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In Need of Clarification: Current Perceptions of Impact Investing in the German and Swiss Foundation Sectors

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Executive Summary

Impact investing is increasingly becoming an omnipresent topic. Anglo-American practices are spilling over into continental Europe's foundation sector. However, there are still few studies focusing on foundations as impact investors. This study uses 16 semi-structured interviews with foundation representatives and intermediaries to examine their views on impact investing. A framework based on different understandings of impact investing is developed. Depending on the segment of impact investing, distinct challenges arise in the areas of leadership, legal requirements, and availability of investment opportunities. The interviews also raise normative questions. The study shows that impact investing changes institutional logics in foundation management.

Keywords: expert interviews; foundations; impact investing; institutional logics

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1. Introduction

Impact investing is a highly complex investing style; it is not limited by any asset class or geographic area, but defined by the intentional, measurable social and financial return (Oleksiak, Nicholls, & Emerson, 2015). Although combined investment in social and financial purposes has been established for a long time (Heller, 2009), impact investing has only recently experienced institutionalization and growth (Höchstädter & Scheck, 2015). Examples of this development include the GIIN, Toniic, and EVPA networks,[1] as well as impact assessment standards such as IRIS, GIIRS,[2] and the principles established by the International Finance Corporation of the World Bank Group. Some countries are also introducing new legal forms to facilitate impact investing (Rangan, Appleby, & Moon, 2011). Drawing influence from Anglo-American impact investing practices, it is steadily becoming a relevant topic, although most impact investing instruments are still in a market-building phase (Oleksiak et al., 2015) and social finance is still at a pre-paradigmatic stage (Rizzi, Pellegrini, & Battaglia, 2018).

Existing Anglo-American studies focus on a diverse range of investors such as venture capitalists, pension funds, angel investors, and/or philanthropists (Ormiston, Charlton, Donald, & Seymour, 2015; Roundy, Holzhauer, & Dai, 2017). Depending on the country and the type of investor, there may be differences between legal frameworks, the understandings of, and the motivations behind impact investing. It is therefore important to use caution when attempting to apply the findings of Anglo-American studies to continental European contexts, and to distinguish between the practices of different types of investors.

As a result, this study focuses on foundations as impact investors in Germany and Switzerland. Discussions about impact investing within Germany and Switzerland have increased significantly. However, to my knowledge there are no academic studies that examine how foundations approach impact investing outside the Anglo-American world, and only a few European studies that consider impact investing from other angles (Alijani & Karyotis, 2018; Calderini, Chiodo, & Michelucci, 2018; Dufour, 2019; Glänzel & Scheuerle, 2016; Mayer & Scheck, 2018; Michelucci, 2017; Schrötgens & Boenigk, 2017; Viviani & Maurel, 2019). Both Germany and Switzerland have a thriving foundation sector (Toepler, 2018). Switzerland is home to over 13,000 charitable foundations. This is due to its stable political and economic situation, liberal foundation law, strong finance sector, and geographical location (von Schnurbein & Perez, 2018). Germany, Europe's largest economy, has nearly 19,000 private charitable foundations (Anheier, Förster, Mangold, & Striebing, 2018). The study at hand therefore sheds light on impact investing in two important foundation sectors and raises the following questions: How do foundations in Switzerland and Germany perceive impact investing with regards to understanding, motivation, and environment? What conditions can one derive for impact investing for foundations? I addressed these questions in 16 expert interviews.

In terms of structure, I will begin by presenting the current literature and the method. The literature and the pre-study raise three main areas of research interest: the understanding of impact investing, motivations for impact investing, and environmental factors. I have divided the literature section and the findings into subchapters according to these three areas. Later, I relate conditions for impact investing for foundations

[1] GIIN (Global Impact Investing Network), Toniic, and the EVPA (European Venture Philanthropy Association) are three networks that address the topic of impact investing. For more information, see www.thegiin.org/; www.toniic.com; www.evpa.eu.com.
[2] IRIS is an initiative of GIIN, while GIIRS (Global Impact Investing Rating System) is a project of the non-profit B Lab. Both provide systems for measuring the impact of investments. For more information, see www.iris.thegiin.org and www.b-analytics.net/giirs-funds.

to different understandings of impact investing. Furthermore, I examine the findings in the context of the interviewee selection criteria.

