



# Navigating the Ambiguity of Impact Investing: How Impact Venture Capitalists Access New Markets, Founders, and Capital

Christian Garmann Johnsen<sup>1</sup> · Johannes Lenhard<sup>2</sup>

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## Abstract

Despite the growing prominence of impact investing in both research and practice, the definition of social and environmental impact remains contested. Rather than resolving the elusiveness of impact, we examine how impact venture capitalists (IVCs) leverage this ambiguity in their everyday practices. Drawing on Michel de Certeau's philosophy of everyday life, we identify three tactical ways in which IVCs navigate this ambiguity. First, IVCs use ambiguity to move sideways into new markets, distinguishing themselves from traditional investors. Second, they tactically employ ambiguity to attract limited partner (LP) capital earmarked for impact investments. Finally, they leverage ambiguity to forge connections with founders of high-growth ventures, thereby gaining a competitive edge in deal-making. We discuss the ethical dimension of these tactics, highlighting how the normative question of what constitutes social and environmental change arises from the practical use of the ambiguous term impact. In doing so, we identify an ethical tension: while the flexibility of the term impact fosters new ways of thinking about social and environmental change, it also risks being used for purely financial gain. We conclude by reflecting on the implications of this ethical tension for both the practice and research of impact investing.

**Keywords** Impact investing · Ambiguity · Ethical tension

## Introduction

Following what has been called the “moral turn in finance” (Dal Maso et al., 2022), there is a growing emphasis on impact investing in both research and practice (Hockerts et al., 2022; Islam, 2022; Schlütter et al., 2024). Despite varying definitions, the Global Impact Investing Network (GIIN) provides an important point of reference, defining impact investing as “investments made with the intention to generate positive, measurable social or environmental impact alongside a financial return” (GIIN, 2020; see also Agrawal & Hockerts, 2021; Chen & Harrison, 2020; Cohen,

2020; Polman & Tomasdottir, 2021; Vogeley et al., 2023; Weber, 2016). While concerns about social and environmental issues in finance have existed for decades (Boatright & Peterson, 2003; Bril et al., 2020; Dal Maso et al., 2022; Giamporcaro et al., 2020), what distinguishes impact investing is the intentional use of financial instruments to create measurable social and environmental outcomes, such as supporting new businesses that help marginalized groups or promoting environmental conservation through green energy projects (Calderini et al., 2018; Hehenberger et al., 2019; Meng et al., 2022). Unlike investors who consider ESG, for instance as part of their risk evaluation or value creation activities both in public and private markets, impact investing typically involves investments in early- or growth-stage private companies (Golka, 2024).

As the focus on intentional social and environmental change through finance intensifies, a common understanding of what constitutes ‘impact’ remains elusive. Many commentators express concern that while financial impact can be quantified through monetary returns, indicators of social and environmental impact are contested, rendering the term impact investing ambiguous (Golka, 2024; Höchstädter & Scheck, 2015; Lehner et al., 2022). This ambiguity implies

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✉ Christian Garmann Johnsen  
cgj.bhl@cbs.dk

Johannes Lenhard  
jflenhard@gmail.com

<sup>1</sup> Department of Business Humanities and Law,  
Copenhagen Business School, Porcelænshaven 18A 2.20,  
2000 Frederiksberg, Denmark

<sup>2</sup> Affiliated Researcher Minderoo Centre for Technology  
and Democracy, Affiliated Lecturer in Anthropology  
and Sociology, University of Cambridge, Cambridge, UK

that the term can have multiple meanings, making it difficult to distinguish impact investing from other, non-impact-focused forms of investment. As a result, impact investing has been described as an “essentially contested concept” (Hockerts et al., 2022) with conflicting interpretations.

Despite acknowledging the elusiveness of impact investing, the existing literature has not adequately explored how fund managers navigate this ambiguity in their everyday practices. This gap is significant because ambiguity has real-life consequences for fund managers who are responsible for deploying investors’ capital in new ventures to achieve positive social and environmental change and the underlying companies. From the perspective of fund managers, the ambiguity of impact investing means that they often have to make contextual judgments about which investments have positive social and environmental effects without having access to commonly established standards (Hockerts et al., 2022). While the lack of commonly established standards for screening potential deals may make it more difficult for fund managers to determine what qualifies as impact, the ambiguity of impact may also allow them to adapt the term to find new investment opportunities that fit into an opportunistically adjusted definition of the term. Thus, our study aims to answer the research question: How do fund managers use the ambiguity of impact investing in their daily practices?

To address this question, we present an ethnographic study of impact venture capitalists (IVCs) who specialize in funding startups with economic, social, and/or environmental goals. We do so informed by Michel de Certeau’s (1984) philosophy of everyday life. Specifically, we examine how fund managers in venture capital firms with an explicit impact agenda raise capital from limited partners for investment in startups. Our study reveals that these fund managers often modify the notion of impact to serve specific purposes, in particular to legitimize investment decisions. Far from being hampered by the lack of common standards, the ambiguity of impact investing is proactively used to access new and growing markets, attract capital earmarked for impact from limited partners, and build relationships with founders of impact-focused companies.

De Certeau’s (1984) distinction between strategy and tactics allows us to frame the use of impact investing by fund managers in their everyday practice from an ethical perspective. This perspective does, in our view, not lead to a value-laden critique of impact investing from an external moral standpoint but rather aims to understand how the normative question of what should be considered social and environmental change arises from the use of the ambiguous term ‘impact’ in practice. Ambiguity thus implies that impact investing does not, right now, prescribe fixed, codified courses of action for investors (and companies). Instead, dealing with ambiguity makes the use of impact investing in practice inherently normative, as actors have to rely on

“subjective value judgments” (Hockerts et al., 2022, p. 939) in figuring out what positive social and environmental impact means in their specific context. Here, the ethical dimension of tactics lies in their ability to open up new ways of making a difference beyond conventional understandings.

The contribution of this article is to locate a practical ethical tension created by the definitory ambiguity of impact investing: the manipulation of impact investing can open up the possibility of using it for new purposes, but it can also be used for purely economic gain without the implied concern for social and environmental change. By examining how fund managers like IVCs are appropriating the impact agenda, we find that the openness of what counts as impact creates opportunities for new interpretations of what impact investing can be. However, this same openness also poses the risk that impact investing can be exploited for purely financial gain, with insufficient regard for social and environmental objectives. This is what commentators have called ‘purpose-washing’ (Findlay & Moran, 2019) or ‘impact washing’ (Golka, 2024). In turn, this can have the negative consequence of eroding stakeholder trust as the term ‘impact’ is ascribed without reflecting substantial impact practice. As a result, our ethical framework highlights how the ambiguity of impact investing allows the term to be used in new ways, with both the potential for novel engagement and drawbacks. Rather than resolving this tension, we argue that the ethics of impact investing involves a constant negotiation in practice between finding new ways to understand what impact can entail and ensuring that the term impact does not dissolve into impact washing. Rather than constraining the concept to a single meaning, the challenge is to keep the concept transparent and open to new interpretations while still being able to specify, case by case, what impact entails—what we call a balance between accountability and flexibility.

