

Managing Societal Performance of Impact Investing: An Action Research Inquiry

Thomas ANDRE, PhD
AFG - January 25, 2016

Motivation & Research question

- **Impact investing** emerges as a new asset class of social finance
 - Investments that create positive societal value beyond a financial return (Höchstadter & Scheck, 2014)
 - From USD 46bn in 2014 (Saltuk et al., 2014) to USD 400bn in 2020 (O'Donohoe et al., 2010)
- **Similar “Hybrid” organizations** face potentially conflicting logics (social welfare & commercial logics)
 - E.g. Microfinance institutions (Battilana & Dorado, 2010), Social enterprises (Pache & Santos, 2013), and Socially responsible Investment (Arjaliès, 2013)
- Impact investing funds face **conflicting logics**, mostly from their own investors:
 - Minimum internal rate of return
 - High level of expectations to deliver societal return
 - Limited share of organizational and management fees to monitor each investments

**How impact investing funds are building accountability and legitimacy
towards social welfare and profitability?**

Literature overview – Strategic responses to institutional pressures

- **Institutional theory** predicts isomorphism:
 - Organizations adopt the rules of their institutional environments to gain legitimacy (DiMaggio & Powell, 1983)
 - Isomorphism can be overcome by “decoupling”, i.e. symbolical commitment without adopting required practices (Meyer & Rowan, 1977)
 - Empirically speaking, social innovation organizations tend to combine or adopt both intact logics
- **Resource dependence theory** predicts a multiplicity of resistive responses to pressures:
 - Organizations critically depend on others for the provision of resources, and must conform to their pressures (Drees & Heugens, 2013)
 - Resistance is possible through inter-organizational arrangements and negotiations, leading to autonomy and legitimacy (Drees & Heugens, 2013)

Strategic responses to institutional pressures

Analytical framework

- Typology of **strategic responses** to institutional pressures (Oliver, 1991):

Passive Conformity ←————→ Active Resistance

Acquiescence

Habit
Imitate
Comply

Compromise

Balance
Pacify
Bargain

Avoidance

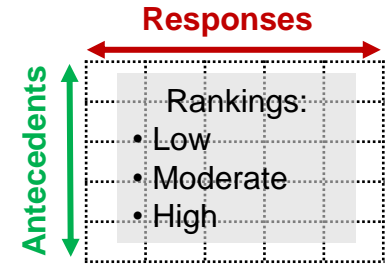
Conceal
Buffer
Escape

Defiance

Dismiss
Challenge
Attack

Manipulation

Co-opt
Influence
Control



- **Institutional antecedents** of pressures:

- **Cause** (Legitimacy & Efficiency): Why pressures are being exerted
- **Constituents** (Multiplicity & Dependence): Who is exerting the pressures
- **Content** (Consistency & Constraint): What are the pressures (in terms of norms or requirements)
- **Control** (Coercion & Diffusion): How or by what means are the pressures exerted
- **Context** (Uncertainty & Inter-connectedness): Where the pressures occur (in terms of “environmental” context)

- Empirically validated on MNCs and International Accountability Standards (Jamali, 2010)

Action research

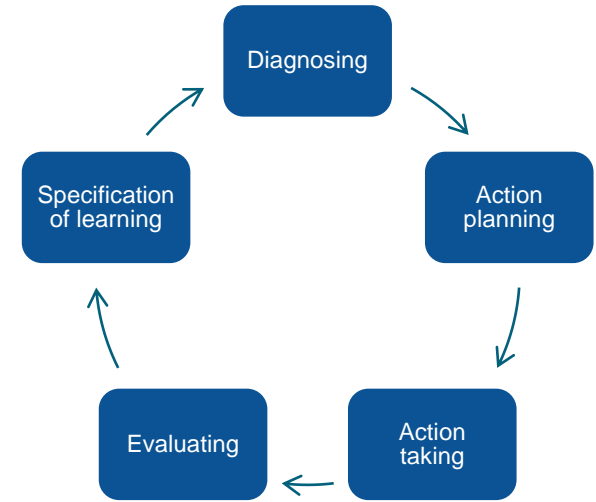
In-depth studies of Schneider Electric BoP strategy and its Impact Investing fund