2. Literature

2.1 Understanding

In recent years, a more consistent understanding of impact investing has developed. Many papers (Clarkin & Cangioni, 2016; Jackson, 2013; Oleksiak et al., 2015; Reeder, Colantonio, Loder, & Rocyn Jones, 2015; Roundy et al., 2017) and practitioners/networks (Balandina Jaquier, 2017; Mudaliar, Pineiro, Bass, & Dithrich, 2017) use a definition similar to the following: "Social impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both" (Social Impact Investment Taskforce, 2014, p. 1). In their review of academic and practitioner literature, Höchstädter and Scheck (2015) provide a more specific demarcation from socially responsible investing (SRI). They find that most scholars view impact investing as a similar but distinct concept to SRI. SRI often focuses on larger, publicly traded corporations with market-rate returns. By contrast, impact investing concentrates on smaller organizations with below-market-rate to market-rate returns, and often takes place as direct private investments. It therefore combines philanthropic and traditional elements of investment.

Impact investing is commonly classified as either “impact first” or “finance first” (Freireich & Fulton, 2009). This distinction is applied or mentioned by several studies (European Venture Philanthropy Association, 2016; Hebb & MacKinnon, 2016; Nicholls & Emerson, 2015; Ormiston et al., 2015). “Impact first” is characterized by the willingness to refrain from market returns, whereas “finance first” strives for a market return “while achieving some social or environmental good” (Freireich & Fulton, 2009, p. 31).

Although impact investing is not assigned to any asset class by definition, most studies nevertheless focus on private investments in social enterprises (Cetindamar & Ozkazanc-Pan, 2017; Clarkin & Cangioni, 2016; Glänzel & Scheuerle, 2016; Hazenberg, Seddon, & Denny, 2015; Lyons & Kickul, 2013; Mayer & Scheck, 2018; Mendell & Barbosa, 2013; Roundy et al., 2017). However, some studies emphasize other areas and refer to social entrepreneurship only marginally or not explicitly (Burger, Murray, Kearney, & Ma, 2018; Hebb & Sharma, 2014; Wood, Thornley, & Grace, 2013). Brandstetter and Lehner (2015) distinguish between sustainable and visionary investments. Ormiston et al. (2015) discuss two schools of thinking. The first is an investment practice where financial and social competences are both needed and the investment is a distinct asset class. The second is located within existing asset classes and consists of, for instance, bonds enabling vaccination programs, listed microfinance institutions, or environmentally sustainable property funds.

This shows that the term “impact investing” can describe very different types of investments. Distinctions are made according to the focus on either impact or finance, or between different investment objects. The diverse methods of investing – through funds, direct investments, or innovative instruments – increase the complexity further.

2.2 Motivations

The theory of institutional logics provides a useful framework for examining investors’ motivations. Nicholls (2010) applies institutional logics in an early paper on social investment. He differentiates between investment logics (the outcomes of placing capital) and investor rationalities (the objectives of placing capital). For the latter, he refers to Weber's two ideal types: die *Zweckrationalitaet* (purposive rationality) and *Wertrationalitaet* (value rationality).

Zweckrationalitaet is described as being "purposeful, external, interest-oriented" (Mueller, 1979, p. 151) and is an action that "rationally takes account of – and weighs up – the ends, means and any secondary effects of a given decision" (Nicholls, 2010, p. 77). *Wertrationalitaet* is characterized as "spontaneous, internal, idealistic" (Mueller, 1979, p. 151) and is based on "normative frames and personal values" (Nicholls, 2010, p. 77). On an institutional level, Nicholls (2010) associates *Zweckrationalitaet* with atomized capital markets, and *Wertrationalitaet* with philanthropy, state support, and mutuality.

Applied to foundations, the theory sheds light on two normally distinct areas of management. Endowed foundations traditionally manage their funds and endowments separately (Hebb & MacKinnon, 2016). On the one hand, the grant-making reflects *Wertrationalitaet*. On the other, the income model of foundations is based on a *zweckrational* action of investing in capital markets. Impact investing dissolves these two formerly separated rationalities. The blurring of boundaries between grant-making and investing are often described along a continuum of returns, and result in a blended value concept for strategic philanthropy (Emerson, 2003a).

The goal of impact investing is therefore to integrate *Wertrationalitaet* into the originally purely *zweckrational* investment process. The motives for impact investing discussed in the literature reflect this goal. For instance, the investments should be aligned with the foundation's mission and maximize the foundation's potential (Emerson, 2003b; Fritz & von Schnurbein, 2015; Oldenburg, 2017). Qu and Osili (2017) find that demand from investees is a motive for implementing program-related investments (PRIs). Wood and Hagerman (2010) mention the motive of helping investees. Further motivations are leveraging philanthropic capital (Salamon, 2014) and implementing a different kind of economic system in the form of slow money, which focuses on the long-term rather than short-term profits (Roundy et al., 2017). Roundy et al. (2017) also find that reusing impact-oriented funds is a further advantage.