On this basis, we offer an ethical perspective on the social dynamics of impact investing by providing insights into how fund managers use the ambiguity of impact as a resource in their daily practices. While previous research has highlighted how managers can exploit ambiguity to pursue their interests (Meyer & Höllerer, 2016), we theorize the specific tactics impact venture capital funds use in their everyday practices. By zooming in on these tactics, we provide a deeper understanding of the ethical tensions inherent in impact investing. To build our argument, we first review the literature on impact investing and examine how scholars identify the considerable ambiguity associated with impact investing. Next, we introduce De Certeau’s distinction between strategy and tactics, which forms the basis of our analytical framework. We then outline our methodology. The analysis that follows focuses on three ways in which IVCs use ambiguity as a resource. Finally, we discuss the implications of our findings and call for further research into this field.

## What Does Impact Actually Mean?

The term ‘impact investing’ was ostensibly coined at a meeting at the Rockefeller Foundation in 2007 (Arjalès & Durand, 2019; Calderini et al., 2018; Dagggers & Nicholls, 2016; Hebb, 2013). Since then, the term has gained tremendous momentum in the financial industry (Logue & Grimes, 2022), with an estimated market value—across all impact asset classes, both public and private—of \$1.16 trillion in 2021 (GIIN, 2022). At the heart of impact investing is the idea of “taking a proactive approach, actively identifying companies with the intention of achieving a financial return and creating a positive social or environmental impact” (Quinn & Munir, 2017, p. 118).

Despite ongoing attempts to clearly define the concept, the meaning of impact investing remains elusive and contested (Höchstädter & Scheck, 2015; Lehner et al., 2022). While some call for the establishment of more precise indicators of impact investing (Finlay & Moran, 2019), others view the search for impact standards as a “quixotic pursuit” (Clarkin & Cangioni, 2016, p. 140). One question is how precisely to define impact investing, as it arguably overlaps and resonates with neighboring concepts such as sustainable investing, double or triple-bottom line investing, community finance, green investing, ethical or sustainable investing, and ESG (environmental, social, governance).

To avoid conceptual confusion, Roundy et al. (2017) suggest that socially responsible investing often involves investments in a broad portfolio of companies, whereas impact investing typically consists of direct investments in early- or growth-stage ventures. However, while scholars agree that impact investing involves a commitment to economic, social, and environmental goals, how these impacts are measured is open to interpretation. As Agrawal and Hockerts note, “measurements of financial outcomes are standardized and easily verifiable, but measurements of social impact and social value creation are not standardized and [are] difficult to authenticate” (2021, p. 18).

The lack of standardized, measurable indicators of social and environmental performance also poses challenges for related approaches, including socially responsible investing (Sparkes & Cowton, 2004) and sustainable investing (Bril et al., 2020). For example, there is confusion in the environmental, social, and governance (ESG) space because rating agencies sometimes rate the same (public) company differently, allowing investors to pick and choose ratings that support their investment portfolio (Berg et al., 2019). In addition, available metrics are sometimes underutilized (Phillips & Johnson, 2021). Impact metrics, such as those proposed by industry bodies like the

GIIN with its IRIS + taxonomy, are similarly controversial, for instance around problems with their scalability and comparability (Reeder et al., 2015). Indeed, there seems to be a failure to establish a common language that allows scholars and practitioners to work from a set of shared definitions, and thereby to scrutinize concrete practices along established lines.

This ambiguity of impact investing is not due to the failure of theory to adequately represent practice. Rather, the ambiguity is inherent in the practice itself (Golka, 2024). Despite the fact that the various standards used can be controversial and conflicting (Berg et al., 2019), ESG investing allows investors to rely on indexes and standards offered by third-party data providers that can be used to rank publicly traded companies according to their social and environmental performance. However, because impact investing often consists of investing in smaller companies, such as startups, that do not have a public record of environmental and social performance, investors often must make decisions in the absence of predetermined data (Golka, 2024). Golka (2024) argues that this ambiguity has epistemological implications for knowledge production in impact investing, as impact investors are free to draw the boundaries of what qualifies as impact. Often, impact investors engage in what Golka calls gerrymandering—that is, “tailor ideas—what they refer to as green, sustainable, or impactful—to a given portfolio of financial investments, and/or when they change the meanings of these concepts as their portfolio changes” (2024, p. 3).

What we add here is that the ambiguity of impact investing also has ethical implications because it places impact investors in the normative position of having to make value-laden judgments about whether a given investment should be considered impactful or not based on how ‘impact’ is contextually defined. This allows us to frame the use of impact investing from a normative perspective: the use of impact involves value judgments about what positive social and environmental change entails (Hockerts et al., 2022). Ethics emerges here as a concern with how impact can be used differently, opening up new understandings of how to create social and environmental impact. At the same time, we also locate an ethical tension, as ascribing impact can easily be (ab)used exclusively for financial gains.

## The Tactics of Impact Investors

While there have been many calls for clarifying the meaning of impact investing, we explore how this ambiguity manifests itself in the practices of (venture capital) fund investors as they proactively use the elusiveness of the term impact. In order to gain insight into how fund managers navigate the ambiguity of impact investing in their daily practices,

De Certeau's (1984) distinction between strategy and tactics proves valuable as it allows us to understand how actors maneuver within the social structures that surround them (Buchanan, 2000; Hjorth, 2004, 2005). De Certeau defines strategy as the "calculus of force-relationships" (1984, p. xix) found in the rationalities that govern politics, economics, and science. As Dey and Teasdale note, strategy "represents the perspective of the dominant order which prescribes what is appropriate or desirable" (2015, p. 489). Strategy assigns social actors a "proper locus" (De Certeau, 1984, p. 37)—a place within the social fabric defined by tasks, expectations, and responsibilities (Hjorth, 2005; Johnsen, 2021). From this perspective, impact fund managers are institutionally expected to fulfill a dual obligation. First, they have a legal fiduciary duty to generate financial returns for asset owners or limited partners (LPs) whose money they manage. Second, they are expected to invest in companies that have a positive social and environmental impact. Therefore, at a strategic level, making an impact by creating positive social and environmental change is a normative expectation that fund managers with a self-proclaimed impact profile must consider.

De Certeau argues, however, that normative expectations do not dictate the actual actions of social actors. Instead, he introduces the concept of tactics to highlight how social agents creatively manipulate strategic projects and the normative demands imposed on them in their everyday practices. De Certeau (1984, p. xix) contends that "everyday practices" are "tactical in character" because they often involve "clever tricks" in which social actors manipulate words, for example, to serve functions beyond their strategic intent. Everyday practices of activities such as reading, writing, or speaking have a creative dimension that can only be captured by studying the tactics people employ in their everyday affairs.

