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Scaling with Purpose: How Impact Venture Capital Shapes Startup Selection, Support, and Accountability in Europe

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Title Page

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Abstract

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This thesis explores how impact venture capitalists (IVCs) select, support, and evaluate early-stage impact startups in Europe. Based on qualitative interviews with ten IVCs and five founders, the study examines how investment decisions are co-produced, how non-financial support shapes scaling, and how impact performance is measured. Findings reveal that startup selection is guided by mission alignment and dual-return logic, while post-investment support is relational and strategy-focused. Impact measurement remains fragmented, with few VCs applying standardized metrics, raising the risk of impact washing. The thesis proposes a lifecycle model of strategic and impact alignment, and recommends practical solutions: a public impact certification, KPI audits, externality assessments, and broader use of impact grants. These findings contribute to a more grounded understanding of how impact VC operates beyond financial capital.

Título: Crescer com Propósito: Como o Capital de Risco de Impacto Molda a Seleção, o Apoio e a Avaliação de Startups na Europa
Autor: Björn Theissen
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Esta dissertação analisa de que forma os fundos de capital de risco de impacto (IVCs) selecionam, apoiam e avaliam startups de impacto em fase inicial na Europa. Com base em entrevistas qualitativas a dez IVCs e cinco fundadores, o estudo examina como as decisões de investimento são co-produzidas, como o apoio não financeiro influencia o crescimento, e como o impacto é medido. Os resultados revelam que a seleção baseia-se no alinhamento com a missão e na lógica de retorno duplo, enquanto o apoio pós-investimento é relacional e estratégico. A medição de impacto permanece fragmentada, com poucos IVCs a aplicarem métricas normalizadas, o que aumenta o risco de “impact washing”. A dissertação propõe um modelo de ciclo de vida do alinhamento estratégico e de impacto, e recomenda soluções práticas: certificação pública de impacto, auditorias de KPIs, avaliação de externalidades e maior uso de subvenções de impacto.

Executive Summary

Following the 2008 financial crisis, a significant shift occurred in the global investment landscape. While traditional investments focused solely on financial return, now, a change has begun to take place towards a more responsible and sustainable-driven approach. As a result, investors increasingly sought to align profit with purpose through the emerging approach of impact investing. At its core, impact investing differs from traditional investing, venture philanthropy, and socially responsible investing in that it proactively seeks to effect change. As a result, impact venture capitalists (IVCs) arrived, playing a key role in supporting impact ventures.

This thesis examines how IVCs contribute to the growth and success of startups in Europe, both financially and social and environmentally. Although IVC is becoming increasingly important in the startup ecosystem, there is still limited understanding of how exactly impact investors select and support startups, and ultimately measure real impact. More specifically, this research addresses three research gaps: how sustainability criteria influence investment decisions, the effectiveness of non-financial support during the scaling phase, and finally, the lack of standardized impact metrics to measure impact, potentially leading to "impact washing." Each research gap corresponds to a research question that is built upon and guided by one central question: How do IVCs balance financial and social and environmental impact through the selection, scaling, and measurement phases of the investment cycle. The research focuses on the European Union and startups in the early- and growth stages, both of which are considered most critical for receiving investments. It aims to provide practical insights for IVCs and entrepreneurs to improve investment strategies and frameworks for evaluating impact, ultimately building a more transparent and effective impact innovation ecosystem.

To explore the research questions, the thesis employs a qualitative, exploratory research design reflecting the emerging and multifaceted nature of IVC. Semi-structured interviews with ten IVCs and five impact startup founders have been conducted to gather primary data. This dual perspective allowed for a comparison between investor strategies and entrepreneurial experiences. Participants were identified through a combination of stratified purposive sampling and snowball sampling to gather in-depth information from both groups. All interviews were conducted online between April and May 2025 and recorded. For data analysis, a hybrid thematic analysis approach was chosen, combining deductive codes based on identified relevant theories and inductive themes derived organically from the interviews. This method

enabled a detailed understanding of how IVCs manage impact investments and balance financial objectives with sustainable goals.

The findings are presented through a lifecycle model of impact investing, which identifies three core phases: selection, post-investment support, and impact accountability. In the selection phase, IVCs apply dual-KPI logic, balancing mission fit and business viability. Importantly, founders also screen investors for value alignment, highlighting a co-produced model of investment decision-making. In the support phase, IVCs provide non-financial contributions, such as strategic coaching, capacity building, and mentorship, which are primarily driven by trust rather than formal governance structures. Finally, the measurement phase reveals significant challenges: impact tracking is inconsistent, rarely standardized, and often symbolic. Founders admitted that reports are frequently accepted without scrutiny, and most IVCs acknowledged that impact is not rigorously verified. These gaps increase the risk of impact washing and undermine credibility across the sector.

The thesis concludes that current IVC practices offer valuable support mechanisms but lack formal structures to ensure long-term accountability. A relational logic dominates across all phases, enabling flexibility and founder trust but also leaving impact vulnerable to narrative inflation. While no clear evidence of impact dilution was reported, the lack of enforcement tools suggests a risk. Ecosystem positioning further reinforces this dynamic, as ventures rely on brand affiliation and signaling to gain access and legitimacy, often without validation.

Based on these insights, the thesis offers four recommendations. First, an official public impact certification could help distinguish authentic impact startups from those that are trend-based and self-labeling. Second, IVCs should implement co-defined KPIs, accompanied by regular third-party audits, to strengthen measurement practices. Third, investors should be required to assess negative externalities, recognizing that a positive impact may come at a cost elsewhere. Finally, impact grants should be more widely adopted to support deep-impact innovation that may not meet traditional return expectations. While these proposals are grounded in current practice, they reflect aspirational goals and may face implementation challenges.

Like any qualitative study, this research has its limitations. It is based on a small sample of European actors and reflects a snapshot in time. The relational nature of IVC also means that many dynamics are informal and difficult to generalize. Future research could test the proposed lifecycle model quantitatively or explore the development of standardized measurement frameworks to validate its effectiveness further.

Preface

The idea for this thesis first emerged after Mr. Filipe Santos, the Dean at Católica-Lisbon, introduced the topic of impact investing to our class in the second semester of my international management studies at Universidade Católica Portuguesa and Bocconi University. My interest in sustainability and entrepreneurship, combined with the increasing urgency of addressing climate change, fueled my desire to understand how capital can drive meaningful impact in startups. Therefore, this research aims to contribute to the ongoing discussion on how venture capital can strike a balance between financial success and social or environmental impact.

The thesis was written during my final semester at Università Bocconi in Milan as part of my double-degree program. I am particularly thankful to my thesis supervisor, Mrs. Nicoletta Corrocher, for her guidance and feedback. I also want to extend my thanks to the investors and entrepreneurs who generously shared their invaluable insights during the interviews. Finally, I would like to express my gratitude to Mr. Filipe Santos for inspiring the idea for this thesis and paving the way for a potential future endeavor in this field.

I hope this thesis serves as a meaningful contribution to the discussion of impact investing not only as a learning assignment but also to potential investors and entrepreneurs. The journey of writing this thesis has been both rewarding and challenging, and I am excited to continue exploring the multifaceted approach to shaping a more sustainable future. Thank you!

Milan, Italy
12th June 2025

Björn Theissen

Table of Contents

- Title Page.....I**
- Abstract..... II**
- Executive SummaryIII**
- Preface V**
- 1. Introduction 1**
- 2. Research Design..... 4**
 - 2.1 Research Problem 4
 - 2.3 SMART Research Objective 7
 - 2.4 Scope and Limits of Research 8
- 3. Literature Review..... 9**
 - 3.1 Investment Selection in IVC..... 9
 - 3.1.1 Traditional VC Investment Criteria 9
 - 3.1.2 ESG Criteria in Impact VC 10
 - 3.1.3 GIIN Core Characteristics..... 11
 - 3.2 Venture Scaling 14
 - 3.2.1 Resource-Based View (RBV) 15
 - 3.2.2 Dynamic Capabilities Framework (DCF)..... 15
 - 3.2.3 Stakeholder Theory and HVA Framework 16
 - 3.3 Measuring Impact 18
 - 3.3.1 Impact Management Project 18
 - 3.3.2 Input-Behaviour-Output Control Framework 21
- 4. Statement of Research/Project Methodology 23**
 - 4.1 Types of Research 23
 - 4.2 Interview format 25
 - 4.3 Sampling Method 26
 - 4.4 Data Analysis..... 27

5. Reasoned Analysis - Findings	31
5.1 Data Structure and Analytical Framework	31
5.2 Investment Selection and Alignment Logics	32
5.2.1 Mission and Value Alignment	33
5.2.2 Founder-Led Investment Selection	34
5.3 Post-Investment Support and Strategic Value Creation	36
5.3.2 Founder Impact Practice	38
5.4 Impact Measurement, Enforcement, and Risk Handling.....	40
5.4.1 Flexible Impact Measurement.....	40
5.4.2 Enforcing Accountability	41
5.4.3 Impact Reporting Under Pressure	42
5.5 Signaling, Legitimacy, and Ecosystem Positioning	44
5.5.1 Founder-Investor Alignment Challenges	44
5.5.2 Impact Signaling and Ecosystem Positioning	45
6. Conclusions	47
7. Recommendations	49
8. Limitations and Future Research	50
List of Literature	51
List of Abbreviations	59
List of Figures	60
List of Tables	61
List of Appendices	62

1. Introduction

*Impact investing is so much more complicated than traditional investment. We have to deal with contradictions: things that depend on context, timing, and perspective. That is what makes it meaningful.*¹

— Pascal Vinarnic, Founder of Demeter Foundation & Board Member at Impact Europe

Following the 2008 financial crash and subsequent economic depression, many business and policy leaders worldwide recognized the need for a fundamental shift in the way financial markets operated. Adam Blanden documented how this crisis called for a more "inclusive capitalism," where finance should serve explicitly broader social goals (Blanden, 2024). The increasing popularity of this approach quickly led to a paradigm shift in capital market thinking. This shift, increasingly discussed in financial literature as the "impact imperative" (Wilson, 2019), introduced a new pillar, "impact," alongside the traditional core pillars of risk and return. It focused not only on financial returns but also on the potential to make a social and environmental impact (Social Impact Investment Taskforce, 2014).

In particular, younger people, emerging from the financial crash and eager to tackle world challenges, led the way into a generational shift, ready to solve society's problems (Miller & Cepuran, 2019). One of their key beliefs was that doing well and doing good were no longer incompatible. An increasing number of people wanted to combine these two pillars and make a difference by working with meaning and purpose, believing that financial success could coexist with meaningful social contributions. As a result, many of these individuals explored impact-driven enterprises with a specific commitment to improving the world (Cardona et al., 2019). Furthermore, an increasing number of people globally sought to become so-called impact entrepreneurs, aiming to develop innovative and scalable solutions to some of the world's most urgent problems (Social Impact Investment Taskforce, 2014). This generational shift is crucial to understanding the growing importance of impact entrepreneurship.

The key idea behind this movement was that investments, rather than donations, are more effective in providing long-term, sustainable, and scalable solutions to societal issues. Proponents argued that well-placed investments have the potential to create lasting, systemic

¹ Pascal Vinarnic, Founder of Demeter Foundation & Board Member at Impact Europe. Quoted from primary interview conducted as part of this thesis (IVC-03/04), April 2025.

change, unlike one-time charitable contributions (Bugg-Levine & Emerson, 2011). This was supported by the fact that in many situations, no necessary trade-off between financial and social outcomes was measured, a concept that is widely controversial today (Friede et al., 2015).

This recognition gained traction through both public and private initiatives, when institutions such as the OECD and GIIN called for coordinated investment frameworks (Wilson, 2019). The Social Impact Investment Taskforce, established in 2013 by the G8, was one of the earliest initiatives aimed at developing a global framework for impact investment. It comprised government officials and representatives from the private and social sectors across the EU, aimed to lay the foundations for a global market for impact investing. The primary objective was to develop policies and strategies that would encourage governments, financial institutions, and private investors to invest in projects that have both financial and environmental, as well as social impact (Social Impact Investment Taskforce, 2014). This foundational shift led the first steps toward a more targeted and strategic investment model: Impact Investing.

Impact investing is defined as capital allocated to organizations or projects with the explicit intention of generating both financial returns and measurable social and environmental outcomes (Bugg-Levine & Emerson, 2011). It can be seen as a hybrid model between traditional investing and venture philanthropy. Traditional investing focuses solely on maximizing financial returns, typically through liquid, standardized instruments traded on public markets (Waddock et al., 2000). It has historically been the dominant form of investment and the foundation of financial markets before the global financial crisis of 2008. In contrast, venture philanthropy prioritizes social impact, often by providing grants or donations to non-governmental organizations (NGOs) or social enterprises. While it is closely related to impact investing in terms of maximizing social impact, it differs fundamentally in that it does not pursue financial returns but instead focuses on charitable outcomes (Yasar, 2021). Closely related but also different is Socially Responsible Investing (SRI). While SRI focuses on excluding harmful industries, such as the tobacco industry, based on ESG screenings, its primary aim is risk mitigation rather than proactive impact creation (Chiappini et al., 2023).

These investment approaches are commonly placed along the "spectrum of capital" (Bridges Fund Management, 2012; Novak et al., 2018), which maps strategies based on their balance of return expectations and impact intent. Traditional investing, venture philanthropy, and impact investing occupy unique positions in this model, ranging from finance-first to impact-first orientations. Figure 1 in Appendix 1 illustrates this conceptual spectrum in detail.

Within this evolving ecosystem, this thesis focuses specifically on one key actor: impact venture capitalists (IVCs), who have emerged as a key player in supporting and scaling mission-driven impact ventures. IVCs typically focus on early-stage startups with high growth potential and profitability. While often assumed to offer competitive returns, several newer studies have shown that IVCs typically experience slightly lower financial performance due to their dual-objective focus (Barber et al., 2021). Compared to traditional venture capitalists, IVCs seek to support innovative solutions that proactively tackle global societal and environmental challenges while still generating a financial return (Zhang, 2023).

Impact venture capital plays a particularly transformative role in climate tech, an industry that aims to reduce greenhouse gases, protect biodiversity, and limit global warming to below 2°C, as outlined in the Paris Agreement of 2015 (Aibar-Guzmán et al., 2023). According to the IEA (2023) and the IPCC (Pathak et al., 2022), scaling decarbonization technologies will be essential to meet the goals of the Paris Agreement. Recent forecasts suggest that by 2050, less than 5% of CO₂ reductions will come from behavior change, while over 50% must come from green technologies currently in development (Lu et al., 2024). This underscores the critical need for substantial investment in green innovation, which IVCs are well-positioned to support.

Concludingly, the events of the last few years have had a significant impact on the global economy. Economic growth has declined rapidly, with the average GDP growth rate in advanced economies dropping from 2% to below 1.5%. This resulted from a series of crises, most notably the COVID-19 pandemic, which exacerbated the problem of public debt and put global development on hold for nearly three years. Additionally, recent studies from the World Economic Forum (2024) highlight an increase in geopolitical tensions, which disrupts trade, technological advancements, and economic expansion, further contributing to global uncertainty. Ultimately, the rising global temperature poses a significant threat to humanity's future, underscoring the need for scalable, sustainable solutions.

Despite these obstacles, impact investing presents a unique opportunity to address these threats, demonstrating that sustainability is not only a necessity but also a strategic advantage. Recent data confirms the rapid rise of this approach: a 2024 GIIN study estimates the global impact market at roughly \$1.57 trillion in assets under management, growing at about 21% annually (Davis, 2025). By combining inclusive innovation, capacity building, and sustainability as a strategy, impact investing can catalyze a new era of economic transformation, striking a balance between financial returns and social and environmental impact.

2. Research Design

This chapter explains the main research question and corresponding related research questions. Further, the research aim, scope, and limitations are presented.

2.1 Research Problem

As previously discussed, impact startups play a crucial role in addressing pressing environmental challenges. Therefore, impact venture capital is of growing importance to help these startups grow and align their financial and environmental goals. However, the literature, most recently by Migliavacca et al. (2022), reveals that there is still a lack of a univocal understanding of impact investing, particularly in how impact investors select and support startups and how they measure success regarding impact at the end of the investment cycle. Overall, the literature reveals a greater gap in how investors balance financial returns and social and environmental impact (Schlütter et al., 2023). These gaps will now be discussed in detail based on each stage of the investment cycle.

First, the literature shows no standardized approach to how investors select impact startups. Researchers like Block et al. (2021) have found that while traditional VCs rely on established financial metrics like IRR or MOIC, IVCs lack a single standard framework or KPI and instead apply mixed criteria. The same research elaborated that it is unclear whether sustainability-related criteria, such as the GIIN IRIS+ characteristics, or IMP, play a role in these criteria and how they are weighted compared to each other and potential financial metrics. Some authors, such as Serrano-Cinca and Gutiérrez-Nieto (2013), provide frameworks for the decision-making process; however, these frameworks are not specific to IVCs, but rather to the broader industry, including social venture capital and socially responsible investing. Therefore, these cannot be generalized because they apply specifically to a particular industry. Other researchers, such as Heinz and Velamuri (2024), have made similar discoveries, finding that the decision-making process in impact investing is often opaque and varies significantly from one investor to another and across different industries. Some criteria, like motivation, are clearly defined. However, these are most often based on the individual IVC itself. The same research also revealed that investors use significantly different definitions of "impact," which underlines the lack of uniform standards across IVCs and potentially leads to misalignment and confusion in the industry. Therefore, the topic remains under-theorized and lacks empirical clarity. Overall, many researchers agree that impact investing is still evolving into a more rigorous stage and that there is no conclusive evidence on how IVCs operate significantly differently from

traditional investors (Agrawal & Hockerts, 2019b). These findings confirm the absence of a unified selection logic in IVCs and highlight the need for empirical research that captures how IVCs interpret, apply, and balance sustainability and financial objectives in early-stage funding.

In the second stage, the post-investment phase, the literature agrees on a similar problem: there is no standardized approach to how IVCs help startups scale beyond traditional capital provision. Most notably, research by Holtslag et al. (2021) explored that there is a common misconception that impact VCs count the money they invest as "impact." However, investors are expected to take on multiple roles across the investment lifecycle. This may again result from the limited standardization in the industry, potentially leading to what is known as "impact washing." Other recent literature from Pola and Justo (2024) reveals some of the roles IVCs can provide, such as strategic guidance; however, it is unclear how generalized these roles are and whether this support fosters legitimate social value creation or rather symbolic alignment. Furthermore, it is unclear what happens to the relationship between the investor and the entrepreneur when financial performance and sustainability suddenly come into conflict. Do IVCs protect their returns or push towards a social outcome? Holtslag et al. (2021) also elaborate on this fact and even raise the question of a possible moral hazard. Finally, a 2024 study by Barclays determines that impact startups in specific industries, such as climate tech in particular, face greater challenges related to scaling due to high R&D costs or regulatory complexity. The study reveals that there is limited knowledge of how IVCs respond to sector-specific scaling barriers (Fry, 2024). This indicates a need for empirical insight into how IVCs define and operationalize post-investment value creation and how these practices align with the broader goal of impact accountability.

The most significant potential gap in research lies in the third stage of the investment cycle: measuring real impact. Since 2013, numerous scholars, including those featured in the Stanford Social Innovation Review debate on impact investing, have highlighted that the primary issue is the lack of a universal standard for measuring impact success (Brest & Born, 2013b). While financial returns are measurable, social and environmental impact is difficult to assess. Agrawal and Hockerts (2019b) mention that "*the measurement of social impact is still very fuzzy and yet to be standardized*". Although there are specific tools like the IMP or the IRIS+, researchers such as Brest and Born (2013a) openly critique these early impact measurement frameworks, stating that they help track outputs and operational data but cannot capture the real social value or impact generated. Jackson and Harji (2020) highlight these problems by clarifying that without clear criteria, the actual success and impact on solving global problems cannot be

measured, and both startups and investors run the risk of "impact washing" (Jackson & Harji, 2020). This lack of consensus is also reflected in practitioner reports, which show wide variation in how investors define and monitor impact (GIIN, 2025).

2.2 Research Questions

Based on the research gaps outlined above, the thesis has formulated a main research question formulated as follows:

How do impact venture capitalists select, support, and measure the success of impact startups while balancing financial and sustainability goals?