In addition to the *wertrational* motives, there are also *zweckrational* motives. The low interest rates of recent years have forced foundations to pay more attention to their investments and to explore new possibilities (Oldenburg, 2017). Another rational motive for introducing impact investing, at least to a certain extent, is the assumption that impact investments are less strongly correlated with the rest of the financial market and therefore improve diversification (Brandstetter & Lehner, 2015).

2.3 Environment

In this section, I will introduce the environment in which German and Swiss foundations operate. In doing so, I will emphasize the legal framework, a main challenge for these institutions which is revealed by in the meeting minutes and the literature (Clarkin & Cangioni, 2016).

Two authorities are relevant for foundations in Germany and Switzerland: the tax authority, which decides on the tax exemption; and the foundation supervisory authority, which monitors the correct implementation of the purpose and, in Germany, the asset preservation (Blum et al., 2017). While both countries are similar in many respects, the regulations in Germany are more firmly prescribed by law than in Switzerland, where the foundation law is more liberal (Sprecher, 2006), despite legal guidelines being set by the aforementioned authorities. A central legal challenge in both countries is their federal structure. Many of the following aspects are regulated or interpreted differently in individual states (Sprecher, Egger, & von Schnurbein, 2015). Furthermore, since impact investing is a rather new phenomenon, specific laws or guidelines are missing, and most authorities tend to conduct case-by-case assessments (Leichinger, 2016). This leads to legal ambiguity. One can summarize the current legal situation in the two countries as follows:

Authorities in Germany do not allow any or only a limited number of investments with intentionally lower returns (Koloczek & Voigt de Oliveira, 2016). However, they also do not define a minimum return. Some Swiss authorities accept lower financial returns if the investment positively contributes to the foundation's mission (BVG- und Stiftungsaufsicht des Kantons Zürich (BVS), 2016). In Germany, the rules for profitable investment and asset preservation generally apply. As a rule, the investment portfolio should be well diversified and there should be no large individual investment (Schröder, 2014). In Switzerland, foundations are sometimes recommended to follow the investment guidelines for pension funds, although these are not legally binding for foundations (Blum et al., 2017; Heim, Spinnler, & von Orelli, 2016). In this context, the term "fiduciary duty" is often used to describe the obligation that institutional investors assume toward their stakeholders (Wood et al., 2013). The risk profile may also depend on the projects that a foundation is currently supporting, which can be seen as its liabilities (Fritz, 2016).

Germany applies a regulation on the use of funds, where funds (e.g., asset returns, donations) must be used within two years after receipt (§ 55, Abgabenordnung). There is no such regulation in Switzerland, where the relevant authorities decide on the protocol. In addition, some Swiss foundations are designed to spend down their endowment, whereas Germany prohibits this in principle, unless it is a special type of foundation (known as a *Verbrauchsstiftung*). In both countries, private direct investments are particularly challenging from a legal point of view. In Germany, for example, it matters whether the private direct investment comes from the funds to be used on a timely basis or from the endowment (Weber & Scheck, 2012). Moreover, the authority's decision may be subject to the non-profit status of the investee. This decision then has implications for the tax-exempt status of the philanthropic foundation (Koloczek & Voigt de Oliveira, 2016). In Switzerland, the law is currently interpreted such that direct private equity investments are subject to legal challenges because of limitations concerning majority shareholdings and exertion of influence by board members (Opel, 2017).

Special legal concessions such as PRIs do not exist in Switzerland or Germany. There is also no special legal form for social enterprises such as the L3C in the US. In general, the countries described by Hebb and MacKinnon (2016) – the US and the UK – differ in their support for impact investing as the Swiss and German governments provide no support for developing this field within the foundation sector. Furthermore, networks that have existed in the US and the UK for many years (Hebb & MacKinnon, 2016) — important factors that facilitate impact investing (Ormiston et al., 2015; Qu & Osili, 2017) — have only existed in Germany and Switzerland in the form of expert groups of the respective foundation federations since around 2013. As the literature suggests, leadership is another important factor that influences impact investing behavior (Qu & Osili, 2017).