While the concept of strategy recognizes the existence of power structures, de Certeau sees tactics as a means of drawing attention to the ways in which users of cultural artifacts and symbols, such as language, books, or films, are not passive recipients but active producers of these artifacts and symbols. Consequently, he asserts that "between the person (who uses them) and these products (indexes of the 'order' imposed on him) there is a gap of varying proportions opened by the use he makes of them" (de Certeau, 1984, p. xx). The fact that products and concepts can be used differently makes consumption and application active processes.

In particular, the distinction between strategy and tactics is useful in exploring how fund managers 'do' impact investing. Because the term 'impact' is open to different interpretations, self-described impact fund managers can adapt the term to the context at hand. Thus, far from being outside the realm of strategy, tactics represent the "degree of plurality

and creativity" (De Certeau, 1984, p. 30) that social actors can devise within the situation they find themselves in. In the context of impact investing, investors who use and refer to the normative category of impact can mold, shape, and bend the term to fit their everyday practices. De Certeau refers to tactics as "ways of operating," meaning the ways in which users "reappropriate the space organized by the techniques of sociocultural production" (1984, p. xiv). As impact investing is touted for its potential to spur the "mobilization of resources towards positive social change" (Logue & Grimes, 2022, p. 1055), exploring 'ways of operating' can illuminate how impact investors use a variety of tactics to reappropriate the impact-investing agenda in their everyday practice.

By paying attention to everyday practices, we frame impact investing from an ethical perspective. De Certeau (1984) allows us to approach the ethical not as a question of adhering to given structures or fixed principles but rather as exploring new ways of operating within the gaps that exist in strategic structures. For De Certeau, exploring everyday tactics involves a "return of the ethical" (1984, p. 28), as it allows us to see how ethics is not only about restricting but also opening up new possibilities for use. To illustrate this point, De Certeau uses the example of what in French is called *la perruque* or what in English is called "the wig," which is the practice of using work time for unintended purposes, such as writing a love letter at the office. As De Certeau notes, this practice is neither equivalent to stealing nor absenting from work. Rather, it involves using work for new purposes. Seen from the strategic order of work, this practice can be labeled unproductive since it diverges from the intended purpose of work. However, seen from a tactical perspective, De Certeau sees such practices as having the potential to involve what he calls "an ethics of tenacity" (1984, p. 26)—that is, refusing to accept given structures but instead searching for new ways of speaking, acting, or thinking.

The fact that a cultural symbol or artifact, such as the concept of 'impact,' is open to interpretation because of its inherent ambiguity is seen, from the perspective of tactics, as an ethical opportunity to find new ways of speaking, acting, or thinking. What de Certeau calls the "art of divergence" (1984, p. 28)—the use of cultural symbols for new purposes—has an ethical potential because it allows the forging of practices that are suppressed by the dominant strategic order, such as the achievement of non-instrumental solidarity in systems dominated by economic logics of cost-benefit. The ethical dimension of tactics, then, lies in its ability to open up new uses that foster creative ways of understanding positive social and environmental impact. This is consistent with Holt and Yamauchi's (2023) understanding of ethics as related to difference, creativity, and divergence. Holt and Yamauchi (2023) suggest an important distinction

between ethics and morality. While morality starts from established normative ideals to make judgments, ethics is forward-looking in the sense of being open to the new (Holt & Yamauchi, 2023). Given that impact investing involves investing in new ventures, we see this forward-looking sense of ethics as important for understanding how impact can allow for different views of what constitutes social and environmental impact.

However, within this tactical space created by the ambiguity of impact investing, we also identify an ethical tension: the manipulation of impact investing can hold the possibility of using it for new impactful purposes, but it can also be exploited for purely economic gain without sufficient concern for social and/or environmental impact. It is in this space that we locate the ethics of impact investing as the gap between what is in the present and what can be in the future—what impact investing can be used for. We therefore frame ambiguity as an ethical question, namely how the ambiguity of impact investing allows the term to be used in new ways, with both potential and challenges. In what follows, we use the strategy-tactics distinction to examine how impact investors use the ambiguity of impact in practice.

## Methodology

Our empirical focus is on impact venture capital investors (IVC)—that is, fund managers that invest (equity) capital from limited partners (LPs, from pension funds and state funds to high-net-worth individuals, family offices and corporates) into startups. In addition to financial rewards, these fund managers specialize in funding new ventures and startups with high growth potential and social and/or environmental objectives built into their business model (impact lockstep). IVC comprises a small but growing number of venture capitalists providing funds to risky startups in exchange for equity (Saslow, 2022). In the 2000s and 2010s, the initial wave of IVC was perceived a failure as their focus on environmental technology came too early and the expected returns (e.g., with the first wave of clean tech investments) did not materialize quickly enough. This failure has, until now, deterred many conventional investors and asset owners from engaging in impact investing, but the number of impact-focused venture capitalists has recently grown significantly (Hand et al., 2020).

We employ an ethnographic approach to understand how impact investors tactically navigate ambiguity in practice since this qualitative method allows for a “contextual understanding of business ethics from the vantage point of the complex and pluralistic reality of the actors themselves” (Reinecke et al., 2016, p. xiv). Responding to calls for qualitative studies of social, environmental, and economic values in finance (Sparkes & Cowton, 2004), we have collected data

using ethnographic fieldwork and interviews, focusing on the recent rise of IVC in the US and EU/UK.

## Data Collection

The empirical material was gathered as part of a larger research project on the “Ethics of venture capital.” This project focused on the relationship between ethics and venture capitalism more broadly, but part of the project was a distinct focus on tracing the rise of impact venture capitalism. Between 2017 and 2024, one author conducted 12-month ethnographic fieldwork, encompassing participant and non-participant observations. In 2019, this author spent 5 months in Silicon Valley, attending VC industry conferences and startup demo days (acting as a part-time VC investor himself) and meeting nearly 100 venture capital partners (decision-makers in these VC funds) in their office environments over lunches, drinks, and dinners. This author also spent several months in similar setups in Berlin (in the summers of 2018 and 2020), New York City (2019, 2021, 2024), and London (his place of residence) for an aggregate of 12 months of ethnographic fieldwork. This author wrote up field notes at the end of each fieldwork day, producing around 50,000 words of data.

Although this larger project on ethics and venture capitalism provides the setting for our study, our analysis zooms in on the specific small segment of impact venture capitalists (IVC). During the period of the ethnographic fieldwork, this author encountered 300 VC investors and conducted a total of over 600 interviews with them, many being interviewed up to ten times over the five years. Among these, 70 worked for self-defined IVC firms. Since our focus is on impact investing, our analysis focuses on these 70 IVC. The distribution of these IVCs were about 50% located in Europe, 40% in the US, and 10% elsewhere (Latin America and Asia). They all used broad standards, such as the UN Sustainable Development Goals (SDGs), GIIN, or B-Corp, to define impact. Many had a specific sector focus for their investments, ranging from climate technology or agriculture to healthcare; some firms focused on specific (impact) metrics such as social inequality (which were in the minority). The interviews often followed initial meetings or connections made during the ethnographic fieldwork phase.