To answer the main research question, three sub-questions have been formulated, each building on the others and corresponding to a specific phase of the investment cycle: investment selection, scaling, and success measurement. The sub-questions are formulated as follows:

1. How do impact venture capitalists select impact startups, and do sustainability-driven factors influence their investment decisions beyond traditional financial criteria?
2. After investment, how do impact VCs influence the scaling of impact startups, and what role does their strategic and non-financial support play in achieving both financial and environmental success?
3. How do impact VCs measure the success of their investments, and does the lack of standardized impact metrics create a risk of impact washing?

Together, these research questions form the analytical basis of this thesis and guide both the literature review and the empirical investigation. While this thesis follows an exploratory qualitative design, hypotheses are used to sharpen the analytical focus and clarify the assumed relationships between variables across the investment cycle. Thus, related to each research question, specific hypotheses have been formulated to guide the research direction, provide a clear overview of what to expect, and predict the relationships between the variables analyzed. The following hypotheses are thus formulated:

Research question 1:

- H1: Impact VCs prioritize sustainability-driven factors in startup selection over traditional financial quality rankings.
- H0: Impact VCs follow traditional financial quality rankings without significant influence from sustainability-driven factors.

Research question 2:

- H2: Strategic and non-financial support from impact VCs significantly improves the scalability and sustainability performance of startups.
- H0: Non-financial support from impact VCs has no significant effect on startup scalability or sustainability performance.

Research question 3:

- H3: The absence of standardized impact metrics leads to inconsistencies in measuring success and increases the risk of impact washing in VC-backed impact startups.
- H0: Existing impact measurement frameworks are sufficient to ensure transparency and accountability in impact VC investments.

Together, these hypotheses reflect the interdependencies across the investment cycle: decisions made at the selection phase influence the scalability of impact outcomes and the robustness of impact accountability mechanisms.

2.3 SMART Research Objective

Overall, the objective of this thesis is to develop a structured and practice-oriented understanding of how impact venture capitalists in Europe select, support, and evaluate early-stage impact startups. Specifically, it examines three key stages in the investment lifecycle: investment selection and corresponding mission alignment, post-investment support and strategic capacity building, and, finally, impact measurement and accountability. The goal is to provide actionable insights that impact VCs, alongside startup founders and ecosystem stakeholders, can use to improve investment decision-making, refine support strategies, and strengthen the integrity of impact assessment frameworks.

To achieve this, the thesis applies a qualitative, exploratory research design. Primary data was collected through fifteen semi-structured interviews with both key stakeholder groups: ten impact venture capitalists and five impact entrepreneurs. A hybrid thematic analysis was conducted, combining theory-guiding deductive coding with inductive theme development. The findings will be combined within a lifecycle model that maps the phases of VC-startup interaction and identifies key alignment mechanisms, relational dynamics, and structural gaps, in particular related to impact enforcement and legitimacy.

This framework will connect empirical insights with relevant theory, serving as a strategic guide for aligning financial returns with measurable social and environmental outcomes. Ultimately,

practical recommendations are offered to clarify systematic risks, such as "impact washing," contributing to more effective, transparent, and accountable impact investing practices. To ensure research relevance in today's rapidly evolving environment and market, the study was conducted within a six-month timeframe.

2.4 Scope and Limits of Research

To ensure conceptual clarity and avoid misinterpretation, this thesis must define its research scope explicitly. While impact investing and its related problems can be considered a global phenomenon, the research scope of this thesis is focused solely on the European Union. This means that the interviews, as well as the resulting analyses, will solely reflect the current state of affairs in the EU. The EU's global leadership justifies this focus on impact investing and related specified industries, such as climate innovation, where the EU has consistently held the highest number of green patents over the last four years (Delanote & Rückert, 2022). This, along with increasing environmental challenges, highlights the need for innovative solutions and the importance of this research. Besides, expanding the scope beyond the European Union would exceed the practical boundaries of this project.

The research also concentrates on early- and growth-stage investments, as these phases are most critical for startup scalability and have been underexplored in existing literature, which will be outlined in detail in the following chapter. These stages face the most significant barrier to securing investments, especially for impact-focused ventures, often perceived as financially riskier. This funding gap is often referred to as the "missing middle," representing the most strategic point of intervention for impact venture capitalists (Fry, 2024).

Finally, the study is limited by its overall timeframe of five months, which constrained both the number of interviews conducted and the depth of observation. Numerous methodological limitations must also be noted. First, early research revealed that impact VCs tend to use individual impact metrics to measure environmental and social impact, which may limit the comparability and transparency of reported outcomes. Second, as with all qualitative research, risks of selection bias and response bias are inherent, particularly in self-reported narratives from IVCs and impact entrepreneurs. Lastly, while the sample includes a diverse range of European IVCs and impact founders, its size is naturally limited, restricting the generalizability of the findings.

3. Literature Review

This section is divided into three parts, each corresponding to a separate research question, which elaborates on how the topic is currently being addressed in the literature.

3.1 Investment Selection in IVC

The first stage of the investment cycle is the selection process, during which IVCs decide which startups to fund. Agrawal and Hockerts (2019a) define this stage as particularly important in the context of impact investing, as it involves assessing not only financial potential but also social and environmental value. This section will first review traditional VC investment criteria as a benchmark before exploring how impact-specific factors supplement them in IVC practice.

3.1.1 Traditional VC Investment Criteria

Investment criteria are the basis for any investment decision made. Studies have categorized investment criteria into two types: so-called "soft criteria" and "hard criteria." Soft criteria typically involve qualitative judgments about founder competence, team cohesion, and leadership vision, which are difficult to quantify and often rely on intuition and judgment. Hard criteria are almost always recorded as numbers and can encompass, for example, financial market data or stock returns (Liberti & Petersen, 2018). Although some older studies, such as those by Eisele et al. (2011), focus solely on hard criteria since they are easily quantifiable, more recent studies by Monika and Sharma (2015) have demonstrated that both soft and hard criteria are important indicators for investment decisions. Establishing these traditional investment logics provides a comparative foundation to investigate whether and how IVCs move beyond conventional risk-return screening.

Generally, the current literature agrees on the key criteria that matter most in evaluating VC investments. Carlos Nunes et al. (2014) and Monika and Sharma (2015) both identify management quality as the most critical factor for VCs to make their decisions, especially during the early and growth stages. In particular, the ability to present the business idea clearly and convincingly is seen as essential. This soft criterion consistently ranks highest among researchers. Product-related factors, such as apparent customer utility, innovation, and competitive advantage, also rank high. Market-related criteria and financials, such as growth potential, liquidity of investment, and existing distribution channels, are important but secondary. Research by Monika and Sharma (2015) reveals that many VCs view it as part of their role to help establish such structures after the investment has been made.

In summary, the quality of management, product value, and financial return remain the dominant criteria for early-stage VC decisions. While these criteria are effective for financially driven investments, they omit entirely sustainability and social impact considerations. In response, frameworks such as the GIINs IRIS+, and the IMP have emerged, aiming to create more holistic and impact-oriented investment decision frameworks by integrating sustainability metrics.

3.1.2 ESG Criteria in Impact VC

Environmental, Social, and Governance (ESG) criteria have become increasingly important for integrating sustainability into investment decisions. While ESG is often used in combination with impact investing, they differ significantly in terms of concept and application. ESG emphasizes how environmental and social risks affect a company's financial performance (Lin, 2022), while impact investing focuses on how a company's activities create measurable social or environmental outcomes. This distinction is crucial for understanding whether IVCs really go beyond ESG compliance or rebrand existing practices.

Recent studies by Eccles et al. (2017) have shown that ESG investing now accounts for 20% of total assets under management in the US, highlighting its growing relevance in financial markets. Overall, ESG refers to the evaluation of environmental, social, and governance-related risks and practices in firms, often used as non-financial performance indicators (Mohammad & Wasiuzzaman, 2021). Investors utilize ESG frameworks to evaluate risks and opportunities that extend beyond financial performance, encompassing a company's environmental impact, social practices, and internal governance. Kräussl et al. (2023) define key environmental criteria as carbon emissions, energy conservation, animal welfare, and water usage, although these criteria differ significantly across various industries. Social key criteria can be defined as diversity, inclusion, gender equality, employee contribution, and governance criteria, such as the number of women on the board or the number of current internal conflicts (Kräussl et al., 2023). Research in the current literature by Ahmad et al. (2023) found that investors believe ESG information from ventures can provide an initial overview of how the company is positively impacting the world.

Understanding ESG and its factors is crucial for this thesis, as investors may rely on them to screen investments, even when claiming an impact orientation. By knowing the criteria ESG typically involves, this research can better assess whether impact venture capitalists go beyond

basic ESG compliance or simply relabel conventional practices as "impact." This distinction is particularly relevant for analyzing potential cases of "impact washing" later in the thesis.

3.1.3 GIIN Core Characteristics

While ESG frameworks are important tools for assessing the non-financial performance of ventures, they primarily focus on identifying and managing risk. However, impact investing takes it a step further by having a clear intention to generate measurable positive social or environmental outcomes. This is especially important for impact startups, where investors are not just managing risk but actively aiming to create change. Although there is no existing uniform framework for measuring IVC investment criteria, the GIIN has proposed four core characteristics in an attempt to standardize impact assessment, which investors can use to make informed decisions about impact investments (GIIN, 2019).

1. Intentionality:

Investments must have the intention of contributing to both positive social and environmental impact and financial return. This includes that IVCs set clear and transparent financial and impact goals, as well as defining an investment thesis that explicitly states these goals and the strategies used to achieve them.

2. Use of Evidence and Impact Data:

Investment decisions should be informed by qualitative and quantitative impact data, preferably from the population or community, to identify a social or environmental need. This data should be used to set targets for investment contributions, design investment strategies, and develop an understanding of potential negative impacts. Furthermore, metrics should be developed to measure the performance of the set targets and to conduct impact analytics over time.

3. Impact Measurement

Throughout the investment lifecycle, investors should measure, monitor, and manage their impact performance. This includes feedback loops during the investment's life cycle, risk identification, and mitigation plans to fulfill the stated impact goals, as well as the disclosure of actual performance data to investors and investees. Potential negative consequences of the actions taken should also be mitigated.

4. Contribution to the Field:

Lastly, IVCs should encourage other investors to make impact investments more effective by being transparent about their use of impact investing and its practices, sharing these openly,

along with their strategies, performance, and goals. The learnings resulting from these practices, along with the related data and evidence, should be shared to increase awareness and understanding.

While there is a high relevance of these factors to this research, there is still a lack of clarity around how IVCs actually apply these principles in their selection process, as well as a clear consensus on how they balance these characteristics with the previously mentioned traditional VC criteria. Furthermore, there may be specific principles that are only crucial for certain industries, such as climate tech or social inclusion, which are completely overlooked in such general frameworks.

To better understand how investment decisions are made in this context, this thesis draws on some theoretical models that help explain how IVCs might form investment decisions under uncertainty, manage trade-offs, and navigate the complexity of aligning financial and impact goals. These models provide a valuable lens for understanding the logic that may guide or contradict the application of the GIIN characteristics in IVC practice.

3.1.4 Theoretical Perspectives on Selection

Principal-Agent Theory

The principal-agent theory is a widely recognized theoretical framework that describes the relationship between two parties, the principal and the agent, where the principal delegates tasks to the agent, who executes them, often under conditions of asymmetric information. Initially developed in the context of corporate governance and financial contracting, this theory offers valuable insights into understanding selection dynamics in venture capital. (Kaplan & Strömberg, 2001). However, its application for impact investing remains somewhat limited in existing literature (Rawhouser et al., 2019).

Transitioning this concept into IVC, the principal can be seen as the impact investor, providing resources such as funding and knowledge to the agent, which is the entrepreneur or impact startup, that utilizes these resources to execute the startup's mission. The theory distinguishes between two phases: *ex ante* (pre-investment) and *ex post* (post-investment), each presenting a set of specific challenges and risks.

In the *ex ante* phase, both parties face the risk of information asymmetry. The investor who seeks a positive return and a positive impact has little to no information about the company's actual environmental and social practices, especially in the absence of standardized

sustainability metrics. Although there are sustainability ratings similar to those from GIIN, these only provide initial guidance and are challenging to evaluate for external individuals, as they do not provide the complete picture of the company's sustainability practices and their verifiability. Therefore, investors are uncertain whether the startup will consistently adhere to these practices over time or if its strategies will shift and sustainability will be deprioritized. As initially outlined by Kaplan and Strömberg (2001), this situation creates the risk of "adverse selection," where investors mistakenly fund ventures that claim to generate impact but do not deliver it in practice.

In the ex post phase, the investor may acquire partial ownership of the startup and become exposed to the actions of the entrepreneur, which may not be observable at all times. This creates the risk of a "moral hazard," where the entrepreneur or agent tends to realize riskier investments to increase financial returns, neglecting ESG criteria (Kaplan & Strömberg, 2001). A context-relevant overview of the principal-agent relationship, adapted for sustainability governance and legitimacy building, is presented in Appendix 2 (adapted from Stupak et al., 2021).

Although the Principal-Agent Theory provides a strong foundation for this thesis by highlighting potential conflicts of interest between investors and startups, it has a critical limitation when applied to impact investing: it does not account for the lack of standardized sustainability metrics and their effect on IVC decision-making. Furthermore, it assumes that the principal is primarily motivated by financial performance, whereas IVCs prioritize both financial performance and impact objectives. This raises the critical question explored in this thesis, whether IVCs, despite their focus on sustainability, ultimately prioritize financial returns over long-term impact commitments.

Market Signaling Theory

The market signaling theory builds upon the principal-agent problem in an attempt to reduce the mentioned information asymmetry problems between investors (principals) and startups (agents). In this context, startups, referred to as signalers, possess an information advantage about their environmental or social practices that is not directly observable by investors. To attract funding and reduce perceived risk, they can transmit observable signals that help investors assess otherwise hidden attributes. The investor can use this information to support his assessments and overall decision-making process (Bafera & Kleinert, 2022).

Effective signals must meet three key conditions: they must be observable, costly, and adjustable. In impact investing, this might include signals from third-party certifications such as B-Corp, independently verified sustainability metrics like CO₂ reduction, or published life-cycle assessments. This allows startups to communicate their impact orientation, reducing investor uncertainty and providing investors with a more accurate view of the company's sustainability processes. In contrast, static attributes like founding team demographics are not considered valid signals, as they are neither adjustable nor communicative. Further, signals are only credible if low-quality firms cannot easily imitate them. For example, to achieve and maintain specific sustainable metrics, significant effort and commitment are needed, which discourages lower-quality firms. Overall, empirical studies have found that startups that effectively convey their signals in the long term, tend to have more success in attracting value-aligned capital than those that do not (Bafera & Kleinert, 2022; Svetek, 2022). A visual representation of this signaling-feedback process, adapted for the context of early-stage impact investing, is provided in Appendix 3 (adapted from Svetek, 2022).

While this theory offers important insights into how startups can communicate their sustainable orientation to investors, it still has certain key limitations when explicitly applied to impact investing. Since ESG metrics often lack verification due to being self-reported, the risk of signal manipulation and greenwashing is particularly high. Studies have found that, especially in the early stage, signals that investors need to rely on are often ambiguous, inexpensive, and easy to imitate. This creates a gap between signaling and actual impact performance. Furthermore, it remains unclear whether IVCs utilize external certifications or due diligence and whether they weigh them differently to validate sustainability claims (Svetek, 2022). These limitations are central to this thesis, which seeks to explore whether signaling practices in IVC decision-making contribute to real impact accountability or just provide a surface-level overview.

3.2 Venture Scaling

While the Principal-Agent Theory explains pre-investment challenges faced by impact VCs in selecting startups, efficient investment decisions on their own do not ensure long-term sustainable alignment. Therefore, the focus now shifts toward the second research question: How impact VCs help startups scale beyond capital allocation. Scalability in this context can be defined as the extent to which the value created by the firm increases with the application of its resources in the business. Startups can scale their business by leveraging existing resources, integrating strategic support mechanisms by investors, and improving operational efficiency (Somaya & You, 2024).

3.2.1 Resource-Based View (RBV)

The Resource-Based View states that the key to scaling a business is to achieve a sustainable competitive advantage over other firms by managing strategic corporate resources. These resources are classified into three different types. Physical resources include all tangible assets, such as equipment and infrastructure, as well as organizational resources, including business processes and structural capabilities. Additionally, knowledge resources encompass the expertise or technical know-how of an organization's employees. As initially proposed by Barney (1991), to develop a competitive advantage and be capable of increasing a firm's performance, resources must be valuable, rare, inimitable, and non-substitutable (VRIN). This means they must contribute towards profitability; competitors should not have easy access to them, and should not be easily replaced by alternatives (Battisti et al., 2022). Among these, knowledge is recognized as the key element in forming a long-term competitive advantage since it possesses three unique characteristics. Appropriateness: defined as the ability of the firm to generate higher returns from its resources than its competitors. Aggregation: the efficiency in transferring knowledge across the company. Transferability: whether the transferred knowledge really turns into a competitive advantage (Battisti et al., 2022). In conclusion, the theory suggests that owning resources alone does not allow a firm to develop a competitive advantage. Instead, it is essential that these resources are also managed effectively to ensure superior performance compared to the competition.

Although RBV provides a strong foundation for understanding how VCs support scaling, it has been criticized for treating companies as static entities rather than viewing them as dynamic organizations that evolve in terms of resources, skills, and organizational structure. Additionally, this model largely overlooks sustainability considerations and completely disregards the perspective of impact VCs. It focuses primarily on competitive advantage as the primary driver for scaling a firm. However, impact VCs might consider other factors. To address these gaps, Hart (1995) developed the NRBV, integrating environmental capabilities such as pollution prevention, product stewardship, and sustainable development as strategic pathways for building long-term competitiveness. Overall, it states that companies that proactively manage sustainable challenges are more likely to succeed in the long run (Battisti et al., 2022).

3.2.2 Dynamic Capabilities Framework (DCF)

The Dynamic Capabilities Framework (DCF), initially developed by Teece et al. (1997), extends the RBV by conceptualizing resources not as static but as adaptable in response to

environmental changes. Due to today's dynamic and rapidly changing environment, startups face increasingly complex and unpredictable challenges. The ability to adapt to constantly changing consumer preferences and emerging technological innovations is crucial for ensuring sustainable long-term growth and success (Sun et al., 2025).

Dynamic capabilities include three key functions: sensing new opportunities, seizing them through the reallocation of resources, and transforming internal structures to sustain competitiveness (Teece et al., 1997). As an investor, helping optimize dynamic capabilities is key to scale ventures. They empower startups to quickly relocate resources to seize opportunities and respond to changes and emerging market demands by adapting their strategies and business model while optimizing internal and external resource flow. The faster and more efficient new market opportunities can be seized, the greater the venture can enhance its market competitiveness. Furthermore, dynamic capabilities focus on internal collaboration and efficient operation to improve the firm's execution, as time is money. For investors and startups, promoting dynamic capabilities is crucial to achieving performance growth and sustainable long-term development (Sun et al., 2025).

However, the DCF is slightly limited in terms of usability. In the early stage, the effect of this model may be minimal due to limited resources. Therefore, allocating these efficiently would either not be possible at all or can lead to too dispersed resources and strategic ambiguity. As ventures scale, the importance of dynamic capabilities becomes increasingly apparent, helping to optimize resource allocation. As ventures continue to grow, dynamic capabilities may yield diminishing returns, requiring a strategic shift towards innovation and systems-level thinking to maintain competitiveness. In conclusion, the impact of the DCF on startups is a dynamic process that can lead to a substantial competitive advantage if managed effectively by the venture and its investors (Sun et al., 2025).

3.2.3 Stakeholder Theory and HVA Framework

Stakeholder Theory, initially developed by Freeman (1984), challenges the shareholder-centric view of the firm by arguing that organizations must create value for a broad range of stakeholders. It has since evolved to address new sustainability imperatives (Freeman, 2015; Talan et al., 2024). Based on this new approach, stakeholders are defined as any group or individual that has an effect or is affected by the organization. This can include customers, impact investors, as well as society and the environment as a whole.

In the context of impact investing, this implies that venture capitalists are not only funders but must actively engage with all stakeholders from the venture environment. Investors should actively facilitate collaboration, shape structures, and build connections to help startups scale while interacting with diverse stakeholder groups. It is essential to recognize that stakeholders may exert varying levels of influence on the company, and some stakeholders may have a greater impact on the company than others. However, this does not imply that some stakeholders are more central than others. Recent studies acknowledge that all stakeholders should receive equal attention and add value equally. Especially with the rise of sustainable-driven investments, such as impact investing, the original stakeholder theory needs to shift from a profit focus concerning individual stakeholders towards a more holistic approach that focuses on all stakeholders (Talan et al., 2024).