Estimates of investment volumes vary substantially. Eurosif (2014) put the 2013 volumes for Germany at nearly 1.4 billion euros, and for Switzerland at about 4.2 billion euros. For 2017, Swiss Sustainable Finance put the volume for Switzerland at 10.5 billion euros (Bues et al., 2018). By contrast, figures for the more selective part of impact investing, sometimes referred to as social impact investments, stood at just under 70 million euros for Germany in 2015 (Petrick & Birnbaum, 2016). This reflects the broad and varied definition of impact investing mentioned above. In both countries, however, there is a high concentration of providers (Bues et al., 2018; Petrick & Birnbaum, 2016), which again shows that there are not yet many intermediaries.

3. Method

For the study, I used qualitative methods to answer the research questions. Due to the topic being relatively new, the study is exploratory in nature, but also builds on existing knowledge from other geographical areas and different types of investors (e.g., social venture capitalists, pension funds, business angels, philanthropists). This inductive-deductive method of data collection and analysis reflects the fact that, unlike in "sociological naturalism," prior knowledge by the scientist has to be assumed (Witzel, 2000).

3.1 Selection of interviewees

I interviewed eight representatives of foundations and eight intermediaries. Purposive sampling was applied to the selection process for the foundations. I therefore paid specific attention to analyzing different cases to account for the exploratory nature of the study (Smaling, 2003). Due to the novelty of the topic in the investigated geographical area, it was also necessary to ensure that the interviewees had a basic understanding of impact investing. An overview of possible interviewees emerged during three meetings on impact investing that I attended in advance. Between 16 and 20 people took part in each of the meetings. The number of meeting invitations sent to foundations ranged from 134 to approximately 4,200,[3] depending on the meeting. This shows that the circle of interested and informed foundation representatives is still limited, and the interviewees represent early movers compared to most foundations.

	Interviewee	Type	Country
Foundations	i1	No entrepreneurial background	Switzerland
	i2	No entrepreneurial background	Switzerland
	i3	Entrepreneurial background	Germany
	i4	Entrepreneurial background	Switzerland
	i5	Corporate foundation	Germany
	i6	Corporate foundation	Switzerland
	i7	Corporate foundation	Switzerland
	i8	Corporate foundation	Switzerland
Intermediaries	i9	Asset manager	Germany
	i10	Asset manager	Germany
	i11	Asset manager	Switzerland
	i12	Asset manager	Switzerland
	i13	Bank	Germany
	i14	Bank	Switzerland
	i15	Consultant	Germany
	i16	Consultant	Switzerland

Table 1: List of interviewed organizations

[3] The difference is due to the different membership numbers in the federations of the two countries.

For the sampling process, the meetings allowed me to learn more about the state of knowledge on impact investing in the foundations. I selected a diverse mix of foundations. The missions ranged from the local to the international in fields such as development cooperation, integration, education, and research. I also considered the type of founder (see Table 1). Four of the eight foundations are corporate foundations. Of the four foundations founded and funded by an individual, two founders have an entrepreneurial background, i.e., they made their fortune through entrepreneurial activities.

In addition to the foundations, I also interviewed eight intermediaries. This allowed me to gain an external perspective and thereby verify the subjective internal view of the foundations (Roundy et al., 2017). The use of different data sources via data triangulation leads to more robust findings (Flick, 2011). Four of the intermediaries are asset managers who work for specialized impact investing companies and invest in different areas (developing countries, social enterprises, technology start-ups, real estate). In addition, I conducted two interviews with representatives of specialized banks, and two with consultants who have many years of experience in impact investing.

3.2 Interviews and analysis

For the interviews and the analysis, I followed the approach of the problem-centered interview by Witzel (2000). Instead of conducting group discussions, I attended meetings that focused on different themes and where attendees discussed and presented examples of impact investments. Based on the meeting observations, I identified the understanding of impact investment and the legal environment as key topics, with legal issues proving to be a core challenge. From the literature, I added questions about motivational and further environmental aspects to the interview guide.

For the analysis, the interviews were recorded and transcribed. I coded the individual interviews using the MAXQDA software allowing for deductive as well as new, inductive codes (Witzel, 2000). Due to variations in understanding among interviewees, I conducted a second analysis. Based on this second analysis, I classified the central conditions into three segments of impact investing.

4. Findings

4.1 Blurred definitions

Regarding the interviewees' understanding of impact investing, I identified two types of responses: first, the expression of uncertainty about the exact definition of impact investing; second, the referencing of the GIIN definition as a starting point before adapting the definition to their own specific circumstances.