Each interview was open-ended and semi-structured. The interviews lasted between 15 and 90 min, with each touching on a variety of topics, ranging from (personal) motivations for engaging in impact investing to the history of the given investor’s IVC firm, definitions of IVC, impact measurement, problems with wider adoption of IVC, and more general issues in the VC industry—all as perceived by the IVC investors. About half of the interviews were recorded and, where applicable, transcribed, all with the interviewees’ verbal consent. The non-verbatim quotes cited from

the remaining interactions were compiled from notes taken immediately after each interview. This interview method is intended to enable as natural a conversation as possible.

As background material for making sense of the ethnographic observations and interviews, we compiled a joint dataset of secondary sources, generally industry statistics and reports from venture capital and startup data providers (e.g., Pitchbook, Crunchbase) and industry organizations such as the GIIN, the American National Venture Capital Association (NVCA), the British Venture Capital Association (BVCA), and IVC firm websites. This enabled us to frame and contextualize the first-hand, empirical data collected ethnographically and through interviews.

### Data Analysis and Theorizing

At the end of the data collection period, all interviews and field notes were compiled into a single document, which became our database. This database was accessible to both authors and served as the basis for our analysis. We were inspired by interpretive approaches that pay attention to the lived experiences of informants and how they make sense of their everyday practices. This is a methodology that is consistent with our De Certeau (1984) inspired approach, as we will elaborate below. Specifically, our interpretive analytic process followed three stages: initial interpretive analysis, grouping the material into three categories, and theorizing the categories.

In the first phase, we initiated the interpretive analysis process by thoroughly reading all transcribed interviews and field notes to gain an overview of the material. This allowed the other author to become familiar with the empirical material and the content and context of the collected data. Together, we began to interpret how the IVCs made sense of the concept of impact and how their view of impact influenced their practices as fund managers. This allowed us to gain a deeper understanding of how the IVCs viewed their own role as impact investors. Through this process, we identified common themes across the interviews and field notes. These themes were identified by looking for similarities in the empirical material, such as commonalities in how impact investors understood the nature of impact. Several themes recurred across the material. One notable observation was how impact investors did not perceive an apparent tension between economic, social, and environmental goals, but rather used impact investing to gain a competitive advantage in the venture capital industry. Another theme highlighted the apparent vagueness of the term impact and how informants took a broad view of it. Another recurring theme was how IVCs made sense of their own role by differentiating themselves from other investors. In the end, we grouped several common themes across the material.

In the second phase, based on the many themes originating from the first phase of analysis, we began to categorize what we found to be important to IVCs. We found that three main relationships were crucial for IVCs: their relationships with other investors, with founders, and with asset providers. We could see that the themes we had identified related to these categories. We therefore structured our findings under three headings: how IVCs relate to other VCs, how IVCs relate to limited partners (LPs), and how IVCs relate to the entrepreneurs they were looking to invest in. By working through these categories, we were able to better understand that in each of these three relationships, IVC saw opportunities to proactively exploit the ambiguity of impact.

In the final phase of analysis, we theorized the identified categories. To make theoretical sense of these categories, we worked iteratively between theory and data. The business ethics literature on impact investing proved useful in interpreting our observations, as this literature had already grappled with the elusive nature of impact. In addition, we used theory to draw connections between and make sense of the themes in each category. To this end, we found De Certeau's distinction between tactics and strategy informative, as it allowed us to see how the IVC often struggled to navigate the structures that surrounded them. Thus, while it was clear from the material that impact was an institutional pressure to create social and environmental value in addition to financial returns, we could also see how the IVC often tactically navigated the ambiguity of impact for specific purposes. In presenting the categories, we selected specific empirical vignettes. While these vignettes were specific examples, they illustrated broader themes in the material.

### Analysis: Why Investors Engage in Impact Investing

All the impact venture capitalist (IVC) investors interviewed were united in their explicit commitment to generating financial returns and having social and/or environmental impact. Similar to other fund managers, they were bound by their legal fiduciary duty, meaning that they had an obligation to maximize returns for their limited partners (LPs), that is, asset owners such as pension funds, state funds, foundations, endowments, and family offices whose money they invested. In fact, many of the IVCs said that they were primarily measured on their ability to generate returns for their limited partners and that having a positive impact should never compromise their financial priorities. For example, the UK-based IVC partner, Lorena, explained that “the impact VC model [concerns] investing in commercial, for-profit, high-growth VC returns, but also [generating] impact alongside that.” Rather than seeing a conflict between profits and impact, the IVCs emphasized that committing to an impact-investing

agenda provided opportunities that were often ignored or unavailable to conventional (non-impact) investors. For example, a prominent New York-based investor who had just raised an impact-focused sub-fund for his big traditional VC firm explained: “There is obviously a market opportunity there [in impact]—it’s a big asset class.” Some also suggested that economic success could drive impact, such as the IVC, Gerhard, who said: “When the company is economically successful, the impact is big – this is what we look for.”

At the same time, the specific criteria for representing ‘impact’ remained undefined. For example, Quentin, an IVC, explained that his fund invested in new ventures at the seed stage, where performance track records were often lacking. Consequently, the fund focused on the venture’s “narrative,” which had to place impact at the heart of the business model—for instance, a venture developing a production method that reduces the extraction of natural resources. Still, it remained unclear what criteria were necessary to qualify as impactful or to what degree the narrative—the story told by the entrepreneur and repeated by the IVC—needed to (eventually) align with reality.

However, what became apparent during the study was that market opportunities became available to the IVCs because they often took advantage of the ambiguity of the term impact. More specifically, using the term impact flexibly allowed the IVCs to align their interests with what they considered social and/or environmental objectives. Thus, while they all subscribed to impact, many refused to pin down the term and clearly define what they consider to have a positive social and/or environmental impact. Instead, they found ways to use the vagueness of impact productively. In what follows, we will explore how the IVCs tactically navigated the ambiguity of impact to their advantage. First, by contrasting themselves to conventional VCs, the IVCs gained access to new markets, such as climate, green, or clean technologies, thus allowing them to deploy impact to extend their range of investment options. Second, IVC investors used their profile tactically to access specific “investment buckets” that asset owners, or LPs, had reserved for impact. Last, we demonstrate how using an impact investor identity can also help IVC investors “win” competitive venture rounds by appearing to be mission-aligned with startup founders.