To reflect these evolving expectations, Talan et al. (2024) propose the Holistic Value Addition (HVA) framework as a conceptual extension of Stakeholder Theory. The HVA model deepens the ESG framework by encompassing all business stakeholders and extending the stakeholder theory. Since the HVA model is new and not yet widely known, it is illustrated in Figure 1 below, showing how businesses can create mutual value across interconnected domains.



Figure 1: Holistic Value Addition Framework (Talan et al., 2024)

The HVA combines four components in an inner circle: society, individuals, families, and the rest of nature. An outer circle illustrates the corresponding returns or value added by these components from businesses. More specifically, the value that businesses add to these instances should be mutually beneficial, meaning that both parties derive value from the relationship. Companies and investors need to be aware that all components are interconnected with each other. Education, for example, could include for a business to understand specific needs and

facilitating those needs. Individuals comprise families, which in turn form a society, contributing to its flourishing.

In conclusion, traditional stakeholder theory suggests that companies should create value for all individuals affected by their actions. Thus, stakeholder management is essential for a company's performance and is particularly relevant for scaling startups. However, stakeholder theory is limited in the sense that nowadays, the border between stakeholders and external instances becomes blurred, and new stakeholders need to be accounted for. Therefore, the holistic value-addition approach has been developed to clarify what stakeholders truly are in today's impact-driven society and how businesses can provide value to them.

3.3 Measuring Impact

While impact VCs play a crucial role in scaling mission-driven startups, a significant challenge remains: How can impact itself be measured, verified, and managed with the same rigor as financial returns? Without effective measurement, impact investing is ineffective and can easily be misused for impact washing. Therefore, the key to effective impact investing lies in its possibility to measure and manage real impact. Impact management hereby refers to the process by which IVCs understand the effects of their investments on external factors like people, the planet, or society. Only with this can goals be set to adapt processes and improve operations, making a positive contribution to the world. However, unlike financial returns, environmental and social impacts are increasingly challenging to measure (Mudaliar et al., 2017).

3.3.1 Impact Management Project

The Impact Management Project (IMP) has provided a conceptual framework for measuring and managing impact in investment contexts. It was developed over three years, concluding in 2021, by a network of 3,000 investors and enterprises and is so far the only standardized measurement tool available. It aims to make it easier for investors to translate their impact intentions into real impact results and build a global consensus on how impact is measured (Bouri et al., 2019). IMP developed five overarching dimensions that have been identified as crucial for investors to collect data on.

1. What:

The first dimension gathers data on the outcomes investors aim to contribute to, whether they are experienced as positive or negative by those affected, and how important they are to all stakeholders, including external entities such as the planet. This approach also utilizes the holistic stakeholder theory introduced in the previous sub-chapter. This means that simply

tracking a reduction in CO₂ emissions is insufficient; instead, it needs to be considered who is affected, whether the effect is important to them, and whether it was intended or unintended. Each of these aspects also varies with changing demographics and must be adapted accordingly. Thus, investors need to engage with all stakeholders that experience impacts proactively. After defining these areas, investors can create categories that are closely aligned with the SDGs and also encompass additional aspects. These outcomes refer to the level of social or environmental well-being experienced by specific stakeholders, such as individuals or the planet. It is essential for investors not only to assess the intended outcomes but also to consider the unintended consequences that often arise. By doing this, investors should be able to prioritize outcomes, communicate them more effectively internally, and implement policies to mitigate negative ones. Selecting indicators as an investor is crucial, but it is also a dynamic process. Indicators can be expressed in various ways and are considered valid if they accurately reflect the outcome from the perspective of the affected stakeholder (Bouri et al., 2019).

2. Who:

This dimension enables investors to identify the stakeholders directly impacted by the company's activities. The more diverse stakeholders the venture affects, the more diverse experiences and interests the company must account for. To identify stakeholders, investors can utilize multiple categories to enhance their framework. Using the data, investors should be able to segment the stakeholders impacted based on their unique needs and develop responsive strategies. Since resources are finite, companies need to make decisions on how to allocate their resources, which this process helps them do most efficiently. Another point is to identify the type of relationship the company has with the people affected. Traditionally, ventures emphasize the relationship with one or two stakeholders, such as customers and employees, although they affect many more. To understand the total impact, all relationships need to be considered. After this, investors should determine whether stakeholders achieve positive or negative outcomes (Bouri et al., 2019).

3. How Much:

This dimension concerns the number of people who experience the outcome, to what extent, and for how long. To deepen the understanding of how ventures impact stakeholders, investors need to consider the scale, depth, and duration of the impact. Scale deals with the number of people who experience the outcome, the depth and degree of change experienced by analyzing the pre- and post-change periods, and the duration, which is the total period of the experience. Demographics can be used to structure this data and to develop a better understanding of

specific stakeholders. The data about scale is critical as it allows setting targets by comparing the scale performance of different targets against each other or the population to derive useful information. Comparing scale information based on a specific time frame also allows companies to measure customer satisfaction over time. Other than scale, depth does not compare raw data with each other, but rather the level of outcome against a baseline. Therefore, companies need to set a baseline before they start making an impact in order to track changes and measure the post-outcome. Lastly, the duration of the outcome is equally important. Companies can have a negative impact on specific stakeholders in the short term but a more positive one in the long run, which needs to be assessed. Stakeholders may also hold different views and priorities regarding the period and, thus, may view it differently (Bouri et al., 2019).

4. Contribution:

The fourth dimension helps companies assess their contribution to what has happened in the absence of their impact activities. Since resources are scarce, they should be allocated where they make the most efficient impact. If ventures consider a contribution to be too insignificant, resources might be better allocated elsewhere. By considering their contribution, companies will become increasingly aware of the system in which they operate, the key players, and how they interact. With this knowledge, they can improve the whole system rather than making individual contributions. Other stakeholders affected by this system can also benefit from this knowledge and, therefore, profit from the change. Estimating contribution can be best done by conducting market research, community engagement, and experimental research. If done well, observing and interacting with a representative sample of an affected community can yield the most valuable insights (Bouri et al., 2019).

5. Risk:

Ultimately, when companies and investors establish impact goals, there remains a risk that these goals may not be achieved. Therefore, this dimension measures the likelihood that the impact will be different than anticipated and how this influences stakeholders. It is essential to consider impact risk in addition to financial risk, as both cannot be captured simultaneously. IMP has identified ten types of impact risks that investors can choose from, such as external risk that captures the probability that external factors disrupt the venture's ability to deliver impact. It also helps identify the severity of the impact risk into low, medium, and high categories relative to one another. However, the final decision must be made by the investor or company and should be tailored to the company's specific needs. Depending on the risk assessment, companies can determine which steps to take. For example, when a risk is classified as low, it

may not be considered further; however, it should be reviewed regularly to ensure that it remains in the same classification. Finally, mitigating risks is equally important. It is built on the risk assessment, and as a starting point, investors fill in data gaps identified in the risk assessment, as some risks might be mitigated with additional data. After this, the data can help adjust the business model, for example, by changing prices to decrease the likelihood of risks. It is essential to consider that mitigating some risks can lead to an increase in the likelihood of another risk (Bouri et al., 2019).

In conclusion, the IMP provides a wide range of tools and metrics for investors to build a company-specific impact measurement model. While the focus of this thesis lies more on the conceptual application of the IMP framework, it is important to note that tools like IRIS+ have been developed to translate these dimensions into standardized impact metrics. Developed by the GIIN, IRIS+ builds directly on the five IMP dimensions and offers a modular system of indicators investors can use to measure and compare impact outcomes. However, despite these advances, challenges remain. Although it captures many different metrics, it does not always provide enough to capture all impact objectives due to the immensely diverse and dynamic stakeholder perspectives. Many investors may employ additional or unique frameworks tailored to their approach. As a result, the key limitation discussed by most investors of the IMP is that it has comparability issues. Since investors use and prioritize different metrics, cross-investor comparison of impact performance remains challenging, and inconsistencies persist among impact measurement approaches. Lastly, unlike financial data that is subject to audits, most data IMP works with is self-reported by investors or the venture. Therefore, the risk of impact washing due to manipulated data is significant (Islam & Habib, 2023).

3.3.2 Input-Behaviour-Output Control Framework

While the IMP is the only fairly standardized model that establishes a basis for impact measurement, it struggles to account for impact washing. The control framework fills this gap by highlighting the need for enforcement mechanisms that extend beyond voluntary reporting. It provides a framework to understand how impact investors can establish monitoring systems and verify and enforce impact commitments over time (Islam, 2022). The framework is built on three pillars.

1. Input Controls

In an organizational context, input controls refer to the control mechanisms used to manage organizational resources, such as human or material resources. Examples of such mechanisms

are employee selection or training activities. Investors can adopt various of these mechanisms to manage impact risk. One primary input control strategy is driving impactful exit readiness. Investors can support companies by developing their governance, impact measurement, and risk management systems. This mitigates the risk of greenwashing in the sense that companies have the necessary discipline to create actual impact, measure it, and further increase it beyond the investor's exit. This also makes companies more attractive to potential buyers who seriously care about impact creation, thereby reducing the threat related to ownership (Islam, 2022).

2. Behaviour Controls

Behavior controls involve monitoring ongoing employee activities and their behavior. They deal with how work gets done and guide employees. Examples include establishing procedures, supervision, and accountability for action. The key behavioral control strategy for investors is to establish impact practices within the company's culture. The most common is integrating the idea that creating a positive impact can be an everyday task for all employees in their business activities. Investors can organize training programs and awareness sessions to help ensure the creation of impact beyond their exit, thereby reducing the risks associated with operations.

3. Output Controls

Output controls involve analyzing outcomes at the end of a period. Examples are performance metrics, targets, or rewards. The primary strategy is to establish impact metrics and targets, such as the SDGs or the IMP framework. However, as the impact investing industry and its frameworks are relatively new, the limitations mentioned in the previous sub-chapter remain a key problem. Setting accurate impact targets is highly challenging and has not been widely established to date. The inherent complexity of quantifying social impact remains, which is why setting targets may ultimately prove misleading (Islam, 2022).

In conclusion, both IMP and control theory provide a valuable foundation for how impact VCs can measure and control for real impact. However, neither IMP nor control theory resolves the key challenges in impact VC measurement and enforcement. The first remains not standardized enough and inconsistent across investors, and the latter deals with a lack of systematic and comprehensive impact data collection process. This limits the ability to obtain accurate data on impact performance and also remains subject to impact washing even though it can minimize the risk.

4. Statement of Research/Project Methodology

This chapter clarifies the various research methods, sampling techniques, data analysis approaches, and data collection methods employed to address the research questions.

4.1 Types of Research

Overall, the literature differentiates between three types of research. Explanatory, descriptive, and exploratory. Unlike research questions, these types of research focus on achieving goals and following aims (Casula et al., 2020).

Explanatory research focuses on answering "why" questions by explaining why certain things happened. Therefore, it seeks the causes and reasons behind events. It follows a deductive approach, meaning it begins with a general theory from which hypotheses are created. Finally, related variables are defined, data is gathered, and statistical tests are chosen. These hypotheses guide the research process, and when they are answered, the results should also address the research question (Casula et al., 2020).

Descriptive research deals with the "what" questions, explaining patterns, trends, or relationships in certain phenomena while neglecting causality. Scientifically, classification systems are an example of descriptive research. It allows researchers to answer questions like "What kind" of animals, for example, inhabit a particular area, and which data is usually visualized in graphs or distributions. Descriptive research follows an inductive approach, which means it begins with data, unlike explanatory research, and makes sense of the data by theorizing. Instead of hypotheses, categories are used as a framework to measure, collect data, and perform analysis. This research can be quantitative and qualitative and is often conducted through surveys or case studies (Casula et al., 2020).

Exploratory research focuses on creatively resolving unexpected problems and, in doing so, generating new knowledge. The goal of this research is to gain initial insights into the problem and develop related questions which can then be investigated through more extensive studies. In general, it is considered more open and flexible than the other types and widely applicable since all topics were once "novel." Exploratory research is often conducted through qualitative surveys or focus group discussions (Casula et al., 2020).

Due to the complex and still developing nature of impact investing, this research will use a qualitative exploratory research approach. The limited standardization of data, combined with

the lack of a well-established theoretical consensus, makes quantitative or deductive approaches less suitable. Qualitative methods enable in-depth exploration of decision-making processes within impact venture capital, yielding rich insights from practitioners. This is especially relevant in areas such as impact measurement and investor–founder alignment, where contextual understanding is essential and standardized metrics are lacking.

Because this study adopts an exploratory qualitative design, it relies on both primary and secondary data sources to investigate its research questions. Primary data is data that is original and thus collected for the first time. It is firsthand information collected through research, typically via interviews, surveys, or observations. In contrast, secondary data refers to information that has already been collected and analyzed by other researchers. Thus, this involves data that is reinterpreted from academic articles, reports, or institutional datasets. Primary data provides new insights into unsolved topics, while secondary data instead supports the understanding of theoretical concepts and framing (Ajayi, 2023).

For this thesis, primary data will be collected through semi-structured expert interviews with two key stakeholder groups: impact venture capitalists and impact entrepreneurs. These interviews will provide direct information on investment practices, enabling the researcher to compare insights from both perspectives and develop suitable recommendations. Due to this, research can capture experiential knowledge, perceived challenges, and strategic thinking that is not currently available through secondary data sources. At the same time, secondary research is used to complement the findings. This refers mainly to the secondary data gathered in the theoretical part of this thesis, such as the IMP, which will help guide the researcher during the interviews and triangulate interview responses. Furthermore, secondary research on individual VC firms and impact startups will be conducted to gain background knowledge on their mission and impact strategies, where applicable. This combination of primary and secondary data will enhance the depth of the analysis and the credibility of its results, as conclusions are based on real-world perspectives as well as researched theories.

The chosen qualitative research design directly aligns with the three research questions of the thesis. Each question addresses a distinct phase of the investment cycle and requires an in-depth understanding of the topic that cannot be acquired solely through secondary data. The first research question examines how impact VCs select startups, considering both traditional and sustainability-driven VC investment criteria. This will be answered mostly through interviews with impact VCs, allowing for a deeper understanding of what criteria really matter to them.

The second research question aims to answer how impact VCs help startups scale post-investment. This will be addressed through interviews with impact VCs and entrepreneurs, particularly capturing the differences in understanding between the two parties and whether these differences contribute to the scalability of impact over time. The third research question addresses the measurement of impact and, ultimately, what constitutes success in terms of impact investments. Therefore, both the interview parties and the analyzed frameworks from the theory of this thesis will be of utmost importance, as they will be used to critically examine the challenges of reporting and the potential of impact washing.

4.2 Interview format

Based on the type of research, an in-depth interview was chosen to explore the detailed perspectives of both impact venture capitalists and impact entrepreneurs. In-depth interviews are a qualitative research technique often conducted with small samples, where the researcher invests a significant amount of time in studying each participant. Generally, this type of interview is conducted in a one-on-one approach, allowing the researcher to pay close attention to the interviewee's answers, as well as their underlying emotions and body language. However, with increasing digitization, in-depth interviews have evolved and are now often conducted online using video calls or similar forms of digital communication. This allows the researcher to be more flexible and interview potential relevant interviewees that would normally be out of reach (Rutledge & Hogg, 2020).

Furthermore, a semi-structured approach has been chosen for the in-depth interviews. While conducting a semi-structured interview, the researcher allows the interviewee some freedom in their answers, which means they are not directly influenced by the direction the interview is taking. This structure is typically achieved through broad interview guidelines, which enable the researcher to follow a predetermined path during the interview by using prepared questions and themes, although these are not necessarily fixed. Therefore, the research gives control to the interviewee, allowing the participant to explore other topics they deem important freely. The researcher can use this to then ask follow-up questions that might not be in the original interview schedule. As a result, the answers in each interview may vary considerably between participants, as they reflect each interviewee's level of detail. When developing the interview guidelines, no closed-ended or leading questions must be asked in semi-structured interviews, as this would contradict the flexible approach of the interview. Instead, the researcher should start with a simple, open question that encourages further discussion. Furthermore, it might be sensible to note the topics that have already been discussed during the interview so the

researcher can maintain a clear overview. Therefore, it is also recommended to keep brief notes to facilitate asking follow-up questions (Osborne & Grant-Smith, 2021).

To capture both perspectives, as previously discussed, two separate but thematically aligned interview guides were developed. The guide for venture capitalists focuses on the selection criteria, non-financial involvement, scaling support, and the use of impact measurement frameworks. The other one is for the impact entrepreneurs to address their experience of the investment process, how they view the post-investment involvement, and how impact expectations are communicated between both parties. Each guide includes open-ended questions and multiple themes grouped into blocks, which can be asked flexibly by the researcher. These blocks align with the research questions, first covering investment selection and sustainability factors, second post-investment value creation and scaling support, and third impact measurement and the perceived risk of impact washing. Simplified versions of these guidelines have been sent to the interviewees beforehand, allowing them to prepare accordingly and minimize downtime during the interviews. Overall, the questions are designed to be exploratory, avoiding any leading language and allowing interviewees to introduce additional topics. The complete outline of the interview guides can be found in Appendix 4 and 5.

The interviews were conducted over a one-and-a-half-month period from April 1st to May 16th. Online video conferencing tools, such as Microsoft Teams or Google Meet, were used due to the location and availability of the interviewees. Each interview lasted between 30 and 60 minutes, and interviews were conducted either in English or German. Furthermore, all interviews were audio recorded, and informed consent was obtained prior to the recording. Ultimately, participants were allowed to review and approve the transcript.

4.3 Sampling Method

The sample of this research consists of two target groups: impact venture capitalists and impact entrepreneurs. Impact VCs are involved in the funding process of early-stage and growth-stage impact startups, bringing experience in impact investing and decision-making authority. Entrepreneurs are the founders of the startups that receive funding and follow a specific vision of their ideas.

Both participants for the interviews have been mainly selected using stratified purposive sampling. In general, purposive sampling aims to increase the depth of understanding of the topics rather than the breadth by studying a small and purposively selected sample. Therefore, respondents who can deliver practical and in-depth knowledge on this topic are selected. This

sampling strategy is not part of any random form of sampling but instead ensures that specific types of parties are included that provide valuable and specified information. Furthermore, purposive sampling is also used to identify and study different kinds of beliefs and views about a specific topic from parties involved, such as impact VCs and entrepreneurs. Stratified purposive sampling specifically selects groups of participants and then stratifies them by the characteristics of the group, allocating a number to each stratified group. This allows the researcher to ensure depth and variation within and across stakeholder groups. In terms of this thesis, there are two groups: impact VCs and impact entrepreneurs. Within each group, the goal is to identify variation and not to generalize it across the population. Therefore, this sampling method is ideal for capturing depth and diversity in the research by interviewing multiple perspectives from both groups (Campbell et al., 2020).

Further, elements of snowball sampling were used. Snowball sampling can be considered similar to networking or referrals. Often, researchers begin with a small number of initial participants who meet the research criteria and are then asked to recommend additional potential participants. Therefore, researchers rely on social networking to establish connections, capturing an increasing chain of participants (Parker et al., 2019). For this research, some entrepreneurs recommended VC firms with which they worked together and vice versa. This helped expand the network indirectly. A total of fifteen interviews were conducted, ten with impact venture capitalists and five with impact entrepreneurs, to ensure the best possible balanced representation. Given the expert-driven nature and qualitative aim of this research, probability-based sampling techniques such as random sampling were neither feasible nor appropriate. The study required depth, nuance, and relevance over generalizability, making non-probability sampling the most suitable approach.

4.4 Data Analysis

This research adopts a hybrid thematic analysis approach, combining deductive coding based on established theory with inductive coding to capture novel insights emerging from the data. This method will enable a clear and structured analysis of the discussed theoretical frameworks while remaining flexible and open to new themes that will emerge from the empirical data.

In general, thematic analyses are often employed in exploratory qualitative research, which involves examining detailed data. It aims to identify and interpret specific patterns and themes within a dataset to gain new insights into a problem or topic. This research follows the six-step framework outlined by Naeem et al. (2023), which provides a systematic path starting from the

raw qualitative input gathered from interviewees to the development of a new conceptual model (Naeem et al., 2023). This framework is especially useful for this thesis as it combines profound theoretical grounding with the discovery of new insights, ultimately allowing the researcher to develop a practice-oriented conceptual model for both impact VCs and entrepreneurs. In the following, this model is depicted.