I would say I'm not even fully clear what it means. (i6)

I think I would stick to the GIIN definition a little bit. [...] So, I would start with the GIIN definition and then again take into account the specific challenges of the foundation itself. (i5)

The interviewees perceived the definitions as rather broad and therefore adapted them to their own situation. These statements show that the interviewees vary in where they set the borders of the investment continuum.

We have invested in a wind farm that has always been a bit on the edge of impact investing for us. (i5)

I have the feeling that there is an understanding that impact investing should be illiquid per se. I disagree. They can be listed companies that generate an impact [...] for example, if I invest in a Kenyan telecommunications company. (i12)

At the other end of the continuum, some interviewees identified entrepreneurial support through philanthropic funds (i.e., funds that would otherwise be used for donations) as impact investing. However, some people criticize this. They say that impact investing from grants is not real impact investing and that many social challenges cannot be solved through entrepreneurial approaches.

It is important to raise awareness and tackle certain problems with entrepreneurial methods. (i8)

One part is from the classical endowment and the other part is a bit of impact investing, so it's actually on the edge of impact investing, because we do it primarily from budget funds. (i5)

You can see a little bit that the social entrepreneurs are fading away a little bit – funny thing. It is also increasingly being called into question because one notices that many of these social entrepreneurs are ultimately nothing more than social institutions that declare themselves differently. In the end, they are social institutions that constantly need money-in-flow, otherwise they would go up in smoke. The entrepreneur share is, I believe, more realistic today on the funding side. (i7)

Yes, we are investment advisors, investment consultants, but I am the first one who always says that not everything is possible via investments. I'd say it's a little less than half. A good third of the important issues that concern humanity go efficiently through the private sector, and there comes the opportunity for private investors to participate. A good half are things where the state, the civil society are particularly called upon. (i16)

In summary, I found no uniform opinion on the demarcation from traditional donations and sustainability investments, or about the relationship between purpose and impact. Many interviewees know the definition presented in the literature section above, although they perceive it as rather broad and therefore refine it. The specification, however, varies between organizations.

4.2 Value above purpose

In the answers about motivation, *wertrational* motives dominate over *zweckrational* motives. In particular, the interviewees repeatedly mentioned maximizing total value and aligning the mission with the income model.

If I wanted to explain this to someone, I would really say in general terms, first you have to be aware that the fortune has an effect at all. Now you really have to consider whether you really want this. Then you also have to consider whether you don't want to achieve even greater effects by investing more specifically. These are the different levels. (i7)

In contrast to the dominant motivation of maximizing total value, other motives known from the literature – such as developing a market and achieving leverage by attracting further investors – were only mentioned sporadically. Only one interviewee mentioned that the foundation used impact investing because social enterprises demand it. An important topic, however, was funding through entrepreneurial approaches. Interviewees referred to impact investing as an opportunity to promote innovation through these approaches, because creating entrepreneurial incentives foster innovation.

I think that if you try to solve these problems of poor populations with entrepreneurial means, then you have to be highly innovative, which business models you develop, and I find that interesting. (i8)

One representative of a foundation mentioned entrepreneurial spirit as the second motivation behind maximizing the total value. This seemed to be an important driver for many interviewees. Another interviewee also explained that entrepreneurial funding through investment increases the impact by ensuring that the foundation also benefits if the entrepreneur is successful. This prevents foundations from supporting companies that can privatize profits in the case of success.

When you have exciting proposals on the table that come from a start-up, we're not gonna say we're not doing this because they're making money. We say we'll go along with it, but we want to earn money if they succeed. It is for the reason of maximizing the impact as a foundation (i7)

This motivation contains characteristics of both *wertrational* and *zweckrational* motives. The entrepreneurial funding of start-ups can be considered *wertrational*, because the chances of a financial return are very small. On the other hand, it seems *zweckrational* that the foundation should benefit from possible profits. Interviewees also mentioned classic *zweckrational* motives such as the low interest phase, but classified these motives as subordinate drivers. In general, *wertrational* motives dominate over *zweckrational* motives, and the foundation representatives identify the maximization of total value and the entrepreneurial approaches as the most important motives. Other motives known from literature are also referred to, but only sporadically.

4.3 Leadership and legal restrictions

Following the questions concerning the understanding of and motivations behind impact investing, I asked the interviewees about their perception of the environment of impact investing. The legal complications emerged as a central challenge, which was already apparent from the expert group meetings. Interviewees also mentioned the federalist structure of the countries. Furthermore, one interviewee compared Swiss law and British law, under which it is easier to engage in impact investing.