### **Moving Sideways: Using Impact to Tactically Access New Markets**

At the level of strategy, being committed to impact is often considered to restrict the available investment options for investors since they are required to avoid startup companies that do not have clear social and environmental objectives (for discussion, see von Wallis & Klein, 2015). At the level of tactics, IVCs in fact often use impact to gain

access to markets ignored or overlooked by conventional VCs. Consider, for example, Ron, who worked for a New York-based IVC. Asked about why his firm focuses on impact, he explained: “We call ourselves impact investors because it gives us a whole lot of deal flow that the traditional VCs pass on.” As Ron emphasized, while he was concerned about what he called “existential risks” like climate change, he stressed: “Ultimately, we’re also a venture fund. We have a duty to pay back our investors just as all the other ones do.” For Ron, being an IVC meant both investing for returns and gaining access to promising markets that other investors ignore. During a meeting described in the field notes, he said:

VCs come across startups and think, “Oh, this looks like a non-profit,” and we tell them to pass this on to us. We love that because we get to see all these different businesses that are actually coming with lots of potential. [...] It’s also just a good macro-thesis to follow. While all others are still doing the old stuff – industry 4.0, a lot of [direct-to-consumer] e-commerce – we’re following a new thesis.

For Ron, subscribing to impact investing could be tactically used to identify lucrative investment deals that their competitors overlooked. Hence, for Ron, having an impact focus allowed him to frame investment opportunities, that conventional VCs would pass on as ‘non-profits,’ as having growth potential. Also, with this impact profile, Ron’s VC firm could convince competitors to steer away from social and environmental-oriented ventures, although these ventures often had tremendous promise.

From Ron’s perspective, impact represented a sector equivalent to traditional sectors like healthcare or financial technologies (fintech). However, while traditional sectors were already crowded with VCs looking for the next unicorn, the impact sector was less competitive. Hence, being an impact investor could present a unique opportunity to invest in high-growth ventures that fall outside the sectoral focus of other VCs. Ron called this focus on impact a ‘thesis’: being an impact investor could allow for differentiation in the competitive VC industry by focusing on investing in specific ventures with a green or social profile.

A host of new IVC investors has emerged that explicitly follow this impact-as-thesis approach, often with a specific focus on clean, green, or climate tech. Traditional VC firms have begun to establish separate climate funds, such as Union Square Ventures in New York. For partners at firms launched in the early 2020s, such as Pale Blue Dot (Sweden), Planet A (Germany), or 2150 (UK, pan-European), solely focused on environmental impact, climate tech is both “the right thing to do” and “a big financial opportunity.” Hubert, an investor with an IVC firm founded in California 8 years ago, provides a similar

rationale underlying his firm's focus on climate, planet health, and human health:

We're ultimately measured against our financial success. And the simple fact is – our [impact] thesis is rooted in a great deal of publicly available data. The most talented people in the world want to work for purpose-driven companies. Consumers shift their behaviors based on a brand's commitment to sustainability. Resource production – if it can be done less expensively with a greater commitment to environmental responsibility – will win out against a petrochemical-driven process that has reached the limits of what it can do from an industrial-manufacturing standpoint.

Most informants we studied challenge any binary opposition between impact and returns. IVC investors specifically communicate about how impact as an investment thesis allows access—initial and sometimes proprietary—to new markets, access that supposedly makes these firms more competitive than their more traditionally focused VC counterparts.

Viewed from a strategic perspective, the VC industry is therefore stratified into specific sectors, with impact emerging as one among many. Viewed tactically, IVCs find ways to operate that allow them to access new and promising markets by focusing on the less crowded impact sector where prices tend to be lower, too (less competition). The tactic used here involves a form of redescription: finding ways to see new ventures as potential 'impact' opportunities. This then leads the IVCs into a normative space of having to make contextual judgments on what designates an impactful investment.

Yet, this tactic is possible to an extent because impact lacks a clear definition. Neither Ron nor many of the other IVC investors studied could concisely define the scope within which their impact investing falls. Ron talks about "existential risk," a vague category ranging from biohazards and cyberattacks to climate change and financial instability. Similarly, impact measurements, integral to the GIIN's definition, are often explicitly excluded from the IVC investors' practices. Hubert explains: "Our companies are too early for that [e.g., having a clear definition of impact], and we invest in such a diversity of companies that measuring doesn't make sense for us." As this statement illustrates, IVC investors use the ambiguity of impact as a concept applicable to startups operating in a broad spectrum of industries, thus taking advantage of its suppleness to justify a focus on any promising, emerging market offering some, often nebulous and un-measured, impact outcome.

## Moving Upwards: Using Impact to Tactically Access LP Capital

At the level of strategy, venture capitalists invest capital owned by limited partners into promising startups with the expectation that their equity can be converted into profits at a later 'exit' scenario, such as an acquisition or initial public offering. In this way, at the level of strategy, LPs, IVCs, and entrepreneurs have a proper locus: IVCs should invest LP's capital in early- or growth-stage ventures with the normative expectation of creating social and environmental impact alongside financial return (Thirion et al., 2022). However, on a tactical level, a challenge for any VC is to gain access to capital from asset owners in the first place. As became apparent during the study, IVCs often tactically used their impact profile to gain access to capital that banks, wealthy individuals, insurances, and pension funds, among others, had earmarked for social and environmental purposes (Zelizer, 1997). For example, banks all have funds available for specific purposes only accessible to investors committed to impact (e.g., around underrepresented communities); similarly, some insurances such as German Allianz and Gothaer have recently started climate-focused LP buckets.

Access to such LP capital was a key reason why Olga, a senior VC investment partner in the Bay Area, had engaged in impact investing in the first place. While today being a prominent IVC, she had initially set up her first fund by attracting capital from banks setting aside capital to support their local community and foster local economic development. Having worked in investment banking previously, Olga was aware of these pools of capital. To gain access to such capital, she had to ensure that her VC had an impact profile. She explained:

Our argument to *Bank 1* was that doing this [impact VC] fund would show that we're still interested and invested in the Bay Area, [in keeping] employment local. So, we got the go-ahead to do that. [VC] was very, very unpopular by the time we started – Dotcom had burst and people hated venture capital – but we were lucky that we had supportive foundations. And we got huge support from the banks [...] they got Community Reinvestment Act credit for investing in us [...] it's actually a law that requires banks to do something – to invest – in parts of their community. It's called CRA, Community Reinvestment Act. I think it was first formed in the '70s as a response to redlining – where banks wouldn't offer branches in lower-income communities.

The challenge here lies in ensuring that once funds are obtained from LPs, capital is actually channeled into ventures that generate the promised impact. To gain access to the capital from the banks, Olga had to shift her fund

activities to create local employment. In her view, this created a win-win-win situation: the LP got tax credits and satisfied its regulatory requirements; the local economy benefited from employment; and her IVC firm obtained LP capital to invest. The capital Olga received from the local banks would not have been accessible to a merely commercially focused VC firm unless that firm integrated “creating local impact and community engagement” into its purpose. By creating impact through investing in local businesses as well as focusing on environmental impact, Olga was able to access LP capital. Olga explicitly said that she had partly designed her specific impact profile to align with the LPs’ requirements. This allowed her to fund entrepreneurs with “community engagement”:

We help [our startups] with community engagement—helping the company develop [what we call] community capital. We help with environmental sustainability for all companies, and it turns out that there are ways to monetize that—saving thousands of dollars in taxes. We also help with job creation—trying to keep it more local.