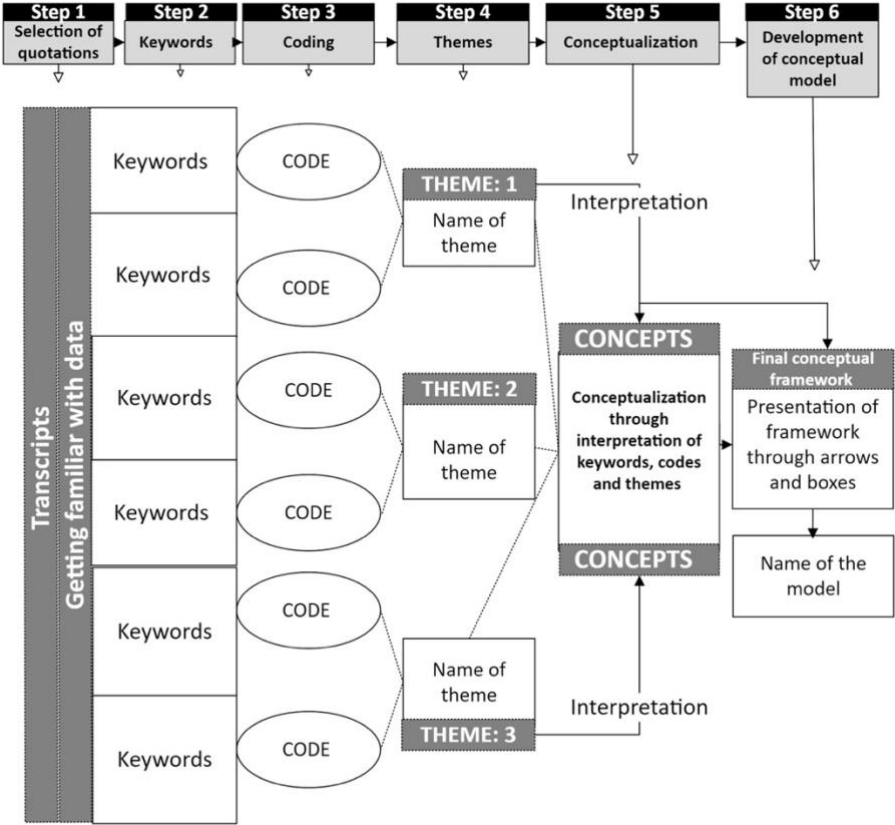


Figure 2: Thematic Analysis Process (Naeem et al., 2023)

In the first step, all interviews will be transcribed and reviewed to ensure that everything is clear and understood. In line with Naeem et al. (2023), quotations will then be highlighted based on their importance and depth of ideas, which will later be used to ground the themes identified in the interview guide (Naeem et al., 2023).

In the second step, specific keywords will be identified using the "6Rs" (Realness, Richness, Repetition, Rationale, Repartee, Regal). Realness ensures that keywords reflect real perceptions of the interviewees, richness that the keywords are helpful and rich in meaning, repetition that keywords that are repeated multiple times indicate significance, rational that the keywords are in line with the theoretical foundations, repartee that specific keywords are chosen to symbolize important moments in conversations, and regal that the crucial keywords are chosen in the future analysis since they reflect key phenomena. These keywords help the researcher to capture

the core of what participants shared and serve as a link between the raw data and the thematic coding. While Naeem et al. (2023) initially suggest an entirely inductive process, this research will slightly adapt this framework by incorporating the proposed hybrid approach. Therefore, a set of deductive keywords is defined before the initial data collection. These are based on the theoretical frameworks outlined in the literature review of this thesis. They serve as basic coding anchors to familiarize oneself with the data and to structure it early. The complete set of keywords is listed in Appendix 6. Since these initial keywords are quite detailed, the goal is to cluster them later into broader categories based on the data gathered. For example, "impact washing" and "transparency" might be combined into a theme called "Trust and Verification." Besides the deductive approach, inductive keywords will remain in the process, as proposed by Naeem et al. (2023), to account for the potential emergence of new and unexpected patterns and information that might arise from the semi-structured interview approach. This entire adjustment is necessary and aligns with the theory-driven nature of the research design, as well as supporting the goal of verifying existing concepts and generating novel insights (Naeem et al., 2023).

In the third step, the researcher will then begin coding according to a code-by-theme matrix as proposed by Naeem et al. (2023). This enables early pattern recognition and will be sorted according to the three research questions. The researcher can start with the deductive keywords derived from the theoretical framework and follow up with inductive codes when data reveals themes that were previously uncovered. This hybrid approach enhances analytical robustness and enables novel patterns from participants to emerge. To ensure quality, the coding will follow the 6Rs approach by Naeem et al. (2023).

In the fourth step, the codes will be grouped into broader themes to facilitate interpretation. These patterns then preferably include both deductive themes and novel inductive insights that enrich the previous ones. The resulting insights follow Naeem et al.'s "4Rs for themes" approach: reciprocal, recognizable, responsive, and resourceful, to enhance the thematic decision-making process. Reciprocal ensures that codes are connected and not randomly derived. Recognizable identifies if patterns align with the original data. Responsive ensures that the themes align with the research's aims and objectives, and resourceful means that the researcher can effectively utilize these themes to answer the research questions (Naeem et al., 2023).

To structure the results in a transparent, theory-informed, and academically robust manner, this thesis adopts the Gioia methodology (Gioia et al., 2013) as the final analytical layer of the qualitative analysis process. The Gioia approach is particularly well-suited for inductive research designs, as it provides a systematic way to transition from raw empirical material to abstract theoretical insights while maintaining proximity to participants' language. Following the thematic coding and clustering phases, the Gioia method enables the organization of findings into a three-tiered data structure. At the first level, first-order concepts are derived from both deductive and inductive keywords, using terminology that remains close to the original phrasing of interviewees. These are then grouped into second-order themes, which reflect more abstract analytical patterns that begin to answer the research questions. Finally, these themes are synthesized into aggregate dimensions, which represent overarching theoretical constructs that capture the dominant logic, tensions, or mechanisms across cases. This structured coding architecture not only increases analytical transparency but also strengthens the thesis's contribution to conceptual theory-building. The resulting data structure serves as the analytical backbone for the findings presented in Chapter 4 and forms the foundation for the development of the conceptual model in the final chapter (Gioia et al., 2013).

The fifth step, as outlined by Naeem et al., then interprets the core themes in line with the research questions. This involves building relationships between patterns, comparing the perspectives of investors and entrepreneurs, and linking the findings back to the original theoretical frameworks. While this follows Naeem et al. (2023), the interpretation is structured using the Gioia methodology to move from thematic insights to higher-order conceptualization.

In the final step, these insights are synthesized into a conceptual model that illustrates how impact venture capitalists and entrepreneurs interact across the investment lifecycle. The model integrates empirical findings with theoretical constructs, providing practical guidance for enhancing alignment, accountability, and decision-making in impact-focused investments. Together, these analytical tools provide a robust foundation for deriving both practical recommendations and conceptual contributions, as presented in the findings chapter. This model not only reflects the complexity of impact investing but also fulfills the research objective of the thesis, which is to develop a structured lifecycle framework for IVC-startup collaboration (Naeem et al., 2023).

5. Reasoned Analysis - Findings

This chapter presents the data analysis and main findings based on the theoretical framework and methodology.

5.1 Data Structure and Analytical Framework

The following findings are derived from the hybrid thematic analysis approach outlined by Naeem et al. (2023) and structured by the Gioia methodology (Gioia et al., 2013). Based on 15 expert interviews with impact venture capitalists and impact entrepreneurs, a total of 40 first-order concepts were developed through a combination of deductive and inductive coding. These were clustered into 10 second-order themes and further abstracted into four aggregate dimensions, capturing recurring patterns in how stakeholders select, support, measure, and legitimize impact ventures. The whole coding process, consistent with the six-step model by Naeem et al., is detailed in Appendix 8.

A complete listing of all first-order concepts, second-order themes, and their corresponding aggregate dimensions is presented in the full Gioia-style data table in Appendix 9. To aid orientation, Table 1 below offers a condensed visual summary of the emergent structure. It illustrates how raw empirical insights were progressively distilled into broader conceptual categories.

These dimensions directly reflect and expand upon the theoretical perspectives introduced in Chapter 3, including Principal-Agent Theory, Dynamic Capabilities, and the Impact Management Project (IMP) framework, which are further examined through the thematic analysis in the following sections.

1 st Order Concepts	2 nd Order Themes	Aggregate Dimensions
Aligning impact-first intent	Mission & Value Alignment	Investment Selection and Alignment Logics
Translating impact into thresholds		
Founder filtering		
Targeting SDG-fit funders	Founder-Led Investment Selection	
Compatibility		
Rejecting misaligned support		

Table 1: Simplified Overview of the Gioia-Based Data Structure

1 st Order Concepts	2 nd Order Themes	Aggregate Dimensions
Advisory support Strategic governance Ecosystem stewardship	Post-Investment Value Creation	Post-Investment Support and Strategic Value Creation
Mentorship matchmaking Goal setting by intuition Capacity building	Founder Impact Practice	
Proxy metrics Light-touch LCA Custom frameworks	Flexible Impact Measurement	
Impact-linked returns Relational trust Outcome-based incentives	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Measurement fatigue Attribution inflation Survival-driven impact claims	Impact Reporting Under Pressure	
Narrative reframing Commercial-impact conflict Strategic co-option	Founder-Investor Alignment Challenges	Signaling, Legitimacy, and Ecosystem Positioning
Investor signaling Competitive ecosystem advantage Dual-track legitimacy	Impact Signaling and Leverage	

5.2 Investment Selection and Alignment Logics

This section will now present the findings for the first research question, which explores how impact venture capitalists select startups and to what extent sustainability-driven factors influence their investment decision-making beyond traditional financial criteria. The analysis reveals two major selection logics: a strong emphasis on strategic mission alignment, including climate relevance, founder motivation, and impact thresholds, and a growing trend of founder-led investor filtering, in which entrepreneurs actively assess and select investors based on perceived alignment and long-term compatibility. These patterns reflect both relational and criteria-driven dynamics, aligning with the theoretical frameworks introduced in Chapter 3, including the GIIN characteristics and Principal-Agent Theory. The following sections examine how IVCs and founders navigate these mechanisms in practice and manage trade-offs between financial viability and impact intentionality under conditions of uncertainty.

5.2.1 Mission and Value Alignment

A consistent insight across the interviews was that sustainability alignment functions as a primary filter in the selection of early-stage investments. Impact venture capitalists described screening startups not only for commercial viability but rather for whether their solution addressed a meaningful social or environmental problem. For many, this was a clear first step preceding all financial evaluations. One investor noted that "*impact is not an add-on; it is a precondition*" (IVC-06). This approach contrasts with traditional VCs, who typically prioritize return potential first and assess social value, if at all, later in the process. Further, it contradicts the traditional VC literature, which emphasizes hard financial metrics and soft managerial attributes as core investment filters. In contrast, IVCs in this study use sustainability intent as a first-order criterion, often independent of short-term financial data.

Founders, too, emphasized that alignment was mostly mutual. In most cases, entrepreneurs were approached by investors who were already operating within the impact space and shared their sustainability orientation. For founders who actively sought to fund themselves, selection tended to occur upstream. They targeted only those investors who they believed would value their mission. One entrepreneur noted that the absence of mission-related questions was "*a red flag*" (ENT-02). Selection, thus, is less about evaluating all available options and more about pre-filtering engagement based on perceived alignment. However, this dynamic was not universal. A few entrepreneurs noted that in capital-scarce situations, particularly under time pressure due to the need for a rapid time-to-market, they had limited choice and accepted investors who were "*not as much focused on impact*" as they would have liked. This suggests that, despite the rise of mission-driven funding, structural limitations in the availability of aligned capital persist, especially for early-stage or capital-intensive ventures. This mutual selection process still offers a partial inversion of the Principal-Agent problem. Rather than facing purely ex ante information asymmetries, both founders and VCs engage in mutual screening to reduce mission misalignment, indicating an evolution in how trust and legitimacy are established in early-stage impact financing.

The mission-first logic was often translated into quantitative thresholds, particularly in the climate tech industry. Some VCs set minimum impact requirements, such as CO₂ reductions, before proceeding with further evaluation. One investor explained that they "*require a minimum decarbonization threshold of around 100,000 tons per year*" and that "*anything less, we don't even evaluate*" (IVC-06). These benchmarks serve as operational tools for gatekeeping alignment and shape which ventures are considered "impact-worthy." This threshold-based

logic aligns closely with the first two GIIN core characteristics, which emphasize intentionality and evidence-based investment decision-making. Rather than treating impact as an add-on, VCs operationalize it through minimum benchmarks, particularly in climate tech, thus converting mission alignment into a quantifiable gatekeeping tool.

Ultimately and most notably mentioned, all of the IVCs and Entrepreneurs framed impact and financial return as co-dependent. This "dual-KPI" logic requires that startups demonstrate both meaningful impact potential and commercial scalability. As one investor put it, they "*need both... otherwise, it simply doesn't work*" (IVC-02). Rather than choosing between purpose and profit, impact VCs appear to embed financial discipline into their impact strategy, selecting only ventures that can scale their mission through viable business models. Only through scaling a venture, can a sustainable long-term impact be created. One thing that has been highlighted during the interviews.

These first insights suggest that impact VCs do not simply add ESG considerations to existing financial models. They apply a fundamentally integrated logic of alignment, in which impact, founder intent, and viability must reinforce one another. This confirms that mission alignment is not rhetorical; it is used to govern selection decisions from both sides and directly challenges the assumptions of traditional, finance-first investment paradigms. Interestingly, signaling mechanisms, such as sustainability certifications or ESG labels, played a minor role in investor decisions. Contrary to expectations from Market Signaling Theory, most VCs in this study relied less on formal signals and more on direct assessments of founder motivation and mission coherence.

5.2.2 Founder-Led Investment Selection

While selection is often viewed as the investor's job, many founders in this study took a different approach. They described being intentional and strategic when selecting investors, particularly seeking those that align with their mission. Instead of pursuing any available funding, entrepreneurs evaluated potential investors based on their thematic focus, value system, and potential long-term influence on the company's direction.

One of the most frequently cited selection strategies was targeting investors whose portfolios or theses aligned with specific SDGs. Entrepreneurs deliberately approached funders who had prior commitments to goals such as "Reduced Inequalities." One founder explained that they "*actively approached VCs with theses related to reduced inequalities and decent work*" (ENT-01). This reflects a conscious use of SDGs as a legitimacy filter, one that reduces the risk of

mission drift and increases strategic fit. It also mirrors signaling logic, whereby founders project a coherent mission to attract like-minded capital.

Storytelling and early communication also played a central role in testing narrative compatibility. Pitches were not just designed to attract funding but also to assess whether the investor genuinely resonated with the mission. One entrepreneur noted that they avoided investors who did not intuitively resonate with their mission, explaining that over-explaining "*why our impact mattered*" was already a sign that "*it wasn't a match*" (ENT-02). In this way, the pitch itself becomes a strategic signaling tool, helping assess alignment and anticipate potential conflicts.

In some rare cases, founders explicitly rejected investors whose behavior conflicted with their long-term mission. This was often the case when advisors pushed for rapid scaling without regard for social purpose. One founder recalled having to let go of an advisor who "*tried to reframe everything around scale and revenue*" and ultimately "*didn't understand why we started this*" (ENT-02). Such actions underscore the founder's agency in promoting stakeholder-centric models of growth and resisting pressures that prioritize profit over purpose, aligning with the extended Stakeholder Theory perspective. Overall, it reflects not only a desire for value alignment but also a refusal to compromise on impact under pressure. However, as mentioned before, this active selectivity was not universal. A few entrepreneurs noted constraints in investor choice due to timing, capital scarcity, or stage-specific urgency. In these cases, mission alignment had to be weighed against access and speed, revealing persistent limitations in the current impact VC ecosystem.

The findings from both investor and founder perspectives reveal a consistent pattern: investment relationships in the impact VC space are co-produced through mutual selection. VCs apply a multi-layered logic that integrates mission fit, impact thresholds, and business viability, often through a dual-KPI model where financial and sustainability performance are evaluated together. At the same time, entrepreneurs do not act as passive recipients of capital; instead, they screen investors for thematic alignment, relational trust, and narrative compatibility. SDG frameworks, storytelling resonance, and advisor behavior serve as key filters. This two-sided evaluation process challenges the traditional Principal-Agent model and points toward a more dynamic, values-driven investment relationship.

It is also important to note that both groups explicitly rejected the notion of a trade-off between purpose and profit, instead describing models in which the two are mutually reinforcing. In this

view, selection is not about negotiating conflicting goals but about aligning around a common purpose. This mindset aligns with the Holistic Value Addition Framework, in which social value creation and commercial logic are viewed not as opposites but as mutually beneficial outcomes embedded within broader stakeholder systems. As a result, impact VC funding is driven more by strategic fit than by the mere availability of capital.

As already seen in 5.2.1, investment decisions in impact VC are not guided by formal ESG tools but by shared values, trust, and alignment with the mission. The findings from 5.2.2 build on this by showing that founders also take an active role in selecting their investors, using SDGs, storytelling, and advisor behavior to filter for long-term fit. This mutual screening process challenges the traditional one-way logic of the Principal-Agent Theory. It supports the idea from the Stakeholder Theory that all parties involved should create value together. However, the firm reliance on informal judgment and personal fit also shows that many of the concepts from theory-like signaling or GIIN's impact principles are still used inconsistently in practice. This points to a gap between theory and what is actually happening in early-stage investing.

Research Question 1 is therefore answered as follows: Impact venture capitalists select impact startups using a multidimensional evaluation logic that prioritizes sustainability-driven factors, such as mission alignment and measurable impact potential, alongside business model viability. Entrepreneurs, in turn, actively select funders based on SDG alignment, narrative fit, and long-term commitment to impact. This two-sided filtering logic reflects a co-produced investment relationship grounded in shared values and mutual strategic alignment.

Based on these findings, H1 is supported: impact VCs do not follow traditional financial-only selection logic. Instead, they employ a hybrid screening approach that prioritizes sustainability considerations alongside financial evaluation. The null hypothesis (H0) is therefore rejected.

5.3 Post-Investment Support and Strategic Value Creation

This section addresses the second research question, which explores how impact VCs support impact startups after the investment is made and how this non-financial involvement contributes to scaling outcomes, both financial and impact-wise. While capital is essential, the findings reveal that strategic engagement, governance contributions, and ecosystem access are equally critical enablers of long-term impact. Investors often positioned themselves as "critical friends" or mission-aligned sparring partners, influencing strategic direction through their participation on the board and coaching. Founders, in turn, emphasized the importance of relational trust,

mentorship, and gradual empowerment in maintaining alignment as the company evolves. The themes presented below explore the mechanisms, formats, and limits of this post-investment value creation logic.

5.3.1 Advisory Value Creation

After the investment is made, impact VCs play a more strategic role than traditional passive investors. Interviewees described forms of support that go far beyond financial oversight, particularly in the form of board engagement, governance structuring, and critical sparring on both strategic and mission-related issues. Several investors emphasized the importance of combining financial guidance with impact discipline, describing themselves as "critical friends" who support while also challenging founders to maintain alignment. One investor noted that this role includes ensuring that "*decisions are not only scalable but remain consistent with the company's mission*" (IVC-05).

Rather than enforcing alignment through control rights, many VCs rely on participatory governance, shaping direction by contributing frameworks, insights, and access to resources. This included help with refining business models, structuring measurable KPIs, and adapting scaling strategies to sector-specific constraints. Founders confirmed that such engagement was central to the venture's ability to grow without compromising its purpose. One founder noted that the support "*wasn't micromanaging*" but involved asking "*the right questions... about our direction and how it aligned with the impact thesis*" (ENT-03).

Additionally, several cases demonstrated that VCs actively facilitated ecosystem access by connecting startups to public partners, co-investors, or municipal clients, particularly in fields related to climate and infrastructure. These introductions were not random; they were "*mission-curated*" and designed to match founders with stakeholders who shared their values and risk appetite. This extended the role of the investor from capital provider to impact enabler, one whose network and guidance were framed as essential for long-term scalability and growth.