- **Action research methodology**

- “Action research aims to contribute both to the practical concerns of people in an immediate problematic situation and to the goals of science by joint collaboration within a mutually acceptable framework” (Rapoport, 1970)
- Insider position & active member status:
 - 4-year partnership (2011-2015) with the Sustainable Development department of Schneider Electric
 - Working as a Business Development and Societal Performance Manager for the Access to Energy program

- **Provide a unique descriptive study on shared value creation:**

- Economic value: MNCs dynamic positions towards the BoP
- Societal value: performance monitoring across the BoP investment chain

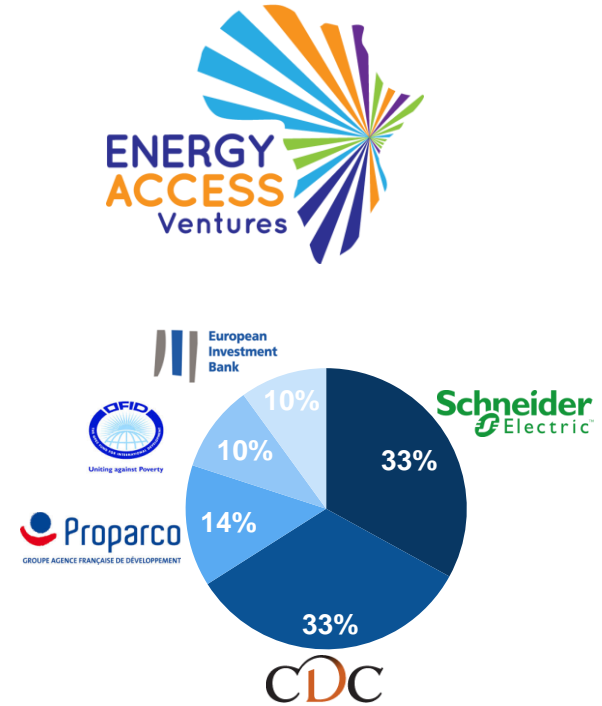


Cyclical process of action research
(Susman & Evered, 1978)