Under UK law, you can do slightly more under a foundation structure than in Switzerland. … And there’s also much less experience in Switzerland. So it takes longer to get approvals for certain structures than we would get in the UK because in the UK there are more standard methods of doing certain structures. (i6)

We're actually not making … [any impact investments] from the foundation yet. This is largely due to the fact that we are subject to the foundation supervisory authority and have received very restrictive feedback from our foundation supervisory authority. (i 3)

Some interviewees emphasized that leadership, in the form of expertise for example, is a larger factor than legal restrictions.

Very few even have the finances to afford such a full staff. This means that many are dependent on advisors, namely bank advisors. Bank advisors often know little about what impact is. Even the foundations know little about it. In other words, the first problem is knowledge and the second is the legal framework. (i15)

The required knowledge differs from the normal competencies of foundation managers. Traditionally, knowledge of liquid, listed investments is required on the one hand, and specific expertise in the funding area is required on the other. However, the interviewees differed in their opinions regarding the extent to which foundations function independently from advisors and how much they can exert pressure on consultants and asset managers.

This requires different competencies than we are used to in the foundation sector. This is a challenge. (i1)

But there are many foundations that are quite static there, especially since most of them are attached to some bank with their capital, and this bank is not even in a position to advise on this from a consulting standpoint. (i13)

In other words, competency is a big issue. But there are no competencies that cannot be purchased or procured. (i7)

In addition to expertise, the lack of investment opportunities was mentioned as an important factor, particularly with regard to social enterprises. Furthermore, the interviewees argued that the Swiss social sector functions differently to the UK's. The public sector finances more areas in the Swiss social sector, which means entrepreneurial solutions from social enterprises have a more difficult time.

The [social entrepreneurship] sector does not really take off because there are neither in Switzerland nor in German-speaking countries enough cases that are really so business-like that enough people could invest. These are all just individual solutions. (i4)

In summary, the challenges lie in the lack of knowledge – both within the foundations themselves and at the level of advisors and authorities. The legal framework for investments in social enterprises is more dominantly perceived as a restriction in Germany than in Switzerland. In Switzerland, however, the range of investment opportunities in social enterprises seems to be limited.

So far, I have generically analyzed the three topics of understanding, motivations, and environment. However, the interviewees' understanding of impact investing varied, which means that conditions such as challenges and normative questions also differed. To show the relationship between understanding and conditions, I will divide impact investing into three categories and relate them to the conditions.

4.4 Conditions and segments

The interviews show that although motives for impact investing are diverse, two main varieties stand out: maximizing impact and applying entrepreneurial approaches. The same holds for the understanding. Although the interviewees referred to the broad definition, they varied in their specific understanding and implementation of it. This gives reason to classify impact investing into three categories in relation to the various understandings. Two of the three resulting investment segments are called "convergent," since they also exist in the literature (Brandstetter & Lehner, 2015; Ormiston et al., 2015) (see Table 2). The third segment is called "emergent" because it is rarely mentioned in the impact investing literature.

The first segment refers to established investment properties that achieve risk-adjusted market returns but have an operating model that generates a clear positive impact, in contrast to SRI. The second refers to investments that generate below-market returns and are usually made in the form of direct investments. The third refers to business incentives for which a financial return is rather unlikely, but theoretically possible. The table 2 summarizes these findings.

In the following section, I will discuss the “link to mission” condition as an example of how I derived the relations between conditions and segments. Afterwards, I will explain the three investment segments in greater detail with regard to their challenges and normative questions.

4.4.1 Derivation of relationship between conditions and segments

Due to their different understandings of impact investing, the interviewees placed different demands on the relationship between social impact and the foundation’s purpose. The following two statements are from interviewees who used a broad definition of impact investing and argued that any increase in socially oriented investment compared to the status quo is an improvement. The second quote emphasizes that if an investment achieves market returns, there is no need for proof of impact.

But in principle one could also simply say that the endowment is invested in a future-oriented manner, because one is generally interested in a positive effect and wants to take on a pioneering role. (i9)

Then I say, it doesn't really matter, you just have to have a return and you have to know that it is a good investment. It doesn't have to correspond to the purpose of the foundation, because often these purposes of the foundations are so special that you can't build an investment purpose around it, it is far too small a universe and you can't solve it entrepreneurially. But that's the next disconnect we have, a foundation that supports XY, should actually invest in impact investments that also support that. I say, no, I don't think that you have to do that link, because today it doesn't matter that they are investing in Holcim, although that has nothing to do with you. (i8)

In contrast, the category of private investments received varied answers from the interviewees.