These findings provide empirical support for the Resource-Based View, emphasizing how investors contribute rare and valuable strategic resources, particularly knowledge and networks, that strengthen a venture's competitive advantage. At the same time, the Dynamic Capabilities Framework is reflected in how investors support ventures in adapting their business models and scaling strategies in response to evolving market demands. Moreover, Stakeholder Theory is reflected in the focus on close relationships, shared decision-making, and alignment with key players in the ecosystem.

In sum, impact VCs do not rely on formal control or distant supervision. Instead, they take a hands-on, trust-based approach, working closely with startups to shape impact goals and provide strategic support. Most entrepreneurs expressed general satisfaction with the support they received, especially in areas such as strategic sparring, network access, and capacity building. However, some noted that when it came to improving their actual impact generation, investors were sometimes more hesitant to get involved, framing it as the founder's responsibility. This distinction suggests that while relational governance is strong, clearer expectations around impact co-creation may still be lacking. Overall, the findings confirm that post-investment engagement is a critical enabler of both financial and environmental success, supporting the logic of Research Question 2.

5.3.2 Founder Impact Practice

From the founder's perspective, post-investment support was most valued when it was tailored, relational, and development-oriented. Rather than relying on formalized processes, the founders described how support emerged through ongoing dialogue, mentorship connections, and capacity-building efforts, all of which contributed to the startup's ability to scale while staying anchored in its mission.

Several founders noted the role of investors in connecting them with relevant mentors, often individuals with experience in similar sectors or growth patterns. These introductions were not just about expertise; they were framed as mission-relevant accelerators. As one founder explained, the value came from being matched with mentors who "*had built similar platforms in climate tech,*" which "*was a huge accelerator for us*" (ENT-05). This form of targeted knowledge transfer demonstrates the Resource-Based View logic: investors act as conduits for rare and non-substitutable resources, such as expert mentorship, that enhance competitive and impact performance.

Goal setting was also described as a collaborative and intuitive process rather than a formal metric-driven exercise. Many founders reported sitting down with investors early on to define what impact should look like, co-creating KPIs or guiding principles. One founder recalled that they "*sat down with our investor and co-created impact goals together*" (ENT-01). This illustrates how impact governance is often negotiated, not imposed, making relational trust a key foundation for long-term alignment. The negotiation-oriented governance structure contrasts with output-driven control frameworks. It aligns more closely with the Stakeholder

Theory, where trust, shared purpose, and inclusive goal definition replace rigid accountability mechanisms.

Finally, both founders and VCs emphasized the importance of organizational capacity building, particularly in areas such as systems, hiring, and internal decision-making structures. Investors did not intervene operationally but supported teams in preparing for complexity. One VC emphasized that their goal was "*to make sure the team can scale responsibly*" (IVC-02). This proactive development focus reflects a more profound commitment to impact integrity, one that extends beyond financing into the foundational health of ventures. These interventions reflect the logic of Dynamic Capabilities, particularly the ability to reconfigure internal competencies in response to evolving complexity and market demands.

In summary, post-investment impact support is not only strategic but also human-centered and co-developed. Founders valued investors who respected their autonomy while offering meaningful structure and networks, showing that scalability depends as much on people and processes as it does on capital.

These findings demonstrate that post-investment value creation from the founder's perspective is relationally embedded and mission-guided rather than process-driven. Rather than enforcing rigid output controls or applying formal ESG instruments, most support mechanisms operate as dynamic capabilities, enabling startups to reconfigure their internal resources, refine their strategies, and build resilience in the face of uncertainty. At the same time, the emphasis on mentorship, co-developed impact goals, and stakeholder-responsive decision-making aligns closely with the Stakeholder Theory and its expanded interpretation through the HVA framework. Investors are not only capital providers but act as relational catalysts who enhance startups' ability to deliver shared value. This signals a shift away from static performance metrics towards more adaptive, learning-oriented support logic, a key feature of impact-oriented ecosystems.

Notably, the effects of this support were not symbolic or secondary. In many cases, founders described how investor contributions helped them overcome growth barriers, develop internal structures, and retain integrity while scaling. Rather than interfering with autonomy, these interventions acted as enablers of long-term impact performance, precisely the dual objective described in RQ2.

Research Question 2 is therefore answered as follows: After investment, impact VCs influence the scaling of startups through targeted non-financial support that combines strategic insight, relational trust, and access to aligned networks. This support plays a decisive role in helping startups achieve financial viability while maintaining environmental or social relevance.

Based on these findings, H2 is supported: strategic and non-financial involvement by impact VCs significantly contributes to the scalability and sustainability performance of their portfolio ventures. The null hypothesis (H0) is therefore rejected.

5.4 Impact Measurement, Enforcement, and Risk Handling

This section addresses the third research question, which explores how impact VCs assess the success of their investments and whether the absence of standardized metrics creates risks such as impact dilution or misrepresentation. While investors consistently emphasized the importance of measuring non-financial performance, the findings reveal a broad diversity of practices, ranging from custom frameworks to intuitive proxies. Several described the challenge of balancing accountability with flexibility, particularly in early-stage environments where formal measurement structures are often lacking. The themes presented below examine how impact is defined and monitored in practice, how alignment is enforced post-investment, and how pressure to report measurable outcomes can lead to credibility risks, especially in ventures under financial strain.

5.4.1 Flexible Impact Measurement

A central challenge in the impact VC landscape is the lack of standardization in how impact is measured and defined. Despite the growing importance of sustainability metrics, few investors in this study applied rigorous or uniform measurement frameworks. Most relied instead on broad, often qualitative indicators, customized to each portfolio company and loosely linked to the fund's thesis. As one investor explained, impact is "*hard to isolate... we mostly rely on signals, not precise measurement*" (IVC-01). This stands in contrast to the five dimensions outlined by the Impact Management Project, which recommend a more systematic approach to impact data collection-including stakeholder prioritization, contribution, and risk. Only one of the ten interviewed IVCs fully operationalized this structure, revealing a significant gap in implementation.

Several investors described using informal, judgment-based methods such as "sanity checks" or narrative alignment rather than lifecycle assessments or third-party tools. This light-touch approach may offer flexibility. However, it also leaves room for inconsistency, particularly

when compared to structured frameworks like IMP or IRIS+, which aim to increase comparability and stakeholder accountability. One interviewee acknowledged that "*there is no full lifecycle assessment... it's more like a basic check*" (IVC-06). While this allows adaptation to different business models, it also means that comparable impact data across ventures is virtually absent.

From the founder's perspective, this lack of clarity created confusion and frustration. Several noted that even well-meaning investors failed to consistently define impact, leaving startups unsure of what was actually being tracked or rewarded. As one founder stated, "*It is not always clear what counts as impact... the definitions keep shifting*" (ENT-02). This definitional drift reflects not only the absence of unified metrics but also a lack of stakeholder-centered accountability, as proposed in the Holistic Value Addition Framework. The ambiguity reduces accountability and complicates internal alignment, especially for startups managing multiple impact investors with different expectations.

The findings in this theme highlight a significant credibility gap: impact measurement is valued rhetorically but rarely enforced systematically. In signaling theory terms, this fluidity weakens the reliability of impact signals. Without shared standards, ventures may unintentionally or intentionally overstate their contributions, heightening the risk of greenwashing. This gap makes it difficult to compare results, assess progress, or flag underperformance, ultimately increasing the risk that firms are labeled as impact-driven without delivering verifiable outcomes. While many investors acknowledged this issue, few adopted concrete verification tools or third-party frameworks, leaving impact measurement an aspirational rather than operational component of their VC model.

5.4.2 Enforcing Accountability

Although most VCs emphasized the importance of measuring impact, few had formal systems in place to enforce accountability once the investment was made. In terms of the Input-Behavior-Output Control Framework, behavioral and output controls, such as structured feedback loops or verified metrics, remained largely underdeveloped. Instead of relying on contractual clauses or verified outcomes, investors described a model grounded in relational trust, where alignment is maintained informally through ongoing conversations and mutual understanding. One VC summarized this logic as follows:

We don't rely on contracts. It's more about ongoing trust. If a founder is not serious about impact, it shows early (IVC-03/04).

This dynamic assumes that alignment is stable and observable but offers few safeguards if priorities shift or the mission drifts over time.

A small number of investors mentioned experimenting with output-oriented accountability structures, such as performance-based returns linked to verified non-financial outcomes. One example involved adjusting the GP carry based on externally validated impact results. While promising, these innovations remain rare. One investor noted that they were "*experimenting with models where part of the carry depends on impact outcomes*," although they admitted it was still early-stage and exploratory (IVC-09). These efforts reflect an emerging interest in formalizing impact enforcement, yet they are not yet standardized across the field.

From the founder's side, accountability was also framed through signaling dynamics, where failing to deliver on stated impact promises would reflect not only on their venture but on the investors who backed them. One founder shared that failing to deliver impact "*reflects on our investors too*," creating a constant sense of reputational pressure (ENT-01). While this dynamic can motivate performance, it is neither transparent nor enforceable and risks creating incentives for superficial reporting or "performative" impact behavior.

Notably, all investors stated they had never seen impact dilution or mission drift in their portfolios. They usually explained this by pointing to trust in the founders, not to active monitoring. This does not necessarily mean that everything was perfectly aligned, but rather that they had no systems in place to detect them. This underscores the need to distinguish between relational assurance and structural accountability, a gap that becomes more visible under the pressures explored in the next section.

In both signaling and control theory terms, the current enforcement landscape in impact VC relies heavily on informal mechanisms, relational trust, social capital, and reputational risk. However, it lacks the structural rigor needed to ensure accountability at scale. While alignment is valued, it is rarely enforced through formalized systems, leaving investors vulnerable to mission drift, especially under financial pressure. This reinforces the broader thesis that impact measurement remains more aspirational than operational and that the absence of robust verification tools perpetuates the risk of misrepresentation and impact washing.

5.4.3 Impact Reporting Under Pressure

Several founders expressed frustration with the current state of impact reporting, describing it as fragmented, compliance-driven, and essentially detached from operational decision-making.

At the core of this issue is the lack of standardized verification, which allows for a high degree of interpretive flexibility in how the impact is framed and communicated. One founder captured this very clearly:

Honestly, we can write anything into the report, and it gets accepted. If it sounds like impact, it goes through. No one double-checks (ENT-02).

This statement highlights a critical oversight gap, one that enables strategic narrative inflation and poses a real risk of impact dilution. From a Signaling Theory perspective, this absence of verification mechanisms undermines the credibility of impact signals. Signals that are not costly or externally validated can be easily manipulated, reducing their effectiveness in screening for proper alignment.

On the investor side, the findings reveal that many impact reports are produced primarily to satisfy external expectations rather than to inform internal decisions. One VC noted that impact reports are "*mostly for optics*" and "*not used much operationally*" (IVC-06). This highlights a gap between reporting as a formal requirement and reporting as a meaningful practice for learning and accountability. While the intention to report exists, the data often appears generic, backward-looking, and disconnected from a strategic direction. From a control theory lens, this highlights the absence of adequate output controls and formal structures that could link reported outcomes to actual performance standards or investor action.

Founders frequently pointed to the administrative burden of managing multiple overlapping reporting frameworks, each with different indicators, timelines, and templates. This fragmented landscape, marked by vague and inconsistent investor expectations, led to what several described as "*measurement fatigue*": the exhaustion of producing impact reports without knowing whether the information was being used constructively. One founder noted that "*every fund has its own framework*," resulting in "*more time filling out templates than tracking what matters*" (ENT-05). The absence of standardized tools or third-party validation further increases the risk of misrepresentation and reduces the long-term usefulness of impact data. While most VCs acknowledged that reports are written and circulated, few indicated they were actively used in decision-making.

Together, these findings suggest that impact reporting in its current form is often symbolic rather than substantive. Reports are written, read, and archived but rarely challenged or verified by third parties. This opens the door to selective framing, inconsistent data quality, and an environment in which "impact" becomes more about narrative than measurable value. From a

Signaling Theory perspective, the absence of third-party validation reduces the costliness and credibility of these signals, allowing ventures to communicate alignment without demonstrating it in verifiable terms. Consequently, signals lose their differentiating function, blurring the line between authentic impact and narrative conformity.

In Control Theory terms, this reflects a system heavily reliant on informal behavior- and input-based controls, such as relational trust or mission alignment, with limited output-based enforcement. Without clear metrics or consequences, accountability remains diffuse. Startups, aware of this, may craft compelling reports that "sound like impact" (ENT-02) with minimal fear of pushback, reinforcing the risk of greenwashing in high-pressure environments.

Research Question 3 is therefore answered as follows: Impact VCs measure success through highly individualized and non-standardized practices, often driven by relational trust and investor narrative rather than formal verification. This creates a credibility gap in the current model, where impact is valued but not consistently operationalized, leaving room for selective reporting and impact washing.

Based on these findings, H3 is supported: the absence of standardized impact metrics leads to inconsistency, weakens accountability, and increases the risk of impact washing in VC-backed startups. The null hypothesis (H0) is not supported, as current practices fail to ensure transparency or reliable performance tracking.

5.5 Signaling, Legitimacy, and Ecosystem Positioning

Although this theme does not directly correspond to one of the three research questions, it emerged inductively through the Gioia-based coding process as a recurring pattern across interviews. Both investors and founders frequently reflected on how they are perceived within the broader ecosystem and how impact positioning, reputational signals, and legitimacy narratives shape funding dynamics, stakeholder engagement, and strategic alignment. This section presents the two second-order themes that capture how interviewees navigate external perception and relational credibility: Alignment challenges in high-growth contexts and signaling mechanisms that reinforce trust and access.

5.5.1 Founder-Investor Alignment Challenges

As ventures scale, maintaining alignment between founders and investors becomes increasingly complex, especially when commercial pressures intensify. While most interviewees reported strong value coherence at the point of investment, several founders described tensions emerging

post-investment as expectations around growth, speed, and market positioning began to diverge. A common strategy for navigating this was narrative reframing. Founders adapted their messaging to emphasize financial scalability or market opportunity when pitching to certain investors, even if their internal priorities remained mission-driven. One founder shared that they *"had to shift [their] pitch for certain investors,"* emphasizing scale and ROI more than usual, even though the mission remained unchanged (ENT-03). From a Signaling Theory perspective, this reflects strategic signal adaptation under asymmetric expectations; founders tailor communication to preserve access while concealing friction.

Other founders described direct pressure to prioritize scalability over relational or community-based aspects of their work. As one founder explained, some investors pushed for faster go-to-market strategies, even if it meant *"cutting corners on the community side"* (ENT-05). This reflects a Stakeholder Theory dilemma: scaling pressure can marginalize non-financial stakeholders when financial imperatives dominate post-investment dynamics. In several cases, the shift was not due to investor pressure per se but to operational necessity under resource constraints. This illustrates how impact dilution can occur through indirect forces, not from explicit misalignment but from survival-based decisions that pull ventures away from their original mission.

These patterns suggest that alignment in impact VC is not a static achievement but an evolving negotiation shaped by capital availability, market timing, and relational trust. While many investors maintain a mission-first thesis on paper, implicit expectations surrounding scalability and exit timelines can subtly influence founder behavior, whether intentionally or not. This illustrates again a post-hoc inversion of the Principal-Agent problem: rather than founders withholding information prior to investment, mission drift emerges after investment when asymmetries in influence and pressure become apparent over time.

5.5.2 Impact Signaling and Ecosystem Positioning

Beyond internal alignment, founders and investors emphasized the strategic role of external perception and how impact is signaled and leveraged across the broader ecosystem. In the absence of shared metrics, reputation and affiliation act as proxies for verification. Being backed by a recognized impact VC was described as a *"stamp of credibility,"* especially in public and institutional markets. One founder noted that being backed by a known impact VC *"gave us access to municipalities we could not have reached otherwise"* (ENT-05). From a

Signaling Theory perspective, the funder's brand becomes a trust signal, substituting for formal due diligence in high-uncertainty environments.

Investors were aware of this signaling function and often framed their role as ecosystem intermediaries, opening doors, enhancing legitimacy, and lending weight to their portfolio companies through their own brand. This strategic affiliation can be crucial in markets where procurement, regulation, or public funding depend on the perceived integrity of the mission.

However, the founders also described the need to tailor their signaling depending on the audience. This led to what one called a "*dual-track legitimacy*" model: projecting strong impact credentials to mission-aligned partners while maintaining a commercially compelling narrative for traditional stakeholders. One founder explained, "*We talk SDGs to some and business metrics to others*" to appeal to different stakeholders (ENT-03). While pragmatic, this dual signaling reflects an unresolved tension in the field: impact is not yet universally legible or valued across all market segments, requiring founders to shift their narrative emphasis depending on the context.

The findings highlight that impact signaling currently functions as a workaround, a narrative, and a reputational tool in the absence of enforceable standards. While effective in the short term, such practices rely heavily on relational trust, stakeholder perception, and ecosystem branding. These dynamics extend Stakeholder Theory by illustrating how legitimacy is negotiated not only internally but also across diverse external audiences with differing priorities.

Although not part of the core research questions, this theme reveals an important insight: impact legitimacy is constructed as much through signaling and association as through measurable outcomes. This highlights a structural gap in current VC practices, one that supports near-term access and trust but requires formalization to sustain credibility over time.

6. Conclusions

This chapter concludes the thesis by summarizing the empirical findings and examining their implications in both theoretical and practical contexts.

While the research focused on three core questions, the Gioia-based analysis revealed an emergent lifecycle that connects the four aggregate dimensions, investment selection, post-investment support, impact measurement, and ecosystem positioning, as mutually reinforcing stages. Rather than treating alignment, support, and accountability as isolated functions, the findings suggest that they form an interdependent system shaped by both strategic logic and relational dynamics. This model also responds to gaps identified in Chapter 3, where prior frameworks often treated investor behaviors as discrete or sequential rather than dynamic and co-produced.

To reflect this, the following Interaction Lifecycle Model summarizes the key mechanisms and tensions observed across the investment journey. This model also provides the conceptual foundation for the practical recommendations outlined in the next chapter.

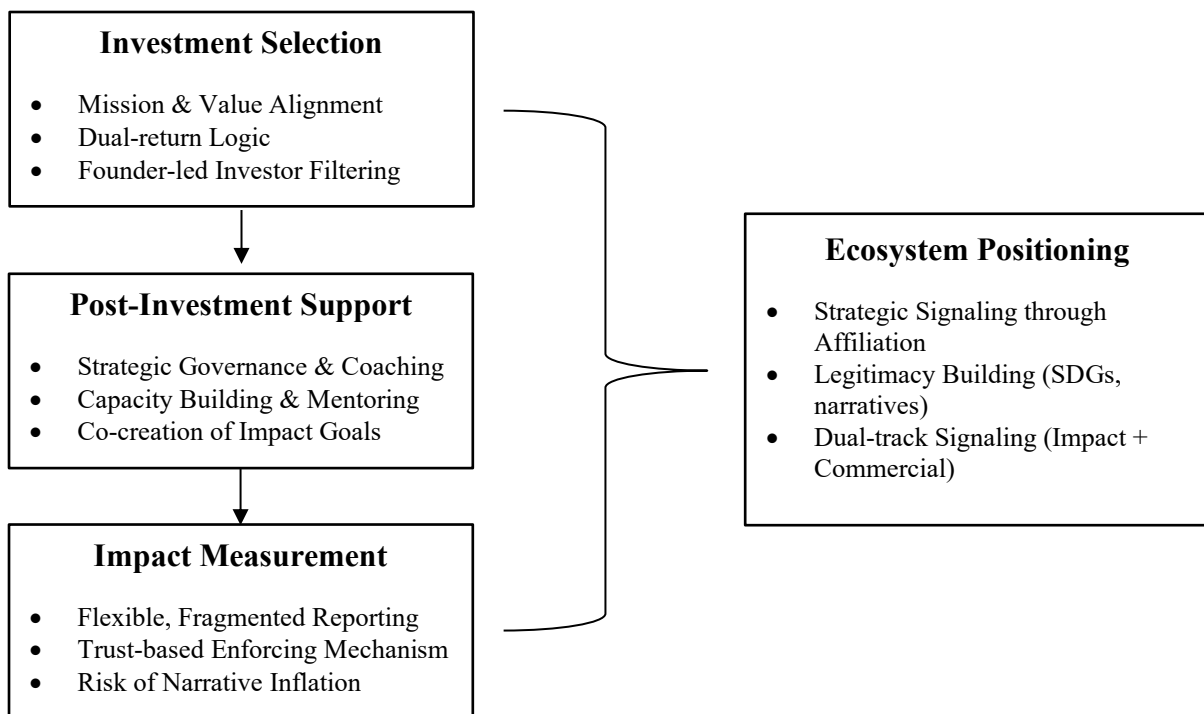


Figure 3: The Impact VC Interaction Lifecycle

Building on the lifecycle model, this thesis finds that impact venture capital operates through a series of interrelated phases: selection, post-investment support, impact measurement, and

ecosystem positioning, each characterized by distinctive tensions and coordination mechanisms. Rather than functioning as a linear process, these phases are mutually reinforcing and shaped by both strategic logic and relational dynamics between founders and investors.