While Olga could use impact tactically to gain access to capital, a noteworthy tension emerged in this tactical use of impact to access earmarked capital. On the one hand, tactically using impact to access capital allowed Olga to support ventures with social and/or environmental objectives, such as benefiting the local community or the environment. One example Olga used was seed funding a startup that had grown into a billion-dollar electric mobility company. On the other hand, the commitment to impact became a tax-reduction tactic for Olga: “We helped them to get tax cuts in return for building their first factory in [local area].” As a result, an ethical challenge arose in having to judge whether a given investment was primarily intended to give VCs access to capital and provide ventures with tax benefits or to genuinely benefit stakeholders and the environment more broadly. Ideally, financial, social, and environmental objectives should be complementary. However, there was a risk that impact investing could turn into a tax-saving exercise—without generating any real-world impact after all. In the absence of a clearly defined standard for impact, Olga had to operate within this ethical space, balancing the need to access capital with the goal of ensuring that impact did not merely become a means of achieving economic success.

As many of the informants explained, impact investing had evolved from an idealistic project to a real market opportunity. This was driven by the fact that LPs increasingly wanted to place capital in purpose-driven ventures and heighten awareness of social and environmental issues among consumers. For example, Felix, a founding partner in a European-based IVC firm, said that “LPs are really interested in this at the moment [...] they really want to

see [impact] as a core [...] Plus – the consumer is starting to look at it.” In a GIIN survey from 2020, the network reported growing asset allocation and an influx of LP capital for impact investments, including venture capital (GIIN, 2020). Overall, impact investing grew by 12% between 2015 and 2019, with an expanding influx of capital from classical VC LPs, such as foundations (25% more since 2015), pension funds (7% more), and high-net-worth individuals and family offices (19% more) (GIIN, 2020, p. 27). Felix points out that the European Investment Fund (EIF), one of the biggest VC LPs worldwide, has recently launched specific impact vehicles, including the Social Impact Accelerator (a EUR 243 m fund-of-fund structure set up to invest in social impact VC firms in Europe) and the Climate and Infrastructure fund (EUR 600 m committed in 2021, 70% of which will go to climate VC firms in Europe).

Given that LPs have become more eager to “put money into impact,” the echo of Olga’s original rationale in today’s market is unsurprising. By committing to impact, fund managers can get their hands on capital to be subsequently invested in companies that commit to certain causes, such as community building or local job creation. However, many question the actual *nature* of the impact outcomes. As Olga describes, her LPs required her firm to focus on “keeping employment local” and achieving environmental outcomes. Similarly, other impact LPs use distinct tactics, such as the EIF’s one regarding climate. The lack of standards or measurements for determining (intended or achieved) impacts makes it difficult to determine how diligently LPs scrutinize them. Overall, definitions of impact lean more heavily toward ESG principles which are not measures of impact but good process and governance. As a result, commitment to impact places IVCs within an ethical space of having to decide whether the capital they obtain serves its intended purpose.

### **Moving Downward: Using Impact to Tactically Access Founders**

Viewed from a strategic perspective, startups require capital from VCs to scale their startups into bigger companies. In return, VCs receive equity as well as other rights defined in the investment deal, for example, board seats, with the prospect of making returns at a later stage. Viewed tactically, VCs are constantly searching for startups with high growth potential. As venture capital is high risk, VCs know they will receive most of the return on their investments from a selected group of portfolio companies while the majority of deals will fail and the money written off. For this reason, some startups in the recent “decade of tech” have been so promising that investors competed for equity in their companies by engaging in what was referred to by some of the informants as “oversubscribed rounds.” In such scenarios,

VC investors might have to convince the founders that they are the right fit for the startup. Many of the IVCs tactically used their impact profile to gain a competitive edge over conventional investors. Consider, for example, the IVC Adam, a partner of an impact fund based in London. Predominantly, they invested in companies using AI and tech more broadly to create meaningful work environments. During a meeting, he explained:

I mean, we often ask in deal meetings, what are the values of your company? And where do they come from? We've had entrepreneurs well up with tears when we asked this question because they're like, no one ever f\*\*\*g asked us that question. [...] Imagine the selling power because almost all the deals we do are competitive like we have to win the deals. [...] We just won this deal in London. That was very competitive [...] we won that deal with [offering] a lower valuation and economics for the entrepreneur, and they just wanted us in their deal.

As this example illustrates, the focus on 'impact' can be tactically used by IVCs to gain a competitive edge over traditional VC investors, generating deal flow and securing opportunities with startups that have social and environmental ambitions. As we previously have seen, the IVC tactically moved sideways into new markets that were overlooked by conventional VCs and tactically moved upwards to gain access to LP capital. Unlike these two tactics, a third tactic consisted of using impact to move downwards in the finance value chain to create deals with founders of startups.

At VC firms, personal bonding between investors and founders is important as building trust (due diligence) is part of VC investment decision-making. In the market environment of the 2010s, entrepreneurs with promising startups could often choose between different VCs, as capital was plentiful, but strong founders were scarce. Under these conditions, some deals became so competitive that many venture capitalists struggled to get access. As such, operating in an ecosystem increasingly concerned with creating value-driven, impactful companies focused on public purposes (Deloitte, 2022; Morgan Stanley, 2019) has compelled some VCs to be impact-value aligned if they want access to a growing number of strong deals. As Adam recounts above, entrepreneurs typically chose his firm because of this mission alignment. While entrepreneurs could gain equal economic terms from other VCs, they often wanted to safeguard themselves from potential mission drifts, which could be secured by selecting an IVC with aligned values (Cetin-damar & Ozkazanc-Pan, 2017).

Some VC firms had changed their profile to align with a new generation of entrepreneurs that required an impact focus. For example, a European VC firm recently repositioned itself as an impact-aligned VC, if not a 'mere IVC.' The firm

launched a proprietary impact framework at a major European tech conference in 2020 and received funding from an LP exclusively focused on impact the year after. By repeatedly interviewing decision-makers on both the VC firm and LP sides since 2019, the evolution of this trend has become visible. Although remaining sharply focused on generating financial returns for its LPs, the VC firm added a focus on impact in response to shifts in how many entrepreneurs viewed the purpose of their startups. As the VC firm's partner leading the impact initiative explained: "We noticed that more and more of our portfolio companies and companies we talk to about investing are keen to become a B-Corp." Moreover, being associated with an "impact LP" was increasingly helpful because it enabled the signaling and receiving of "impact guidance." Hence, for many of the investors, being an IVC was a tactic required to follow market trends.

