow forecast was considered, based on the outcomes of the interviews.

To finalize the discussion, the overarching question frequently recurring in the literature, interviews, and ongoing discussion on impact investing: what does it entail to be an impact investor? In this study, the focus is on prioritising impact over financial return, but this does not mean that one can be seen as an impact investor and the other not. Because in reality, this is not exactly in line with the definition, as the focus is on both sides. This raises the question of whether the current definition of impact investing, with a dual focus on impact and financial return, truly aligns with the role that impact investors are meant to fulfill by addressing today's global challenges. And if this definition gives room for funds to take advantage of the impact label, referring to the phenomena of purpose-washing. An interesting suggestion for further research could be a study more focused on linking definitions of impact with operational practices, to shed more light on what is really happening within the funds. An example here is looking at impact from the opportunity to scale point of view versus an opportunity to be additional point of view.

To conclude, the continued discussion on how impact funds should structure their operational practices is essential to impact funds' development and legitimacy within the larger financial community.

## 9 Limitations

When evaluating the results, it is important to take into account the limitations of this study. First, impact funds that are based in the Netherlands are the main subject of this study's geographic focus. Although this offers insightful information on the impact investment landscape in the area, it limits the findings' generalisability. The ways that impact investing methods are implemented might range greatly depending on the regulatory framework, cultural norms, and market conditions in a given location. As a result, the findings of this study might not apply directly to other areas with dissimilar socioeconomic circumstances and legal systems.

Second, there are significant difficulties because of the methodological limitations that come with the mixed-methods approach. Interviewer bias and the subjective interpretation of replies are potential risks in the semi-structured interview phase of the qualitative phase. This may compromise the findings' objectivity and restrict their applicability. Furthermore, self-reporting biases could cause respondents to give socially acceptable answers rather than truthful reflections of their behaviour, which could taint the quantitative survey data.

Third, there are intrinsic limitations to the statistical tests used in the study, including the Welch Two Sample t-test and the Shapiro-Wilk test. In particular, the small sample size may have an impact on

the precision and power of these statistical tests, which may make it difficult to draw firm conclusions. Therefore, even though the statistical analysis offers insightful information, it is important to recognise the limitations of these tests and proceed with caution when interpreting the results.

Lastly, as the impact investing landscape is still rapidly growing and evolving, a lot of concepts and definitions are interpreted differently among actors active in the field. Defining impact is hard and leaves up to a lot of space for filling in what is impact and what is not and what it entails to be an impact investor. This sometimes makes it hard to really generalize results as this ambiguity exists for all interviewees, respondents, and even for the author writing this.

# Appendix

## Interviewees overview

Name	Focus	Capital source	Date & Duration
Impact Fund A	Widespread	Own capital	27/05/2024 - 70 min
NGO Impact Fund A	Carbon reduction	Own capital	27/05/2024 - 50 min
Impact Fund B	Widespread	External	11/06/2024 - 45 min
NGO Impact Fund B	Healthcare in Africa	External	12/06/2024 - 65 min

## Interview questions outline

General Information (5 minutes):

1. Can you provide a brief introduction of yourself?
2. Briefly introduce the fund you work for:
  - o How long has it been established?
  - o Origin of the fund?
  - o Number of employees?
  - o Fund size?
  - o Focus on the Netherlands or Europe or other?
  - o Classification of the fund (NGO or non-NGO)?

Topic 1 – Target Selection (10 minutes)

1. Small introduction
2. Can you walk me through the steps of the investment opportunity selection process?
3. What are the main criteria your fund uses when selecting investment targets?
  - o Are there main categories that are distinguished?
  - o Are different weighting factors used per selection criterion?
  - o Do you see a difference in the number of financial or impact-related criteria?
4. When it comes to making tough decisions, are there specific criteria that take precedence?
  - o Can you give me a (hypothetical) example of a difficult investment choice and how the selection criteria were applied?
5. What is your view on the selection process of the impact fund you work for, compared to other impact funds?
  - o Do you see differences in priorities on different selection criteria?

Topic 2 – Exit Criteria (10 minutes)

1. What is the typical time horizon for your investments from initial funding to exit?
  - o What are certain criteria you use to test if an investment is ready for exit?
  - o Profitability?
  - o EBITDA positive?
  - o Achieved social impact goals/achieved additionality?
2. How flexible are you with this timeline depending on achieved impact?
3. Does your fund has an open or closed fund term?
4. Can you provide a (hypothetical) example of an investment making an earlier/later exit than expected?
5. What is your view on your exit mechanism compared to other impact funds?
  - o Do you see differences in types of impact funds and investment time horizons?

### Topic 3 – Impact Element in Performance Assessment of the Fund (10 minutes)

1. How does the fund measure the success of its investments?
2. Do your performance evaluations include specific impact metrics? If so, what are they?
3. Are these impact measurements considered in determining the success of an investment?
4. Are these impact measurements also considered in employee compensation?
  - o Think of a carried interest structure.
5. Are there other ways the achievement of certain impacts is rewarded or compensated?
6. What is your view on your performance assessment, regarding the inclusion or exclusion of an impact element in measurement and compensation, compared to other impact funds?

### Survey questions

1. Do all these criteria apply to the organisation you work for: - Referred to as an impact fund
  - A) Yes
  - B) No
2. Please fill in the name of the organisation you work for (If you wish for your company to remain anonymous, please feel free to indicate so):
3. Please fill in the location (country) of your organisation's headquarter and if it has an office located in the Netherlands:
4. Could you briefly indicate your job title and role at your current company?
5. Could you briefly indicate your job title, role, and the type of company you worked at before joining this company?
6. Could you indicate which types of organisations were involved in the establishment of this impact fund?
  - A) Philanthropic foundations and/or NGOs
  - B) One or more families
  - C) Private investors, and/or commercial banks, and/or financial institutions
  - D) Other

If you choose answer D) Other - could you please specify what type of actor(s) was (or were) involved during the origination of the impact fund:

7. Could you specify how the fund is financed and name the three largest sources of capital? (e.g., family capital, private investors, own capital etc.)
8. When selecting potential investments, which investment criteria are prioritised (RANK on a scale from 1 to 6, where 1 = highest priority, 6 = lowest priority)
  - Stable cash flow forecast: The company should have a clear and stable cash flow forecast for the next 12-18 months.
  - Clear market: There must be a large group of people experiencing the problem that the company aims to address, ensuring impact on this level.
  - Independence from subsidies: The company must be able to operate according to established economic laws, without reliance on subsidies.

- Alignment with defined Impact Goals: The innovation or company must align with the specific impact goals defined by the fund.
- Potential catalyst for other companies: The company should have the potential to act as a catalyst for other businesses.
- Neglected by other financiers: The innovation or company should be one that other financiers are not currently considering

9. Does your fund have a closed fund term?

- A) Yes
- B) No

If A) Yes - please specify the fund term (e.g., 10+1+1 years)

10. What is the typical holding period for an investment in the fund you work for:

- A) 0-3 years
- B) 3-5 years
- C) 5-7 years
- D) 7+ years

11. Briefly explain why this is the case:

12. Have you exited an investment in the past, and what were your main reasons for this exit? Please name three reasons:

13. Does your organisation have impact metrics (e.g., for measuring social and/or environmental impact) in place?

- A) Yes
- B) No

14. Is the employee compensation (e.g., bonus/ carried interest/ management fee) linked to the impact metrics?

- A) Yes
- B) No

15. If A) Yes - please describe briefly how this mechanism works in the company you work for, if B)No - please explain reasoning for this:

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