These findings advance theory in three specific ways. First, the thesis redefines investment selection as a mutual screening process, where founders evaluate investors just as carefully as VCs assess startups. This challenges the traditional framing of the Principal-Agent model and signaling theory, both of which emphasize top-down logic and unidirectional screening. The data instead reveal a co-produced selection dynamic, in which alignment is tested through values, narrative fit, and thematic coherence, such as SDG alignment, often in the absence of standardized metrics.

Second, the findings challenge the assumption that post-investment value creation is primarily driven by formal control rights or standardized processes. Instead, the study reveals that strategic governance in impact VC is largely relational and adaptive, centered on mentorship, trust, and the co-creation of impact goals. This deepens the understanding of non-financial value creation and suggests a more human-centered theory of founder-investor collaboration.

Third, the thesis shows that impact measurement remains aspirational in many early-stage investments. While frameworks such as IRIS+ or IMP are often cited in the literature, the empirical evidence suggests a field dominated by fragmented tools, intuitive proxies, and symbolic compliance. This fragmented accountability landscape amplifies the risk of narrative inflation and impact washing, particularly when verification systems are weak or absent. These findings reinforce concerns raised by control theory and the IMP framework regarding the lack of enforceable standards in early-stage impact investing.

Together, these contributions provide a theory-informed yet empirically grounded model of how impact VCs interact with startups throughout the investment lifecycle. The model also surfaces key friction points, especially around measurement, alignment, and ecosystem signaling, that indicate an urgent need for institutionalized tools, shared metrics, and governance structures.

These theoretical insights now form the foundation for the final chapter, which proposes practical recommendations for improving strategic fit, strengthening enforcement mechanisms, and supporting the long-term legitimacy of impact investing.

7. Recommendations

Building on the lifecycle model and the findings, this section proposes four targeted recommendations to strengthen alignment, accountability, and credibility in impact VC practices. Each is grounded in recurring themes from the interviews and addresses practical gaps observed in investment selection, post-investment governance, and measurement.

1. Introduce a Publicly Recognized Impact Certification for Startups

One investor, most notably IVC-02, expressed concern about startups self-identifying as "impact-driven" without demonstrating measurable relevance. To address this, a public or third-party administered impact certification should be introduced. This seal would define clear eligibility criteria and help investors distinguish between trend-based self-labeling and authentic impact ventures. It would function as a quality filter, improve decision-making, and reduce the risk of impact washing at the selection stage.

2. Assess Negative Externalities in Due Diligence

Another practical improvement would be to require VCs to assess the potential negative externalities of their investments. IVC-02 highlighted that "real impact" includes understanding the cost of creating good, a reflection often missing in current processes. Encouraging VCs to assess trade-offs, both ecological and social, systematically would help move the field toward a more holistic understanding of sustainability and improve the quality of due diligence.

3. Implement Impact KPI Tracking and Third-Party Audits

Most interviewees confirmed that impact performance is rarely subject to structured verification. Founders admitted that reports are often accepted without scrutiny. To improve enforcement, VCs, and startups should co-develop impact KPIs at the point of investment and commit to regular third-party reviews. Several participants viewed this as a realistic next step to close the gap between intention and delivery, making impact verifiable and comparable rather than just narrative-driven.

4. Expand the Use of Grant-Based Support Models

IVC-09 described impact grants as a unique tool to fund early-stage, deep-impact innovations that are often too risky for equity investment alone. Grant instruments can de-risk experimentation, extend time horizons, and enable ventures to test models that prioritize long-term value over short-term returns. Blended finance models that combine grants with equity could be used more strategically across the ecosystem.

8. Limitations and Future Research

Finally, this chapter outlines the study's methodological limitations and highlights directions for future research, which are essential to position the findings in the field of impact investing.

While this thesis provides new insights into the dynamics of impact venture capital and founder–investor alignment, several limitations must be acknowledged. First, the study is exploratory and qualitative. While this design allowed for in-depth insight across diverse stakeholder perspectives, the findings are not statistically generalizable. The sample is limited to European impact VCs and early-stage impact founders, which may not fully reflect dynamics in other sectors or geographies. This is justified by the limited time available for the report and, thus, the limited time to conduct interviews.

Second, the research is based on self-reported interview data. Although the interviews were candid and cross-validated between groups, responses are subject to recall bias, narrative framing, and social desirability effects. The relational nature of impact investing also means that many practices are informal or implicit, making them harder to capture and compare.

A further limitation concerns the theoretical scope of the thesis. While key conceptual frameworks, such as the Impact Management Project, were integrated into the analysis, complementary tools like the IRIS+ system were not elaborated on in operational detail. This reflects a deliberate focus on understanding the strategic and relational dynamics of impact investing rather than exhaustively cataloging available metrics or evaluation tools.

Future research could build on these limitations in several ways. Quantitative studies could test the lifecycle model proposed in this thesis, examining patterns of alignment, support, and accountability across larger samples or regions. Longitudinal research could also track how investor–founder relationships evolve over time and whether proposed solutions, such as third-party audits or impact certification, improve credibility. Ultimately, operational studies could investigate how conceptual frameworks, such as IMP, are translated into practical tools, including IRIS+ or SDG-aligned metrics, particularly in the context of impact verification and policy integration.

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List of Abbreviations

Abbreviation	Definition
ESG	Environmental, Social, and Governance
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GSIA	Global Sustainable Investment Alliance
IMP	Impact Management Platform
IPCC	Intergovernmental Panel on Climate Change
IRR	Internal Rate of Return
IVC	Impact Venture Capital
KPIs	Key Performance Indicators
MOIC	Multiple on Invested Capital
NGOs	Non-governmental Organizations
SDG	Sustainable Development Goals
SRI	Socially Responsible Investing

List of Figures

Figure	Title	Page
Figure 1	Holistic Value Addition Framework	17
Figure 2	Thematic Analysis Process	28
Figure 3	The Impact VC Interaction Lifecycle	47
Figure A1	The Impact Investment Spectrum	63
Figure A2	Principal-Agent Relationship with Trust and Legitimacy Dynamics	64
Figure A3	General Structure of Market Signaling in Investment Contexts	65

List of Tables

Table	Title	Page
Table 1	Simplified Overview of the Gioia-Based Data Structure	31-32
Table A1	Impact Venture Capital Firms: Interview Overview	73
Table A2	Impact Entrepreneurs: Interview Overview	73
Table A3	Impact VC Keywords	74-75
Table A4	Impact Entrepreneurs Keywords	75-76
Table A5	1st and 2nd Order Coding for IVC Interviews	76-77
Table A6	1st and 2nd Order Coding for Impact Entrepreneurs Interviews	77-78
Table A7	Aggregate Dimensions	78
Table A8	Full Data Structure Linking Concepts, Themes, and Aggregate Dimensions	79

List of Appendices

Appendix	Title	Page
Appendix 1	The Impact Investment Spectrum	63
Appendix 2	Principal-Agent Relationship	64
Appendix 3	Market Signaling in Investment Contexts	65
Appendix 4	Interview Guide for Impact Venture Capitalists	66-67
Appendix 5	Interview Guide for Impact Entrepreneurs	68-69
Appendix 6	Deductive Keywords for Thematic Analysis	70-72
Appendix 7	Interview Outreach and Participant Overview	73
Appendix 8	Thematic Analysis Aligned with Naeem et al. (2023)	74-78
Appendix 9	Full Gioia-Style Data Structure Table	79

Appendix 1: The Impact Investment Spectrum

The following figure has been included to provide a structured overview of the broader investment landscape and conceptually position impact investing within it. It distinguishes between traditional finance and philanthropy-driven approaches as the two extremes, with the hybrid model of impact investing positioned in the middle. By providing a detailed explanation of each approach, the figure illustrates how impact investors, such as those examined in this thesis, operate in a space that combines financial returns with high-impact solutions by focusing on problem areas where social or environmental needs require some financial trade-offs.

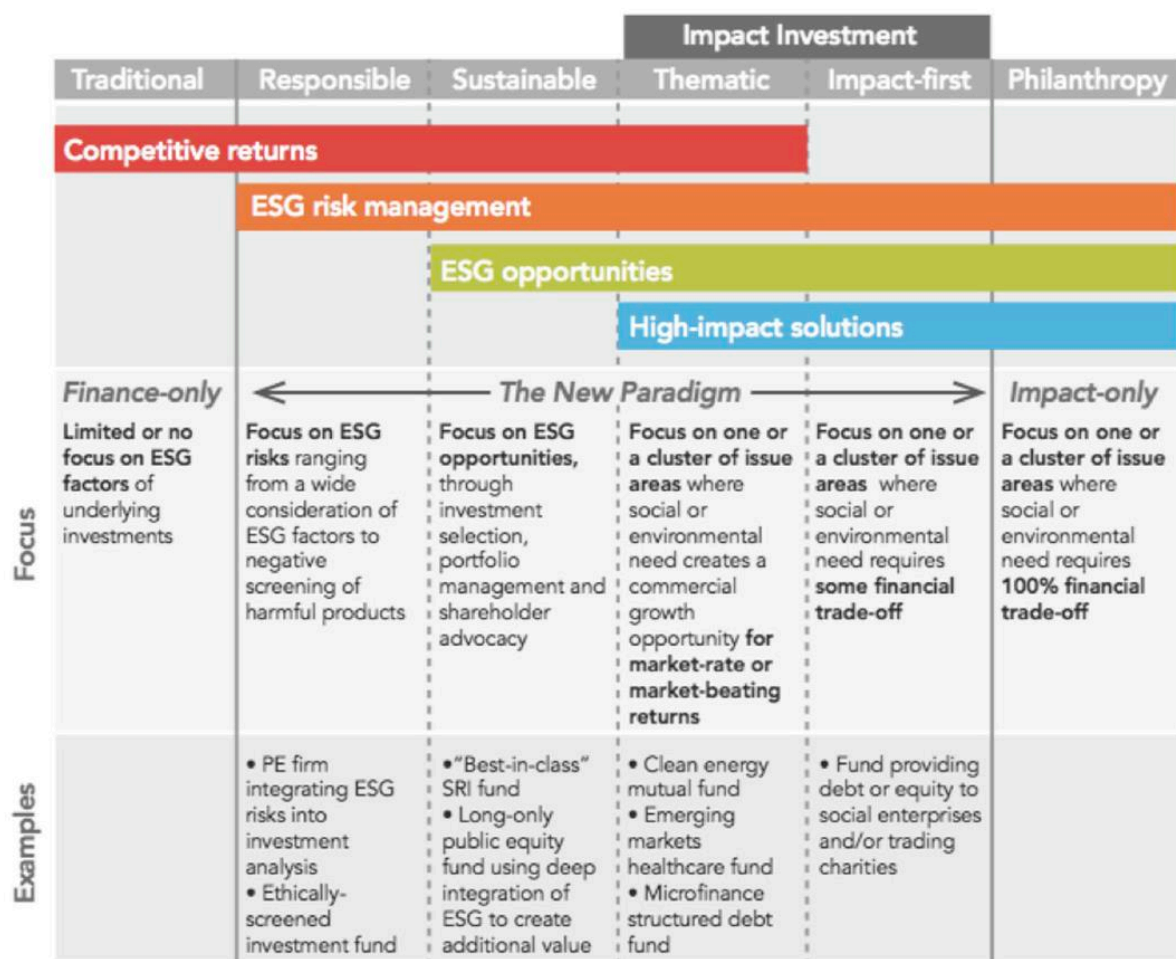


Figure A1: The Impact Investment Spectrum (Bridges Fund Management, 2012)

Appendix 2: Principal-Agent Relationship

The following diagram illustrates the principal-agent relationship, focusing on legitimacy and trust, and is adapted to reflect the dynamics relevant to impact investing. It supports the theoretical discussion in Chapter 3.1.4 by highlighting how contractual engagement and mutual motivation influence the alignment between investors and entrepreneurs.

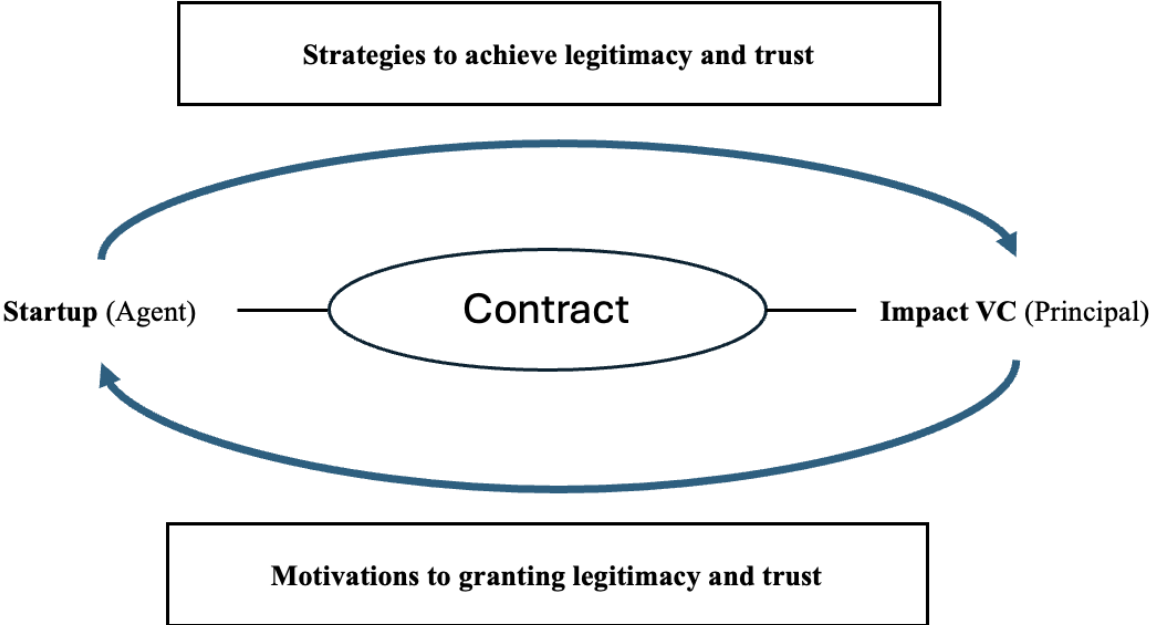


Figure A2: Principal-Agent Relationship with Trust and Legitimacy Dynamics (Adapted from Stupak et al., 2021)

Appendix 3: Market Signaling in Investment Contexts

The following model illustrates an adapted signaling model between startups and impact venture capitalists. The diagram illustrates how early-stage startups convey impact-relevant signals, such as certifications or ESG metrics, to mitigate information asymmetry and establish investor trust. Impact VCs interpret and validate these signals through screening and due diligence. Misalignment between signal credibility and real-world impact remains a key concern, particularly in the absence of external validation mechanisms.

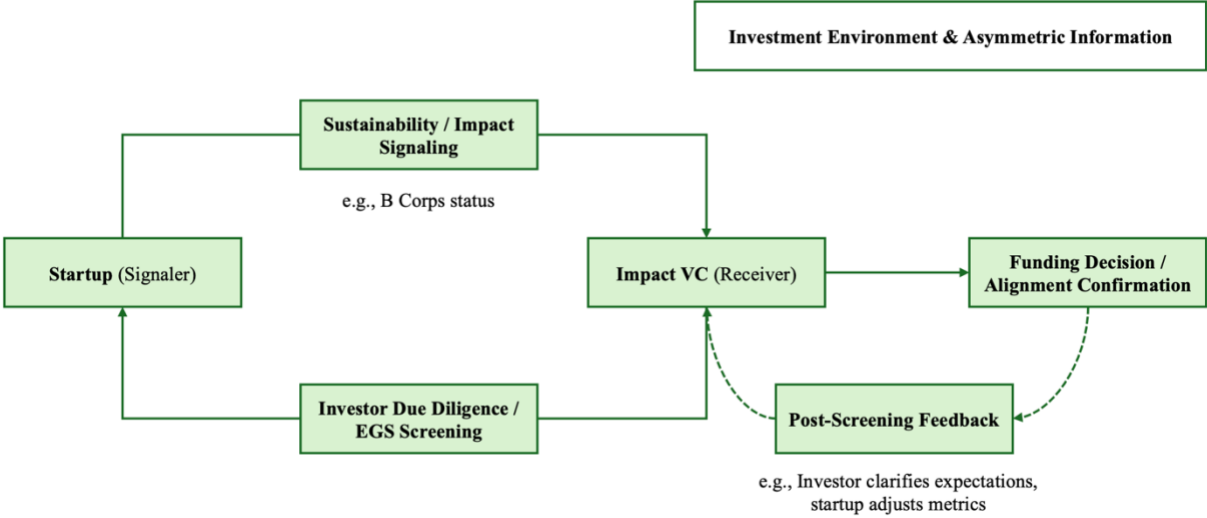


Figure A3: General Structure of Market Signaling in Investment Contexts (Adapted from Svetek, 2022).

Appendix 4: Interview Guide for Impact Venture Capitalists

Opening (Icebreaker and Consent – 2–3 mins)

- Thank you for taking the time to speak with me today.
- This interview is part of my master's thesis on impact venture capital.
- The conversation is confidential and can be anonymized if you wish.
- May I record this conversation for transcription purposes?

Part 1: Investment Selection Criteria (RQ1)

Goal: Understand how IVCs assess startups before investment, particularly regarding sustainability.

1. How do you typically identify and evaluate startups for potential investment?
2. What are the core criteria you consider during the selection process?
3. How do sustainability or impact-related factors influence your investment decisions?
4. Are there specific frameworks or models (e.g., SDGs, ESG, IRIS+) you use to guide your due diligence?
5. How do you evaluate the mission alignment of a startup with your fund's impact objectives?
6. Have you ever declined an investment opportunity due to a lack of credible sustainability strategy or alignment?

Part 2: Post-Investment Support and Scaling (RQ2)

Goal: Explore what support IVCs provide after investment and how they influence scaling and impact.

7. After the investment is made, how do you typically stay involved with your portfolio companies?
8. What forms of non-financial support do you offer (e.g., strategic advice, governance, network access)?
9. How do you help startups scale their operations and impact?
10. Do you have dedicated structures or roles (e.g., sustainability officers, impact advisors) to support scaling?
11. How do you ensure that sustainability goals remain central during the growth phase?

12. What role do you play in governance or board-level decision-making post-investment?

Part 3: Impact Measurement and Risk of Impact Washing (RQ3)

Goal: Understand how success is measured and how impact is tracked and enforced.

13. How do you define and measure the success of your investments, both financially and in terms of impact?

14. What impact metrics or KPIs do you typically use (standardized frameworks vs. proprietary ones)?

15. How frequently do you require reporting from startups, and in what format?

16. Do you rely on self-reported data, or do you use third-party verification or audits?

17. In your view, is the current landscape of impact measurement sufficiently standardized and reliable?

18. How do you mitigate the risk of impact washing—startups overstating their sustainability performance?

19. Have you ever implemented incentives or penalties based on impact performance?

Closing

20. Is there anything you think I've missed that's important to understanding how you operate as an impact VC?

21. Would you be open to follow-up questions or sharing anonymized quotes in the final thesis?

Appendix 5: Interview Guide for Impact Entrepreneurs

Opening (Icebreaker and Consent – 2–3 mins)

- Thank you for taking the time to speak with me today.
- This interview is part of my master's thesis on impact venture capital.
- The conversation is confidential and can be anonymized if you wish.
- May I record this conversation for transcription purposes?

Part 1: Fundraising and Investor Selection (RQ1)

1. How did you go about selecting or being selected by your current investor(s)?
2. What were the main criteria your investors looked at when evaluating your startup?
3. Did sustainability or social/environmental impact play a role in your fundraising discussions?
4. Were there specific frameworks or requirements (e.g., ESG policies, sustainability metrics) during due diligence?