Energy Access Ventures fund

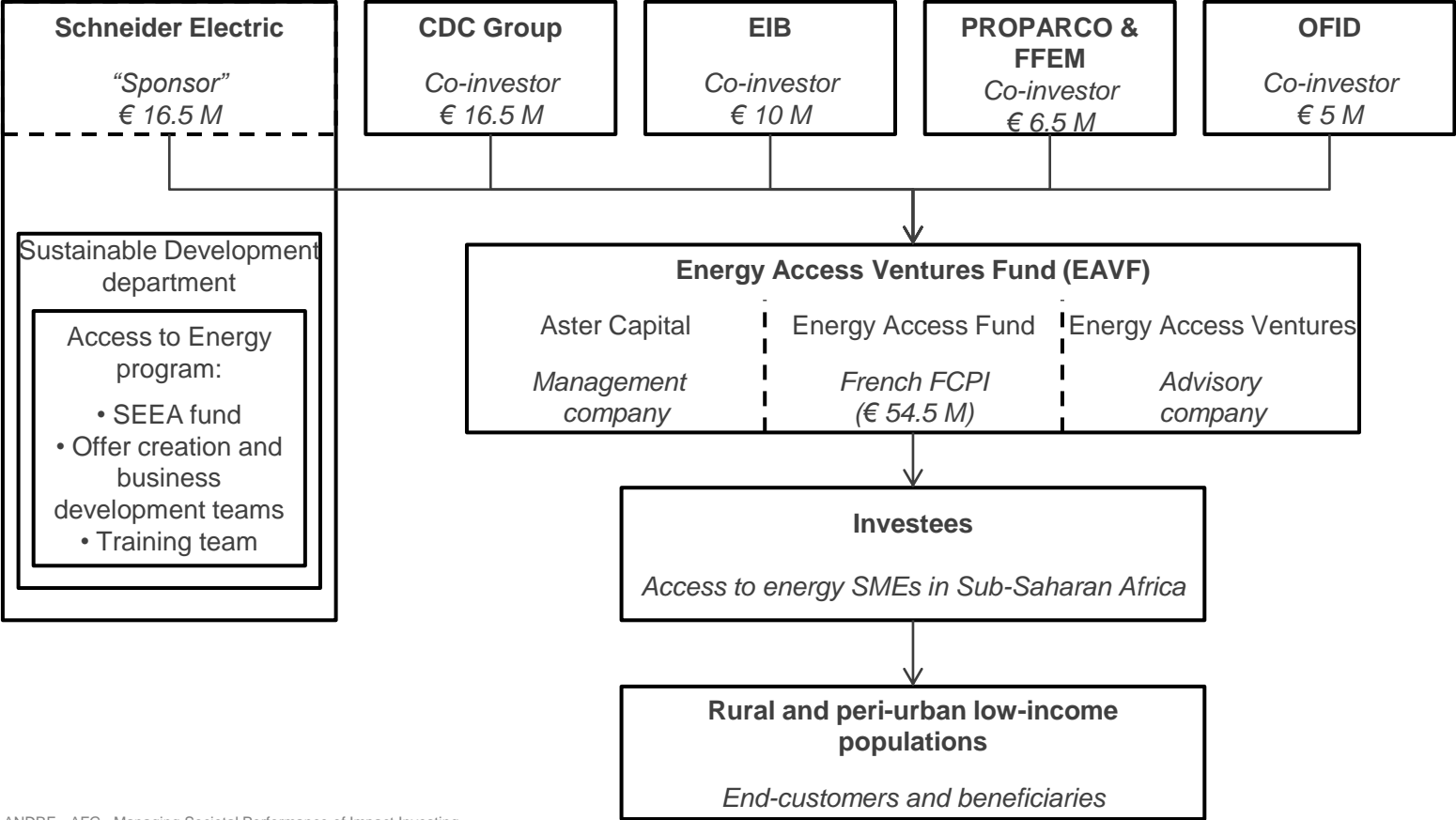
Impact investing in Sub Saharan Africa

- **Size:** € 54.5M
- **Targeted investees:** 15 to 25 access to energy companies
- **Geography:** Sub Saharan Africa (650 M people without access to energy)
- **IRR objective:** 6% to 10%
- **Societal commitment:**
 - Provide electricity access to 1,000,000 low income individuals in rural areas
- **Asset classes and financial instruments:**
 - Mainly equity & debt; minority stakes; tickets ranging from € 500k to € 4,000k
- **Requirement from Development Finance Institutions to adopt a Societal Management Procedure**