It would be absolutely enough for me to say that it is a social enterprise. Whichever way you look at it. That is close enough to me, I believe that if we then start to restrict the purpose, then we will not make any progress at all. Today we have to say the main thing is impact investing somewhere in the social entrepreneurial sector, but please do not limit this to the purpose. (i1)

In a very, very extended sense, it must serve the purpose. Our purpose is to promote children in poverty. Anything that contributes to poverty reduction would do our job, so I would not invest in solar energy systems. (i2)

I have already mentioned that I am not interested in microfinance. Jobs and development cooperation are not our issues. But from the investment point of view one can say, ok, one has here returns between 3 and 4 % and that is nevertheless meaningful to make a diversification, everything is alright. It can also be considered from this point of view. Purely as an impact story, it has nothing to do with our foundation's purpose, so it is not fitting. Purpose and impact must have something to do with each other. (i7)

However, if impact is the primary focus — which is the case in entrepreneurial funding — the expectation is that the investment is aligned with the mission.

		Convergent		Emergent
	Segments / **Conditions**	**Established investments**	**Private investments (mostly direct)**	**Entrepreneurial funding**
	Type of money	Endowment	Endowment	Grant-making money
Challenges	**Legal requirements**	Must be a subordinate component of the investment portfolio	Ambiguous → e.g., risk of tax exemption	Ambiguous → e.g., what happens if the investee can pay a return?
	Investment opportunities	Available	Availability of investees such as social enterprises questioned	Available
	Availability of expertise	Challenging, some consultants and asset managers exist	Very challenging, very few specialized intermediaries	Very challenging, very few specialized intermediaries
Normative questions	**Financial return aims**	Market rate	Below market → But how much below?	Not expected but possible
	Link to mission	Partly forward-thinking or sustainable business case is considered as sufficient	Sometimes expected → What if not? From where are the values derived?	Expected
	Underlying logic (ideal types)	From purpose-driven to value-driven	From purpose-driven to value-driven	From value-driven to purpose-driven

Table 2: Conditions and segments of impact investing for foundations

4.4.2 Distinct segments of impact investments

The first segment of impact investments comprises established forms of investments that generate market returns or near-market returns and come solely from the endowment (see Table 2). Only some interviewees called for a link between the mission and the investment. In the case of investments that achieve market returns, the interviewees argued that any increase in the foundation's orientation toward a positive impact is a gain. In contrast to the definition set out by Höchstädter and Scheck (2015), who describe impact investments as primarily direct investments, this segment is often offered in the form of funds. Legally, this form of investment seems to be unproblematic if it remains a component of the overall portfolio. Not all interviewees, however, saw this form of impact investing as authentic impact investing.

According to most of the foundations interviewed, the core of impact investments is private investments in social enterprises or social real estate. Part of the financial return is deliberately sacrificed in favor of a social return. However, some interviewees questioned investments in social enterprises in the German-speaking region, due to a lack of investment opportunities caused by a lack of business cases. Glänzel and Scheuerle (2016) find similar evidence that the income models of social enterprises are insecure. When assessing the potential for social enterprises, one should distinguish between public and private goods as well as the existing social security system. On the one hand, by following benefits theory, public goods will hardly achieve a sufficient willingness to pay among potential private consumers (Young, 2017) and consequently no market return will be achieved (Ostrom, 2010). On the other hand, the social security system in Germany and Switzerland is more developed than in Anglo-American countries, which makes it more difficult to establish social enterprises. In addition, this segment requires specific expertise in the different fields of financial markets and the social sphere. Very few specialized intermediaries currently exist. Such impact investments are often direct investments. The legal issues have not yet been fully resolved and some forms of investments are legally impossible, particularly in Germany and in some cases also in Switzerland. Furthermore, the question arises as to how much of the return can be sacrificed in favor of impact and how strongly it should be linked to its mission. From a traditional perspective, where the investments and funding represent two separate logics, a relationship to the mission is required if financial returns are foregone. From the logic that foundations should act in the public interest, one can also argue that investments in areas of public interest should be approved independently of their connection to the mission.