Part 2: Post-Investment Support and Scaling (RQ2)

5. What kind of support have you received from your investors beyond financial capital?
6. In what ways have your investors helped you scale—strategically, operationally, or in building partnerships?
7. How involved are your investors in key decisions related to sustainability or growth?
8. Do you feel their involvement has strengthened your ability to deliver impact, or has it created tension with business growth goals?

Part 3: Impact Reporting and Accountability (RQ3)

9. What kind of impact reporting or measurement are you expected to deliver to your investors?
10. Are you using any standardized frameworks or metrics (e.g., IRIS+, ESG KPIs)?
11. Is your impact data verified externally or entirely self-reported?
12. Do you feel the pressure to present impact in a certain way to satisfy investor expectations?
13. In your experience, do you believe there is a risk of impact washing—intentionally or unintentionally overstating impact performance?

Closing

14. Is there anything else you'd like to share that helps clarify how your investor relationship has shaped your growth or impact journey?
15. Would you be open to reviewing anonymized quotes or answering follow-up questions if needed?

Appendix 6: Deductive Keywords for Thematic Analysis

The following deductive keywords were established prior to primary data collection based on the theoretical foundations of this thesis. After the interviews have been conducted, the deductive keywords identified will be collected together with the new inductive keywords, in line with the hybrid approach of the thematic analysis proposed by Naeem et al. (2023).

Investment Strategies (RQ1)

Categories: Investment Criteria, Impact Intention, Selection Process, Information Asymmetry

Keywords:

- Management quality
- Founder personality
- Market familiarity
- R&D capability
- Product utility / superiority
- Equity stake potential
- Impact intention
- GIIN core characteristics
- Financial return vs impact return
- Adverse selection
- Moral hazard
- Signaling (signals, credibility, costliness, greenwashing)
- Due diligence
- ESG signals
- Transparency
- Selection framework
- Investment thesis
- Impact alignment
- Pre-investment evaluation

Scaling Challenges and Support (RQ2)

Categories: Strategic Support, Resource Optimization, Dynamic Capability, Stakeholder Engagement

Keywords:

- Resource-Based View (RBV)
- Dynamic Capabilities
- Physical / Organizational / Knowledge resources
- Competitive advantage
- Resource transfer / allocation
- Strategic ambiguity
- Stakeholder theory
- Holistic Value Addition (HVA)
- Stakeholder engagement
- External vs internal support
- Capacity building
- Adaptability / agility
- ESG integration in operations
- Operational efficiency
- Scaling phases
- Knowledge transfer
- Investor support beyond funding
- Investor involvement
- Structural capability
- Collaborative value creation

Impact Measurement (RQ3)

Categories: Frameworks, Metrics, Standardization, Risk and Control

Keywords:

- IRIS+
- WHAT / WHO / HOW MUCH / CONTRIBUTION / RISK dimensions

- Stakeholder-centric outcomes
- Intended vs unintended impact
- Impact indicators
- Scale / depth / duration
- Impact risk (e.g. external, execution, alignment risk)
- Outcome vs input metrics
- Control mechanisms
- Input / behavior / output controls
- Exit readiness
- Impact washing
- Monitoring and verification
- Impact targets
- Reporting standards
- Self-reported vs audited data
- Lack of standardization
- Measurement inconsistency
- Impact comparability
- Impact management systems

Appendix 7: Interview Outreach and Participant Overview

ID	Organization	Location	Contact Date	Interview Date	Contact Person	Point of Contact	Notes
IVC-01	Ageas Foundation	Lisbon, Portugal	01.04.25	22.04.25	Francisco Palmares	linkedin.com/in/francisco-palmares	Corporate foundation supporting social impact initiatives in resilience, inclusion, sustainable development.
IVC-02	Maze Impact x Mustard Seed	Lisbon, Portugal	01.04.25	29.04.25	Alice Segre	alice@maze-impact.com	Impact investment platform supporting early-stage ventures across social innovation and sustainability.
IVC-03	Demeter	Paris, France	08.04.25	15.04.25	Pascal Vinarnic	linkedin.com/in/pascal-vinarnic-1b701650	Venture philanthropy with impact investing approach supporting economic solutions to fight social exclusion and poverty.
IVC-04	Impact Europe	Brussels, Belgium	08.04.25	15.04.25	Pascal Vinarnic	linkedin.com/in/pascal-vinarnic-1b701650	European network organization promoting best practices in impact investing, formerly known as EVPA.
IVC-05	Elea	Zürich, Switzerland	09.04.25	17.04.25	Arian Schül	linkedin.com/in/arian-schül-4b98512a2	Venture philanthropy foundation investing in solutions to fight absolute poverty through long-term impact partnerships.
IVC-06	Clima Now / Paneteers / Fermify	Zürich, Switzerland	16.04.25	23.04.25	Marco Schneider	linkedin.com/in/marcoschneider	Climate-focused early-stage investor supporting ventures in sustainability, food innovation, and environmental impact.
IVC-07	A2A	Milan, Italy	16.04.25	09.05.25	Sofia Brunelli	linkedin.com/in/sofia-brunelli	Corporate venture arm investing in startups aligned with sustainability, circular economy, and climate innovation.
IVC-08	BlackPoint Asset Management / Good Move Initiatives	Frankfurt, Germany	27.04.25	13.05.25	Antonis Schwarz	linkedin.com/in/antonis-schwarz-77726036	Impact-driven investment and advocacy platforms supporting social and ecological transformation through mission-aligned capital and activist philanthropy.
IVC-09	Fondazione Social Venture GDA / Mustard Seed Maze	Milan, Italy	30.04.25	16.05.25	Edoardo Nicolini	linkedin.com/in/edoardonicolini	Impact investment organizations supporting early-stage social ventures in Europe, combining equity financing with ecosystem support, capacity building, and long-term impact alignment.
IVC-10	Opes Italia Sicaf	Milan, Italy	30.04.25	14.05.25	Alejandro Ibarra	linkedin.com/in/alejandrosanchezibarra	Impact investment firm funding early-stage ventures with measurable social and environmental goals through active engagement.

Table A1: Impact Venture Capital Firms: Interview Overview

ID	Name	Location	Contact Date	Interview Date	Startup	Point of Contact	Notes
ENT-01	Biju Menon	London, UK	07.04.25	17.04.25	FairHire / Stealth	linkedin.com/in/bijumenon	Impact-driven entrepreneur and founder of FairHire (inclusive hiring platform) and stealth social impact venture.
ENT-02	Jacob Hill	Leeds, UK	20.04.25	23.04.25	Offplay	jacob@offplay.org	Founder of Offplay CIC, a social enterprise supporting people with criminal convictions into sustainable employment.
ENT-03	Andreas Jagdhuber	Munich, Germany	22.04.25	28.04.25	EFAHRER / Altruja	linkedin.com/in/andreas-jagdhuber-720761b2	Entrepreneur and venture builder with focus on e-mobility, climate tech innovation and social inclusion through EFAHRER and Altruja.
ENT-04	Federico Gaviole	Milan, Italy	28.04.25	03.05.25	ORMA Guides	linkedin.com/in/federicogaviole	Co-founder of ORMA Guides, a sustainable tech travel startup offering group trips focusing on social innovation and civil rights.
ENT-05	Giulia Mambriani	Milan, Italy	29.04.25	06.05.25	Kubri	linkedin.com/in/giulia-mambriani-3ab512187	Founder of Kubri, a social enterprise promoting employment access for marginalized communities, particularly migrants.

Table A2: Impact Entrepreneurs: Interview Overview

Appendix 8: Thematic Analysis in line with Naeem et al., 2023

Step 1: Familiarization and Quote Extraction

In the first step of the thematic analysis, all interviews have been transcribed and reviewed to ensure that everything is clear and understood.

Step 2: Keyword Identification (Hybrid)

In the second step, specific keywords have been identified using the “6Rs” (Realness, Richness, Repetition, Rationale, Repartee, Regal). Based on the deductive keyword list of Appendix 4, the following deductive and inductive keywords have been identified from the Impact VC perspective.

ID	Interview ID	Keyword Type	Keyword	Brief Description
1	IVC-01	Deductive	Strategic alignment	Ensuring the startup's mission aligns with the fund's impact objectives
2	IVC-01	Deductive	Patient capital	Long-term investment horizon to support impact-first growth models
3	IVC-01	Inductive	Critical friend	Dual role as advisor and challenger to investees
4	IVC-01	Inductive	Custom-fit instruments	Financing tools tailored to the investee's stage and structure
5	IVC-01	Inductive	Spectrum of impact	Distinction between broad, shallow vs. deep, narrow impact strategies
6	IVC-01	Inductive	Case-by-case	Flexible, individualized decision-making across portfolio
7	IVC-01	Inductive	Impact roadmap	Long-term progression toward structured, measurable impact models
8	IVC-01	Inductive	Early-stage immaturity	Refers to the lack of formal systems or indicators in young organizations
9	IVC-01	Inductive	Insurance group synergies	Use of parent company's ecosystem for indirect support without formal integration
10	IVC-02	Deductive	Lockstep model	Model where financial revenue and impact scale together, used as a key selection filter
11	IVC-02	Deductive	Mission drift	Risk that founders or ventures deviate from mission as they scale or seek profit
12	IVC-02	Deductive	Impact KPIs	Impact indicators used to assess performance against stated objectives
13	IVC-02	Deductive	Non-financial value addition	Value created beyond capital through strategic, governance, or operational input
14	IVC-02	Inductive	Critical outbound effort	Refers to proactive sourcing of startups due to weak inbound deal flow
15	IVC-02	Inductive	Personalized acceleration	Tailored 12-week support program co-financed by founders post-investment
16	IVC-02	Inductive	Informal infrastructure	Use of informal tools (Slack, WhatsApp) for close operational support
17	IVC-02	Inductive	Founder-led accountability	Reliance on founder motivation to maintain impact integrity post-investment
18	IVC-02	Inductive	Impact proxy metrics	Use of indirect or estimated metrics when formal measurement is not possible
19	IVC-03/04	Deductive	Mission alignment	Ensuring that investee activities remain consistent with core social goals
20	IVC-03/04	Deductive	Non-financial value addition	Providing strategic, governance, and operational support beyond funding
21	IVC-03/04	Deductive	Founder risk	Assessment of leadership stability and values alignment as part of impact risk
22	IVC-03/04	Inductive	Moral tension	Describes the ethical conflict between scaling and preserving mission authenticity
23	IVC-03/04	Inductive	Systemic patience	Long-term investment logic aimed at enabling structural ecosystem change
24	IVC-03/04	Inductive	Capital as reputation filter	Belief that raising mission-aligned capital signals founder commitment
25	IVC-03/04	Inductive	Ecosystem stewardship	Supporting field-wide collaboration and norms for responsible impact investing
26	IVC-03/04	Inductive	Soft power engagement	Influencing founders through trust, values alignment, and informal dialogue
27	IVC-03/04	Inductive	Progressive delegation	Gradually reducing hands-on involvement as the venture matures
28	IVC-03/04	Inductive	Relational accountability	Reliance on trust-based, non-contractual accountability between funder and founder
29	IVC-05	Deductive	Strategic alignment	Ensuring investments align with core impact priorities
30	IVC-05	Deductive	Lockstep model	Model where financial and impact goals scale simultaneously
31	IVC-05	Deductive	Patient capital	Long-term investment logic enabling slower, deeper impact growth
32	IVC-05	Deductive	Mission drift	Risk that scaling compromises the original impact orientation
33	IVC-05	Deductive	Board-level engagement	Active role of investors in strategic and governance decision-making
34	IVC-05	Deductive	Founder motivation	Using founder intention as a proxy for mission alignment
35	IVC-05	Deductive	Accountability mechanisms	Structures for ensuring mission adherence over time
36	IVC-05	Deductive	Hybrid finance	Blending philanthropic capital with venture-style investment instruments
37	IVC-05	Deductive	Impact KPIs	Specific metrics to evaluate depth and breadth of social outcomes
38	IVC-05	Deductive	Value creation support	Post-investment strategic and operational guidance
39	IVC-05	Deductive	Impact washing risk	Potential misrepresentation of impact outcomes by investees
40	IVC-05	Deductive	Post-investment scaling	Support mechanisms to help ventures increase reach and impact
41	IVC-05	Deductive	Custom frameworks	Non-standardized models developed in-house for impact assessment
42	IVC-05	Inductive	Hybrid philanthropy model	elea's unique structure combining nonprofit status with VC tools
43	IVC-05	Inductive	Risk-Return mismatch zone	elea targets ventures too advanced for grants, too risky for VC
44	IVC-05	Inductive	Deep-vs-broad impact lens	Strategic positioning between high-reach vs. high-depth impact
45	IVC-05	Inductive	Exit-through-absorption	Ideal scenario where investee is later funded by commercial capital
46	IVC-05	Inductive	Founder filter logic	Founder commitment used as core selection and impact integrity metric
47	IVC-05	Inductive	Progressive support tapering	Intensive early support that tapers off as startups mature
48	IVC-05	Inductive	Impact expectation rating	Internal impact forecast used during pre-investment evaluation
49	IVC-05	Inductive	Livelihood tier model	Ranking system for depth of income or job-related transformation
50	IVC-05	Inductive	elea Impact Points	Portfolio-wide impact aggregation weighted by ownership and outcome category
51	IVC-06	Deductive	Impact threshold	Defined CO ₂ reduction minimum for investment eligibility (e.g., 100,000 tons/year)
52	IVC-06	Deductive	Strategic alignment	Evaluation of whether ventures are truly mission-aligned in climate terms
53	IVC-06	Deductive	Time to impact	Preference for ventures with short- to mid-term decarbonization potential
54	IVC-06	Deductive	Founder due diligence	Personality assessments and team evaluation as part of selection process
55	IVC-06	Deductive	Post-investment value creation	Portfolio-wide knowledge sharing and coaching to drive impact

56	IVC-06	Deductive	Impact KPIs	Venture-specific metrics tracked monthly or quarterly
57	IVC-06	Deductive	Third-party verification	Use of external protocols (e.g., LCAs) to validate impact claims
58	IVC-06	Deductive	Impact washing risk	High concern about metric manipulation; trust-based and structural mitigation
59	IVC-06	Deductive	Regulatory misfit	View that EU SFDR standards are not suited to early-stage climate ventures
60	IVC-06	Inductive	Self-regulation discipline	Investors apply higher internal standards than legal requirements
61	IVC-06	Inductive	Impact-first DNA	Expectation that climate impact is foundational to the startup's identity
62	IVC-06	Inductive	Founder filter mechanism	Founders judged as gatekeepers of true impact orientation
63	IVC-06	Inductive	Critical emission lever	Sector focus based on emissions reduction potential (e.g., agri, energy, cement)
64	IVC-06	Inductive	Market readiness constraint	Difficulty in scaling due to small VC market (e.g., in Switzerland)
65	IVC-06	Inductive	Impact additionality erosion	Decrease in relevance of a startup when competitors catch up (e.g., Blue Form case)
66	IVC-06	Inductive	Reporting asymmetry	Challenges in relying on venture-reported data, especially pre-commercialization
67	IVC-06	Inductive	Lifecycle assessment light	Initial light-touch LCA used during due diligence, expanded in later funding rounds
68	IVC-06	Inductive	Relational trust enforcement	Trust-based mechanisms to maintain impact when formal enforcement is weak
69	IVC-06	Inductive	Systemic bias toward opacity	Recognition that early-stage climate innovation often exceeds investor/regulator pace
70	IVC-07	Deductive	Strategic alignment	Ventures must match both VC and A2A's internal strategic priorities
71	IVC-07	Deductive	Dual KPI logic	Ventures are selected based on both strategic (impact) and financial potential
72	IVC-07	Deductive	Patient capital	Recognition that climate tech returns take time to realize (often 10+ years)
73	IVC-07	Deductive	Board-level involvement	A2A participates as board observers through 360 Capital
74	IVC-07	Deductive	Post-investment synergies	Support provided via commercial access, regulatory guidance, infrastructure testing
75	IVC-07	Deductive	Impact KPIs	KPIs are required pre-investment and tracked over time
76	IVC-07	Deductive	Impact improvement linkage	Part of carried interest is tied to improvement of impact KPIs at exit
77	IVC-07	Deductive	Article 9 fund compliance	Fund requires systematic environmental and ESG KPI tracking
78	IVC-07	Inductive	Conversion to POC	Success metric is defined as turning investments into commercial pilots within A2A
79	IVC-07	Inductive	Competitive ecosystem advantage	Startups see value in hybrid VC–corporate structures for deeper strategic leverage
80	IVC-07	Inductive	Informal governance relay	Decisions are influenced through informal relationships between A2A and 360 partners
81	IVC-07	Inductive	Dual-track accountability	Ventures are accountable to both fund-level governance and corporate partnerships
82	IVC-07	Inductive	Scalability as impact proxy	Success is interpreted through scaling across geographies and funding rounds
83	IVC-07	Inductive	Impact ambiguity tolerance	Acceptance of loose KPIs in early stage with assumption of future clarity
84	IVC-07	Inductive	KPI-linked carried interest	Financial incentives are tied to ESG performance improvements over the holding period
85	IVC-09	Deductive	Strategic alignment	Ensuring each investment fits mission and thematic focus
86	IVC-09	Deductive	Dual-track logic	Balancing financial and impact returns across two fund types (foundation vs. fund)
87	IVC-09	Deductive	Impact KPIs	Key metrics set pre-investment and tracked annually
88	IVC-09	Deductive	Founder due diligence	Focus on team and founder as indicators of impact integrity
89	IVC-09	Deductive	Advisory value creation	Core team provides impact and business support beyond financing
90	IVC-09	Deductive	Impact washing risk	High concern mitigated by internal impact expertise and verification mechanisms
91	IVC-09	Deductive	Outcome-linked financing	Tranches and secondary disbursements depend on meeting impact and financial targets
92	IVC-09	Inductive	Earn-out clawback	Share buyback or revaluation if post-investment KPIs underperform
93	IVC-09	Inductive	Impact grant mechanism	Converts half of equity investment into a grant if KPI targets are met
94	IVC-09	Inductive	Zero-exit tolerance	Foundation can accept no return if impact threshold is maintained
95	IVC-09	Inductive	KPI-triggered incentive split	Revenue-sharing or gain redistribution tied to verified impact
96	IVC-09	Inductive	Founder return alignment	Future mechanisms being explored to reward founders who hit dual performance goals
97	IVC-09	Inductive	Negative incentive enforcement	Legal clauses that reduce founder shares if impact underperforms
98	IVC-09	Inductive	Sector-specific KPI mapping	Portfolio-wide tracking system using tailored metrics per business model
99	IVC-09	Inductive	Investor signaling function	Foundation identity used to open doors and validate startups in cultural sectors
100	IVC-09	Inductive	Information asymmetry buffering	Using advisory, expert teams, and networks to reduce risk of false impact claims
101	IVC-10	Deductive	Strategic alignment	Matching business models to pre-defined verticals in the internal impact framework
102	IVC-10	Deductive	Financial–impact trade-off	Tension managed through minimum return expectations and impact-linked incentives
103	IVC-10	Deductive	Impact KPIs	Target outcomes set per startup, such as number of people trained or emissions reduced
104	IVC-10	Deductive	Impact-linked profit sharing	Profit entitlements are conditioned on whether impact targets are met
105	IVC-10	Deductive	Lead investor leverage	Securing governance rights, vetoes, and early-stage board seats to enforce alignment
106	IVC-10	Deductive	Post-investment network access	Matching startups with resources and stakeholders based on visibility from governance
107	IVC-10	Inductive	Social quadrant mapping	Four-part internal framework: livelihoods, access, gender, sustainability
108	IVC-10	Inductive	Early-stage institutional gap	Investing where there is no prior formal investor or structured governance
109	IVC-10	Inductive	Liquidity leverage	Influence over direction due to being the primary funder at an early stage
110	IVC-10	Inductive	Informal indicator construction	Developing customized KPIs collaboratively with startups at entry
111	IVC-10	Inductive	Measurement cost constraint	Third-party verification avoided due to fund size and cost limitations
112	IVC-10	Inductive	Generalist impact challenge	Difficulty in applying uniform metrics across thematically diverse social portfolios

Table A3: Impact VC Keywords

The following deductive and inductive keywords have been identified from the Impact Entrepreneurs perspective.