While having a focus on impact helped many IVCs gain access to competitive deals, it also required an ethical sensitivity to how new ventures might offer market-based solutions that might not conform to existing understandings. Hence, while there is a risk that the impact profile simply becomes a rhetorical strategy, alignment with founders might require the ability to see how having an 'impact' in the form of creating positive social and environmental change can take different forms. For example, one IVC, Harry, explained that rather than restricting impact to societal influence, they tried to get founders to pay attention to "all data in all their operations," including for instance diversity in recruitment. Also, the question of guidance that often founders look for requires that IVCs are actually able to understand how new startups work and the industries they operate within. For example, the IVC Maggie emphasized the need for a "holistic" understanding of impact, explaining that a startup delivering green energy through solar panels would not be impactful if it harmed the local environment. The IVC Harry also suggested that his focus was not strictly on impact but rather on investing in startup capable of transforming industries. However, because such ventures involve a different way of thinking, predicting their impact can be challenging. For instance, regarding ventures developing new AI technologies, the IVC James, working for a seed stage found, stated: "No one really knows what they're doing yet, let alone the ethical implications of it." It is within this ambiguity that the IVC must operate, staying open to what is new while remaining attentive to social and environmental consequences.

## Discussion

As our analysis shows, impact venture capitalists (IVCs) can tactically leverage the ambiguity of impact to gain access to market opportunities, access capital, and negotiate deals

with founders. Specifically, by focusing on impact, the fund managers we studied identified potential high-growth markets overlooked by other venture capitalists, secured access to capital reserved by asset owners for impact purposes, and persuaded founders to invest capital in their startups in exchange for equity. These tactics are made possible by the ambiguity inherent in the concept of impact. Rather than being constrained by the lack of universally accepted standards for defining impact investing, our study shows that IVCs often proactively use ambiguity to identify startups that they perceive as having social and/or environmental impact. The flexibility in interpreting what constitutes impact allows IVCs to tactically use the term to align their interests with the impact-investing agenda based on the specific context. In this way, IVCs tactically navigate the ambiguity of impact investing by actively using the elusive nature of the term to their advantage.

Although previous literature has recognized the ambiguity of impact, it has primarily treated this ambiguity as an epistemological problem arising from the lack of clear definitions and measurements to determine what constitutes impact. Our contribution here is to frame the ambiguity of impact from an ethical perspective. This ethical perspective reveals a distinction between the way ambiguity operates at the strategic level and at the tactical level. At the strategic level, there are normative expectations that impact investing should use finance to create measurable social and environmental benefits. At the tactical level, however, IVCs navigate the ambiguity by making contextual judgments that enable them to attract capital for investments in startups with high growth potential. By maintaining a flexible understanding of impact, IVCs can adapt the meaning of the concept based on the specific venture they are considering for investment. As a result, ambiguity requires IVCs to make normative judgments about what should be considered positive social and environmental impact in their specific context.

Our focus allows us to identify an ethical tension inherent in impact investing. On the one hand, the flexibility of the term ‘impact’ offers an advantage by allowing IVCs to explore new ways of making a difference by supporting new startups with social and environmental goals that may not fit into established VC taxonomies. Many IVCs shared stories of investing in startups that contributed to the reduction of environmental damages or health inequalities, although these benefits were not always formally documented and measured. In this way, the open-ended nature of ‘impact’ can lead to innovative ways of fostering positive change. For example, IVC Harry explained that he had invested in a company that challenged the social norm around type 2 diabetes—often blamed on lifestyle choices—with a mission to eradicate the disease. The company sought to make an impact by challenging established companies that were profiting from offering a treatment rather than a cure. In

addition, when startups introduce innovative products or services, they can highlight social and environmental issues that are often overlooked by traditional definitions of impact. By keeping the definition of impact open-ended, impact investors can support promising startups that find novel approaches to social and environmental challenges. This tactical use of impact investing expands its application, shifting the ethical question from what impact actually means to what impact can become—using impact investing for purposes beyond its current understanding. Here, just as there are risks in investing, there may be uncertainty about the ultimate social and environmental consequences of impact investing.

On the other hand, the term ‘impact’ can be stretched to the point of being used solely for financial purposes. For example, fund managers may undermine social and environmental performance indicators to serve their financial goals. This can lead to mission drift for both the IVC and the startup receiving financial support. It is here where we see the negative aspects of ambiguity. In addition, established funds may be rebranded as committed to impact without substantive change (e.g., starting to measure impact rather than just narrating it) (Findlay & Moran, 2019). Importantly, ambiguity can be both enabling and constraining, and conceptual openness can be both advantageous and detrimental to achieving impact. While conceptual closure can prevent actors from finding creative ways to achieve impact, conceptual openness can be exploited for purely financial gain. For example, IVCs can manipulate impact to serve financial purposes, but they can also manipulate impact to gain access to capital for projects that make a real difference.

In response to the ambiguity inherent in impact investing, some have advocated for clearly defined parameters to determine what is considered impactful. However, it is important to consider the potential drawbacks of imposing narrow criteria and limiting impact to a rigid set of standards. This is particularly relevant in the context of impact investing, which involves the allocation of capital to new startup companies. More broadly, research on sustainable entrepreneurial ventures has highlighted the limitations of confining innovative solutions to existing frameworks (Muñoz & Cohen, 2018). For example, using a triple-bottom line framework that emphasizes economic, social, and environmental values can be challenging when evaluating new ventures, as such frameworks may overlook the core values that drive these ventures. For example, rather than conforming to established expectations of social and environmental impact, new ventures may offer market-based solutions that fall outside conventional boundaries. For this reason, Muñoz and Cohen caution against “premature terminological closure” (2018, p. 302) when evaluating new ventures. This also has implications for IVCs, who need to identify ventures that can have a meaningful impact.

From this perspective, maintaining an openness in defining what constitutes ‘impact’ allows for contextual flexibility, enabling IVCs to support ventures that may fall outside established expectations of impact. Our focus on tactics reveals that ethics emerge when conceptual closure is transformed into conceptual openness, allowing IVCs to tactically exploit the ambiguity of impact to fund ventures that aim to create positive value. Beneath the dominant strategic framework—including tools designed to measure social and environmental impact—lies practices that defy generic categories. These can include simple economic uses of impact investing, but also innovative uses of impact investing, where experiments and new approaches to working with startups are constantly emerging. What is captured at the strategic level often does not fully represent what is happening in everyday practice.

This has important practical implications for IVCs. On the one hand, they must maintain a degree of conceptual flexibility in their understanding of ‘impact’ to capture entrepreneurial ventures that propose new solutions that deviate from existing views. On the other hand, IVCs need to be accountable for their judgments that a particular venture constitutes impact. Such accountability does not necessarily require adherence to generic, established principles, but rather involves providing reasons why a particular venture has the potential to create positive social and environmental impact. This requires conceptual judgments in the form of justifying why a venture could be impactful.