Eventually, the interviewees subsumed entrepreneurial funding under the key concept of impact investing, even if this is only marginally compatible with the generic definition, since a financial return is rarely achieved and the border with venture philanthropy remains blurry. Such investments are normally financed from the grant-making funds. It is not primarily a question of generating income, but rather a different form of incentivization or a different type of relationship with beneficiaries. The interviewees mentioned that entrepreneurial components drive innovation. However, this form of impact investing is also viewed critically (McGoey, 2012; Thümler, 2016). Financialization allows capitalist motives to infiltrate areas that were originally occupied by other logics.

Literature and theory predicted that impact investing would shift foundation management from *zweckrational* to *wertrational*. However, the understanding of impact investing is broader and contains parts where formerly *wertrational* logics become more *zweckrational*. The shift takes place in both directions. If the funding becomes more *zweckrational*, one can certainly argue that this is problematic with regard to the expansion of capitalism. However, the topic is more complex than that. An interviewee pointed out that, when it comes to supporting enterprises, purely philanthropic funding is detrimental to society as a whole. If a foundation supports a start-up with a donation and the enterprise later becomes successful, only the other, “real” investors benefit – not the foundation. As a result, one could claim that profits are privatized while losses are socialized. This can be avoided, for example, by turning donations into equity capital in the event of success.

4.5 Findings in terms of selection criteria

The present study captured many different perspectives on impact investing using a variation-based approach. No uniformly different views emerged between the foundation representatives and the intermediaries. Data triangulation thus increases the validity of the data. Most interviewees had a rather positive view of impact investing. However, one foundation has explicitly opposed a current implementation of impact investing and justified it as follows:

If you want to combine the funding objective with the investments and pursue the same objectives, you have to ask yourself what the founder really wanted. Did he want to fund as much as possible … or at the same time make funding activities with the investment and thus reduce the fulfillment of the mission? (i4)

The above statement refers to a crucial point: the question of what a founder would want. In three of the other four foundations set up by an individual, the founder was still alive and involved in the foundation’s work. A key factor seems to be whether the founders are still alive and can therefore give their opinion on impact investing. Furthermore, the corporate foundations currently tend to have a higher degree of implementation than the other foundations. The findings of Qu and Osili (2017) also show that leadership is an important element. Even if the legal challenges do not make impact investing completely impossible, they make it a great deal more difficult, which in turn places much higher demands on leadership.

5. Conclusion

The goal of this study was to gain more insights into the understanding, motivation, and environmental aspects of impact investing using expert interviews with foundation representatives and intermediaries in Switzerland and Germany. The distinct differences in perspectives between foundations and other investors are reflected in the observation that two out of three foundations founded by private individuals indicated that they have already invested in impact investments, but only outside the foundation as individuals. Since the understanding of impact investing varied among the interviewees, I proposed three segments of impact investments to examine challenges and normative questions.

In selecting the interviewees, the focus was on sufficient knowledge of impact investing. I did not study which investment concepts are used, and I did not quantitatively assess their distribution. Rather, my aim was to gain in-depth knowledge of the specific characteristics of impact investments in the foundation sector. Moreover, the majority of those interviewed were largely supportive of the topic. If knowledge on the subject is to be further disseminated, efforts should be made to interview more representatives who have deliberately decided against impact investing. Special attention should be paid to the role of the founder and what the consequences are if he or she is no longer involved. In particular, the perception of responsibility seems to be different. This feeling of duty may be rooted in concepts such as loss aversion (Kahneman & Tversky, 1979) and the social norms associated with a foundation board’s fiduciary duty to maximize financial returns with low-risk strategies.

The division of impact investing into three segments takes account of the fact that the segments differ in their challenges and normative questions. It offers a framework to help foundations, authorities, and policymakers address the topic. Future research should focus on the specific questions for each of the segments (see questions in Table 2). In particular, legal questions should be addressed separately.

However, normative questions, such as how strongly the mission and the impact area are linked, differ depending on the segment. For other questions, the classification proposed here offers a framework for further examining the shifts in institutional logics.

This study also showed that the primary motives behind impact investing are to achieve a higher impact and to align the two management areas of grant-making and investing. However, foundations in Germany and Switzerland still face significant challenges and unanswered normative questions regarding the implementation of impact investing. The problem of contradictions could alternatively be resolved by focusing less on investment than on spending. In Switzerland, spending down endowments is legally possible and current examples of spending-down foundations exist. In Germany, it is part of the discussion around a reform of foundation law (Blum et al., 2017). Furthermore, spending down achieves an impact sooner. Future research on investing foundation assets should therefore consider spending down as an alternative.

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