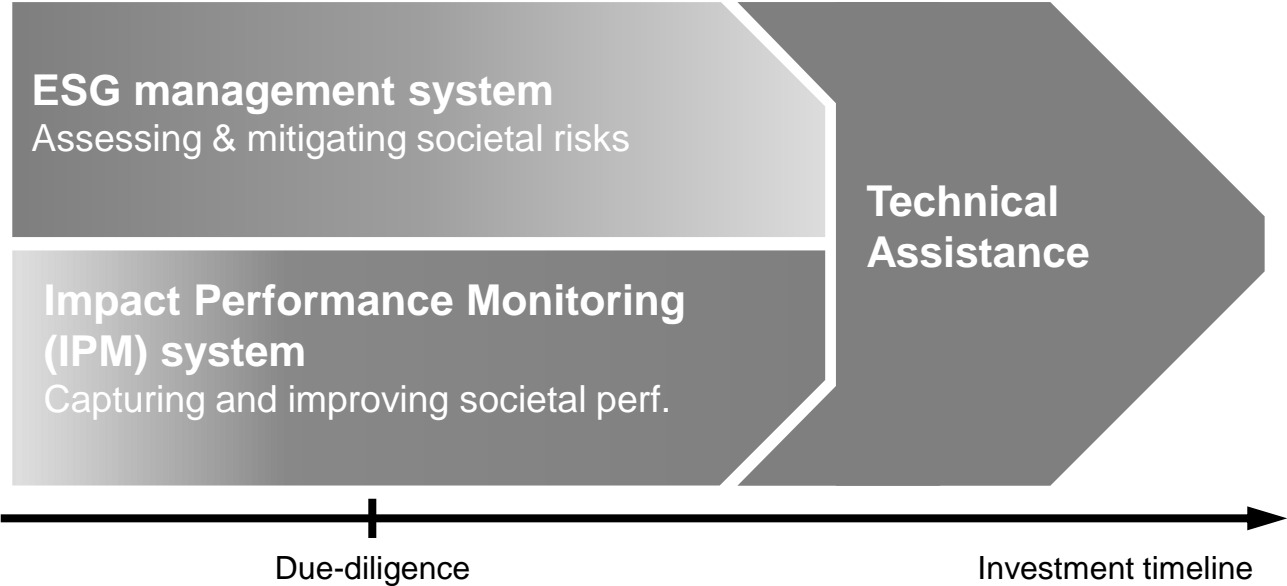


Energy Access Ventures fund limited partners

Organizational structure of EAVF



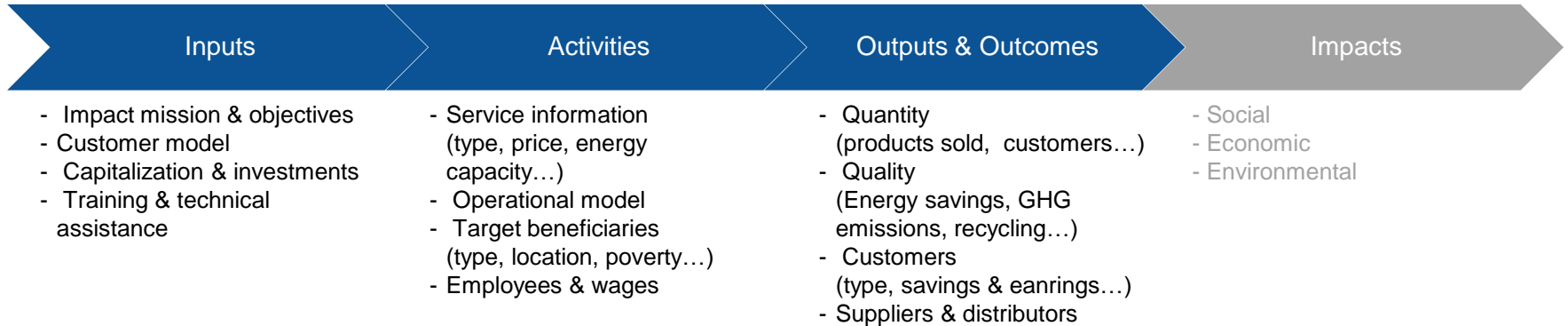
Societal management procedure overview



Towards an integrated procedure

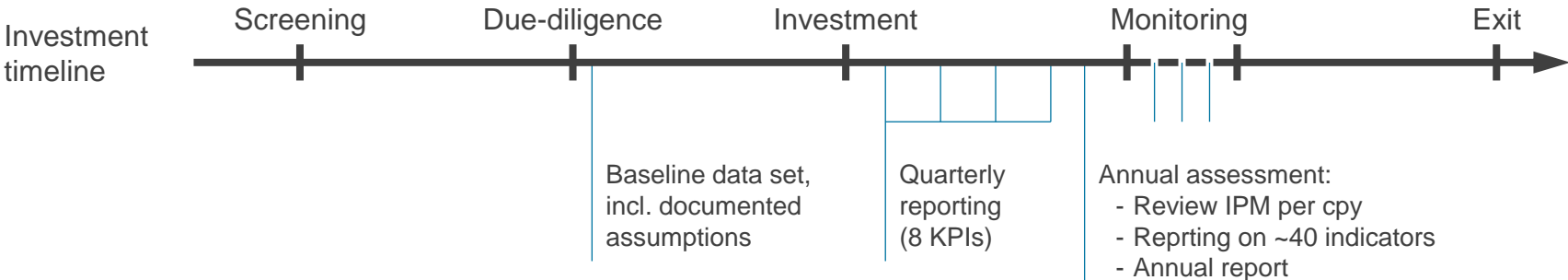
Towards an integrated procedure

- **Acquiescence phase:** Development of the Impact Performance Monitoring (IPM) tool
 - Based on the “logical framework” & IRIS indicators
 - Included in EAV fund’s investment procedure



- **Compromise phase:** Negotiation based on operational complexity and investors requirements
 - New compulsory indicators & quarterly reporting
 - Additional resources for long-term impact evaluations and technical assistance

Impact performance monitoring procedure



Conclusion

- **MNCs' legitimacy is scrutinized**
- Social impact evaluations appear inappropriate for MNCs (e.g. RCTs)
- Tracking social outcomes goes through **performance-oriented impact monitoring**

New research avenues

Come back on the findings
of the Action Research

- Viability of societal performance monitoring
- What learning from the SRI industry or venture-capital funds?

Interaction between economic
and societal value creation

- What tradeoff, interdependence or tensions ?
- Is there a profitability threshold to be reached for shared value creation?
- The effective contribution from the private sector to development and poverty alleviation

Questions?

THANK YOU.