However, ensuring accountability within the social dynamics of impact investing can be challenging. Given the information asymmetry between limited partners as asset owners, IVCs as fund managers, and startup founders (Thirion et al., 2022), from the perspective of IVCs, they can tactically navigate the space between limited partners and founders. On the one hand, they can tactically exploit the limited partners’ lack of insight into the startups in which their capital is used to obtain equity. On the other hand, they can also exploit the founders’ lack of insight into the source of the capital that funds them. Thus, IVCs can signal a strong impact profile to founders without having to provide full transparency. Similarly, they can signal a strong impact profile to limited partners to gain access to capital without necessarily providing them with full insight into where their money is going. In this space between limited partners and founders, IVCs can find ways to operate that take advantage of the ambiguity of impact investing. However, playing ‘clever tricks’ on LPs can backfire, as investments often involve long-term collaborations.

From the perspective of IVCs, finding the right way to manage the ethical tensions within the complex landscape of impact investing can be challenging. The lack of criteria for what qualifies as impact deprives the term of substantive content, allowing fund managers to exploit impact investing

for purely financial purposes. Conversely, imposing overly strict requirements on what qualifies as impact can discourage investors from using the term in innovative ways. While ‘impact’ cannot be limited to pre-defined criteria, there may still be a need to measure what constitutes a positive impact—either measuring outputs, such as efforts to create social and environmental benefits, or outcomes, such as the actual results of initiated efforts. However, focusing on outcomes presents several challenges, as the efforts of mission-driven startups may take time to produce visible results, transparent cause-and-effect relationships may be difficult to establish, and measuring impact requires documentation, which is resource-intensive (Islam, 2022, p. 717; see also Ormiston, 2019). Our study points to the need for a better understanding of how to balance accountability and flexibility in impact investing. Flexibility allows fund managers to make decisions about what they believe has the potential for social and environmental impact, while accountability ensures that they can articulate and demonstrate how impact is occurring.

We also contribute more broadly to the business ethics literature by advancing a grounded understanding of ethics embedded in everyday practices (Reinecke et al., 2016). On this account, ethics is not reserved for special moments of reflection but instead remains integrated into daily activities (Holt & Yamauchi, 2023; Loacker & Muhr, 2009). Specifically, our analysis highlights how the openness of everyday life—such as the way ‘impact’ for IVCs remains open to interpretation—creates an ethical space. This ethical space emerges because IVCs must make normative judgments about what constitutes impact within their specific contexts. We make two key contributions. First, our analytic distinction between strategy and tactics allows us to remain sensitive not only to how actors find themselves within social structures but also to how they must tactically navigate these structures in a normative way (Dey & Teasdale, 2015; Hjorth, 2005). Second, we provide empirical insights into the ethical dilemmas that arise within this normative space enabled by ambiguity.

Our study also provides insights into the paradox perspective on sustainability, which focuses on how actors manage the “tensions between economic, environmental, and social concerns” (Hahn et al., 2018, p. 237). While most of the IVCs in our study refused to acknowledge tensions between different goals and claimed the convergence of financial, social, and environmental goals in the startups they funded, this rhetoric was achieved by blurring the lines between these goals. For example, in one case, investing in ventures that supported local communities was driven by the goal of reducing tax expenses. Our study provides insights into how fund managers can smooth over tensions by using impact terminology to describe investments that are primarily driven by economic objectives. As a result,

the economic logic of profit infiltrates investments intended for social and environmental purposes, turning ‘doing good’ into a profit-making tool. As a result, investment practices become increasingly complex when social and environmental objectives are considered alongside profit-making. The different logics at play in impact venture capitalism cannot be reduced to a ‘win-win-win’ logic, where social and environmental impact goals converge with economic profit. However, social, environmental, and economic objectives are not strictly opposed in investors’ practices; rather, the boundaries between these value spheres are blurred.

## Conclusion and Future Research

We have explored the growing prominence of impact investing, which aims to generate positive social and environmental outcomes alongside financial returns. Our study illuminates the ethical complexity inherent in impact investing, where the ambiguity of what constitutes ‘impact’ requires IVC to navigate the challenges and opportunities within this evolving field. By exploring how IVCs use this ambiguity tactically to attract capital, identify investments, and engage with innovative startups, we reveal that the open-ended nature of ‘impact’ both expands possibilities for social and environmental change and raises concerns about potential misuse for purely economic gains. This balance between flexibility and accountability underscores a fundamental ethical tension: while impact investing’s lack of fixed definitions fosters adaptability, it also necessitates continual negotiation to avoid ‘impact-washing.’ Thus, we argue that the ethical dimension of impact investing lies not in prescribing a rigid definition of impact but in actively maintaining a space for ongoing reinterpretation that is still anchored by accountability. Our findings contribute to the broader understanding of impact investing by highlighting the critical role of fund managers in shaping the field through their everyday practices.

Our study raises several questions that warrant further investigation in future research. One crucial area for exploration is understanding how controversy, disagreement, and debate may arise when defining or not defining the concept of impact. While many advocate for clear definitions and standardized measurements in impact investing, the enforcement of such standards can be a source of disagreement. For example, the European Commission proposed taxonomically classifying nuclear energy as “green energy” under specific conditions has been criticized. This highlights that even with clearly enforced criteria, differing opinions may persist, and the fundamental challenge of determining what qualifies as environmentally friendly is likely to endure.

Further research in this area should also explore how impact investors navigate “grey-zone” startups—those that

may be challenging to categorize within existing taxonomies. Discussions on “positive” and “negative” screening often use paradigmatic examples that align with intuitive consensus, such as including companies with explicit sustainability profiles. However, in many instances, defining socially and environmentally responsible businesses is more nuanced. For instance, a venture using clean technologies or recycling materials might engage in impactful operations but simultaneously run other operations deemed less environmentally friendly, such as reliance on fossil fuels. In such cases, binary oppositions like impactful or not become challenging to apply in evaluating startups.

Future research could also explore when and how impact becomes susceptible to impact washing. These fundamental questions can only be addressed as the financial industry unfolds over the coming years and more data become available, especially regarding the measurable results generated by startups in which IVC firms invested. Importantly, impact venture capitalists consistently invest in founders and entrepreneurs who build companies producing services and products, with the impact often distinct from the investors’ original intentions. However, questions arise about the alignment of time horizons between entrepreneurs’ long-term impact focus and impact venture capitalists’ short-term shareholder-value focus. Also, as venture capitalists invest in the early stages of startups, the long-term impact of these ventures is often uncertain, as it is unclear at the time of investment what impact they will have in the future. Longitudinal studies would be beneficial for exploring these dynamics.

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## Declarations

**Conflict of interest** There are no potential conflicts of interest.

**Research Involving Human and Animals Participants** The study incorporates participant and non-participant observations, as well as interviews.

**Informed Consent** Consent has been obtained from all informants.

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