ID	Interview ID	Keyword Type	Keyword	Brief Description
1	ENT-01	Deductive	Strategic alignment	Matchmaking based on shared SDG priorities (e.g., Gender Equality, Reduced Inequalities)
2	ENT-01	Deductive	Founder due diligence	Investors evaluate founder mindset but founders also assess investor fit
3	ENT-01	Deductive	Impact KPIs	Acknowledged as relevant, but not contractually enforced in this case
4	ENT-01	Deductive	Impact washing risk	Acknowledged openly — founders may overstate impact for funding without bad intent
5	ENT-01	Inductive	Founder-side investor filtering	Entrepreneur curates investors based on perceived alignment and value-add
6	ENT-01	Inductive	SDG-based investor targeting	Selection based on declared SDG focus in VC theses
7	ENT-01	Inductive	Narrative alignment	Importance of matching the story the startup tells with investor expectations
8	ENT-01	Inductive	Resource-based bias	Some startups may fabricate metrics due to lack of tools, not intent
9	ENT-01	Inductive	Impact washing as survival tactic	Describes impact inflation as a pragmatic tool to survive early-stage funding gaps
10	ENT-01	Inductive	Strategic detachment	Founder chose to exclude investors from governance to avoid misalignment risks
11	ENT-01	Inductive	Advisory mismatch skepticism	Critical view of generic financial advisors advising sector-specific startups
12	ENT-01	Inductive	Measurement capability gap	Entrepreneurs lack technical ability to define or track rigorous impact metrics
13	ENT-02	Deductive	Strategic alignment	Venture's mission driven by lived experience, focused on reducing re-offending
14	ENT-02	Deductive	Impact KPIs	Used in reports but with skepticism toward precision and attribution methods
15	ENT-02	Deductive	Impact washing risk	Founder estimates 20% of submitted data is overstated; problem seen as widespread

16	ENT-02	Deductive	Founder due diligence	Founder evaluates investors as much as investors evaluate him
17	ENT-02	Inductive	Social funding asymmetry	Social funders rarely audit data, creating uneven standards vs. commercial funders
18	ENT-02	Inductive	Commercial impact conflict	Friction between commercial language and philanthropic expectations
19	ENT-02	Inductive	Surplus-first framing	Refusal to deliver loss-leading impact; prioritizing surplus sustainability
20	ENT-02	Inductive	Coaching as softening mechanism	Coaching used to reframe language for philanthropic fit
21	ENT-02	Inductive	Mission quantification struggle	Reliance on £12.09 per participant metric; desire to shift toward qualitative stories
22	ENT-02	Inductive	Attribution inflation risk	Attribution assumptions strongly influence impact figures
23	ENT-02	Inductive	Meta-managed reporting vision	Proposes accounting-style standard: locked datasets, visible methodology, 6-year archive
24	ENT-02	Inductive	Prove vs. improve dilemma	Reporting is done to justify funding, not to guide internal impact improvement
25	ENT-03	Deductive	Strategic alignment	Impact was foundational, but investors were also chosen for patience and flexibility
26	ENT-03	Deductive	Founder due diligence	Founder assessed investors' backgrounds and motivations for long-term alignment
27	ENT-03	Deductive	Milestone-linked disbursement	Second tranches were tied to reaching defined business and (indirect) impact targets
28	ENT-03	Deductive	Impact KPIs	Spendenvolumen (donation volume) served as key metric throughout startup lifecycle
29	ENT-03	Deductive	Impact washing risk	Definitions were maximized to frame data positively; differentiation rarely applied
30	ENT-03	Inductive	Narrative framing elasticity	Founders adjust language to match funder expectations, depending on phase and pressure
31	ENT-03	Inductive	Non-financial KPI relevance gap	KPIs focused on output volume, not net additionality or behavioral change
32	ENT-03	Inductive	Investor agenda asymmetry	Misalignment on timelines, reporting expectations, and depth of engagement
33	ENT-03	Inductive	Mission-money tension	Need to balance long-term impact with short-term business demands
34	ENT-03	Inductive	Reporting fatigue friction	Monthly reports created tension between data provision and operational focus
35	ENT-03	Inductive	Strategic co-option	Some investor-driven pivots redirected core startup focus
36	ENT-03	Inductive	Commercial impact fusion	Business growth and social contribution were understood as mutually reinforcing
37	ENT-05	Deductive	Strategic alignment	Participation based on SDG mission fit (e.g., Decent Work, Economic Growth)
38	ENT-05	Deductive	Impact KPIs	Pre- and post-program checks on revenue, LOIs, and client acquisition metrics
39	ENT-05	Deductive	Post-investment value creation	Non-financial support via pitch training, mentoring, and customer discovery support
40	ENT-05	Deductive	Scalable impact model	Pressure to shift from consulting to scalable SaaS to meet investor expectations
41	ENT-05	Inductive	SDG-entry filtration	Accelerator invitation based on startup's thematic overlap with SDG court
42	ENT-05	Inductive	Repeatability criterion	Founder's pivot driven by demand for repeatable, automated impact pathways
43	ENT-05	Inductive	Founder-led mission framing	Clear mission driven by founder's background in development economics
44	ENT-05	Inductive	Mentorship matchmaking	Startup chooses mentors weekly based on relevant experience and guidance needs
45	ENT-05	Inductive	Pay-to-access investor exposure	Founder must pay to attend investor demo events post-program
46	ENT-05	Inductive	Informal goal tracking	Impact goals defined intuitively by founder (e.g., # of people helped)
47	ENT-05	Inductive	Impact structuring workshop	Impact support provided via short SDG-based consultancy sessions
48	ENT-05	Inductive	Solo founder capacity gap	Lack of structural support to connect solo founders with co-founder networks

Table A4: Impact Entrepreneurs Keywords

Step 3: Thematic Coding and Concept Development

In the following, first-order concepts were developed by clustering semantically and conceptually related keywords (both deductive and inductive) identified in step two. Each concept captures a specific action, mechanism, or logic that was frequently described across interviews. These concepts were then grouped into second-order themes, which represent broader patterns of thinking, decision-making, or institutional behavior shared among interviewees. The table represents the impact investor perspectives.

ID	1st Order Concept	2nd Order Theme	Keyword Example
1	Aligning on impact-first intent	Mission & Value Alignment	Strategic alignment
2	Designing investment fit through customization	Mission & Value Alignment	Custom-fit instruments
3	Embedding support in advisory role	Post-Investment Value Creation	Critical friend
4	Acting through relational trust structures	Post-Investment Value Creation	Soft power engagement
5	Building adaptive impact metrics	Flexible Impact Measurement	Impact proxy metrics
6	Using light-touch verification tools	Flexible Impact Measurement	Lifecycle assessment light
7	Tying profits to verified impact	Enforcing Accountability	Impact-linked profit sharing
8	Preventing reputational distortion	Enforcing Accountability	Impact washing risk
9	Screening for aligned leadership	Mission & Value Alignment	Founder-led accountability
10	Allocating patient capital for complex change	Mission & Value Alignment	Systemic patience
11	Translating impact into investment thresholds	Mission & Value Alignment	Impact threshold
12	Filtering based on founder mindset	Mission & Value Alignment	Founder due diligence
13	Engaging in value-adding governance	Post-Investment Value Creation	Board-level involvement
14	Creating strategic access channels	Post-Investment Value Creation	Post-investment network access
15	Structuring outcome-based incentives	Enforcing Accountability	Outcome-linked financing

16	Balancing flexibility with accountability	Enforcing Accountability	Relational trust enforcement
17	Customizing impact frameworks	Flexible Impact Measurement	Custom frameworks
18	Managing attribution risk	Flexible Impact Measurement	Impact additionality erosion
19	Responding to standardization gaps	Flexible Impact Measurement	Regulatory misfit
20	Adapting capital tools to early-stage needs	Mission & Value Alignment	Hybrid finance
21	Embedding impact-linked returns	Enforcing Accountability	Impact-linked profit sharing
22	Operationalizing dual-return logic	Mission & Value Alignment	Dual-track logic
23	Accepting limited exit orientation	Mission & Value Alignment	Zero-exit tolerance
24	Reducing risk through proximity support	Post-Investment Value Creation	Critical outbound effort
25	Supporting founder capacity over time	Post-Investment Value Creation	Progressive delegation
26	Deploying informal control mechanisms	Enforcing Accountability	Informal governance relay
27	Creating field-level infrastructure	Post-Investment Value Creation	Ecosystem stewardship
28	Mitigating greenwashing exposure	Enforcing Accountability	Third-party verification
29	Shaping impact language through advisory	Post-Investment Value Creation	Impact structuring workshop
30	Building founder-aligned trust systems	Enforcing Accountability	Relational accountability
31	Enforcing outcome-contingent returns	Enforcing Accountability	Earn-out clawback
32	Signaling integrity through capital identity	Mission & Value Alignment	Capital as reputation filter
33	Creating exit pathways for aligned scaling	Post-Investment Value Creation	Exit-through-absorption
34	Modeling venture-level environmental logic	Flexible Impact Measurement	Livelihood tier model
35	Anticipating future measurement limitations	Flexible Impact Measurement	Measurement cost constraint
36	Acting beyond SFDR expectations	Flexible Impact Measurement	Self-regulation discipline
37	Tolerating early-stage indicator ambiguity	Flexible Impact Measurement	Impact ambiguity tolerance
38	Incentivizing alignment through founder payout	Enforcing Accountability	Founder return alignment
39	Applying fund-level generalization limits	Flexible Impact Measurement	Generalist impact challenge
40	Mapping portfolio by social logic	Flexible Impact Measurement	Social quadrant mapping

Table A5: 1st and 2nd Order Coding for IVC Interviews

The following table represents the impact entrepreneur perspectives.

ID	1st Order Concept	2nd Order Theme	Keyword Example
1	Filtering investors for mission alignment	Founder-Led Investment Selection	Founder-side investor filtering
2	Targeting SDG-matched funders	Founder-Led Investment Selection	SDG-based investor targeting
3	Assessing investor fit through shared values	Founder-Led Investment Selection	Strategic alignment
4	Using storytelling for compatibility	Founder-Led Investment Selection	Narrative alignment
5	Avoiding investor governance control	Founder-Led Investment Selection	Strategic detachment
6	Rejecting misaligned advisory support	Founder-Led Investment Selection	Advisory mismatch skepticism
7	Responding to investor agenda tension	Founder-Led Investment Selection	Investor agenda asymmetry
8	Navigating commercial–social conflict	Founder-Led Investment Selection	Commercial impact conflict
9	Screening for non-financial alignment	Founder-Led Investment Selection	Founder due diligence
10	Choosing programs based on SDG fit	Founder-Led Investment Selection	SDG-entry filtration
11	Positioning for scalable funding logic	Founder–Investor Alignment Challenges	Scalable impact model
12	Framing mission for external expectations	Founder–Investor Alignment Challenges	Founder-led mission framing
13	Adapting to investor narrative pressure	Founder–Investor Alignment Challenges	Narrative framing elasticity
14	Pivoting under scalability expectations	Founder–Investor Alignment Challenges	Repeatability criterion
15	Experiencing investor operational drift	Founder–Investor Alignment Challenges	Strategic co-option
16	Balancing mission with revenue priorities	Founder–Investor Alignment Challenges	Mission–money tension
17	Defining impact goals through intuition	Founder Impact Practice	Informal goal tracking
18	Structuring impact through workshops	Founder Impact Practice	Impact structuring workshop
19	Selecting mentors for aligned support	Founder Impact Practice	Mentorship matchmaking
20	Facing capacity gaps as solo founder	Founder Impact Practice	Solo founder capacity gap
21	Managing informal indicator systems	Impact Reporting Under Pressure	Informal indicator construction
22	Using proxy metrics for simplicity	Impact Reporting Under Pressure	Impact proxy metrics
23	Acknowledging technical measurement limits	Impact Reporting Under Pressure	Measurement capability gap
24	Strategizing around weak verification	Impact Reporting Under Pressure	Measurement cost constraint
25	Inflating figures for fundraising survival	Impact Reporting Under Pressure	Impact washing as survival tactic

26	Recognizing systemic leniency in impact	Impact Reporting Under Pressure	Social funding asymmetry
27	Struggling with KPI complexity	Impact Reporting Under Pressure	Mission quantification struggle
28	Prioritizing surplus over idealism	Impact Reporting Under Pressure	Surplus-first framing
29	Reporting for compliance not learning	Impact Reporting Under Pressure	Prove vs. improve dilemma
30	Proposing formal reporting redesign	Impact Reporting Under Pressure	Meta-managed reporting vision
31	Using financial metrics as impact shorthand	Impact Reporting Under Pressure	Non-financial KPI relevance gap
32	Experiencing friction with ongoing reporting	Impact Reporting Under Pressure	Reporting fatigue friction
33	Accepting impact generalization in early stage	Impact Reporting Under Pressure	Impact ambiguity tolerance
34	Balancing storytelling with accountability	Impact Reporting Under Pressure	Attribution inflation risk
35	Developing post-hoc justification logic	Impact Reporting Under Pressure	KPI-linked carried interest
36	Leveraging impact positioning for access	Impact Signaling and Leverage	Investor signaling function
37	Being validated through association	Impact Signaling and Leverage	Conversion to POC
38	Extracting strategic benefit from affiliation	Impact Signaling and Leverage	Competitive ecosystem advantage
39	Creating pathways to credibility	Impact Signaling and Leverage	Capital as reputation filter
40	Navigating dual stakeholder expectations	Impact Signaling and Leverage	Dual-track accountability

Table A6: 1st and 2nd Order Coding for Impact Entrepreneurs Interview

Step 4: Building Aggregate Dimensions

In the following, aggregated dimensions have been constructed based on the first and second order concepts developed. These dimensions represent the highest level of abstraction in the data structure and serve as the foundation for presenting the empirical findings in Chapter 5. The goal of this step is to synthesize the patterns identified across interviews into three to four core analytical categories that reflect the dominant logics, mechanisms, and tensions in how impact venture capitalists and impact entrepreneurs engage with digital sustainability and impact-oriented financing. These aggregate dimensions were developed by identifying overarching thematic commonalities across second-order themes, ensuring conceptual clarity, internal coherence, and alignment with the research questions.

Aggregate Dimension	2nd Order Themes (Examples)
1. Investment Selection and Alignment Logics	Mission & Value Alignment / Founder-Led Investment Selection
2. Post-Investment Support and Strategic Value Creation	Post-Investment Value Creation / Founder Impact Practice
3. Impact Measurement, Enforcement, and Risk Handling	Flexible Impact Measurement / Enforcing Accountability / Impact Reporting Under Pressure
4. Signaling, Legitimacy, and Ecosystem Positioning	Impact Signaling and Leverage / Founder-Investor Alignment Challenges

Table A7: Aggregate Dimensions

Investment selection and alignment logics captures how both VCs and entrepreneurs assess mission fit, founder-investor alignment, SDG targeting, and early screening logic. Post-investment support and strategic value creation describes how impact is advanced through mentoring, governance, operational support, and founder-driven practices. Impact measurement, enforcement, and risk handling focuses on how success is defined, measured, and enforced, including soft and hard accountability mechanisms, verification, and pressure-induced impact inflation. Finally, signaling, legitimacy, and ecosystem positioning covers how startups and VCs use impact language, capital identity, partnerships, and institutional positioning to build trust, access resources, and maintain legitimacy.

Appendix 9: Full Gioia-Style Data Structure Table

This appendix provides the complete coding structure developed through the thematic analysis process. Based on the hybrid keyword identification strategy outlined in Chapter 4 and the Gioia methodology (Gioia et al., 2013), 40 first-order concepts were clustered into 10 second-order themes and ultimately grouped into four aggregate dimensions.

This table demonstrates the analytical progression from raw data to theoretical abstraction and serves as the empirical foundation for the interpretation of findings (step five and six of Naeem et al., 2023) in Chapter 5. The structure includes both investor and entrepreneur perspectives and supports the development of the conceptual framework presented in the final section of the thesis.

1st Order Concept	2nd Order Theme	Aggregate Dimension
Aligning on impact-first intent	Mission & Value Alignment	Investment Selection and Alignment Logics
Designing investment fit through customization	Mission & Value Alignment	Investment Selection and Alignment Logics
Filtering based on founder mindset	Mission & Value Alignment	Investment Selection and Alignment Logics
Translating impact into investment thresholds	Mission & Value Alignment	Investment Selection and Alignment Logics
Screening for non-financial alignment	Founder-Led Investment Selection	Investment Selection and Alignment Logics
Filtering investors for mission alignment	Founder-Led Investment Selection	Investment Selection and Alignment Logics
Assessing investor fit through shared values	Founder-Led Investment Selection	Investment Selection and Alignment Logics
Using storytelling for compatibility	Founder-Led Investment Selection	Investment Selection and Alignment Logics
Rejecting misaligned advisory support	Founder-Led Investment Selection	Investment Selection and Alignment Logics
Creating strategic access channels	Post-Investment Value Creation	Post-Investment Support and Strategic Value Creation
Embedding support in advisory role	Post-Investment Value Creation	Post-Investment Support and Strategic Value Creation
Engaging in value-adding governance	Post-Investment Value Creation	Post-Investment Support and Strategic Value Creation
Creating field-level infrastructure	Post-Investment Value Creation	Post-Investment Support and Strategic Value Creation
Supporting founder capacity over time	Post-Investment Value Creation	Post-Investment Support and Strategic Value Creation
Structuring impact through workshops	Founder Impact Practice	Post-Investment Support and Strategic Value Creation
Defining impact goals through intuition	Founder Impact Practice	Post-Investment Support and Strategic Value Creation
Selecting mentors for aligned support	Founder Impact Practice	Post-Investment Support and Strategic Value Creation
Facing capacity gaps as solo founder	Founder Impact Practice	Post-Investment Support and Strategic Value Creation
Building adaptive impact metrics	Flexible Impact Measurement	Impact Measurement, Enforcement, and Risk Handling
Customizing impact frameworks	Flexible Impact Measurement	Impact Measurement, Enforcement, and Risk Handling
Using light-touch verification tools	Flexible Impact Measurement	Impact Measurement, Enforcement, and Risk Handling
Anticipating future measurement limitations	Flexible Impact Measurement	Impact Measurement, Enforcement, and Risk Handling
Managing attribution risk	Flexible Impact Measurement	Impact Measurement, Enforcement, and Risk Handling
Tolerating early-stage indicator ambiguity	Flexible Impact Measurement	Impact Measurement, Enforcement, and Risk Handling
Strategizing around weak verification	Impact Reporting Under Pressure	Impact Measurement, Enforcement, and Risk Handling
Inflating figures for fundraising survival	Impact Reporting Under Pressure	Impact Measurement, Enforcement, and Risk Handling
Reporting for compliance not learning	Impact Reporting Under Pressure	Impact Measurement, Enforcement, and Risk Handling
Structuring outcome-based incentives	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Balancing flexibility with accountability	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Deploying informal control mechanisms	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Preventing reputational distortion	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Enforcing outcome-contingent returns	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Incentivizing alignment through founder payout	Enforcing Accountability	Impact Measurement, Enforcement, and Risk Handling
Navigating commercial–social conflict	Founder–Investor Alignment Challenges	Signaling, Legitimacy, and Ecosystem Positioning
Framing mission for external expectations	Founder–Investor Alignment Challenges	Signaling, Legitimacy, and Ecosystem Positioning
Pivoting under scalability expectations	Founder–Investor Alignment Challenges	Signaling, Legitimacy, and Ecosystem Positioning
Experiencing investor operational drift	Founder–Investor Alignment Challenges	Signaling, Legitimacy, and Ecosystem Positioning
Balancing mission with revenue priorities	Founder–Investor Alignment Challenges	Signaling, Legitimacy, and Ecosystem Positioning
Leveraging impact positioning for access	Impact Signaling and Leverage	Signaling, Legitimacy, and Ecosystem Positioning
Creating pathways to credibility	Impact Signaling and Leverage	Signaling, Legitimacy, and Ecosystem Positioning
Extracting strategic benefit from affiliation	Impact Signaling and Leverage	Signaling, Legitimacy, and Ecosystem Positioning
Navigating dual stakeholder expectations	Impact Signaling and Leverage	Signaling, Legitimacy, and Ecosystem Positioning

Table A8: Full Data Structure Linking Concepts, Themes, and Aggregate Dimensions