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# IMPACT INVESTING AS A DRIVER OF INNOVATION, GOVERNANCE TRANSFORMATION, AND SUSTAINABLE ENTREPRENEURSHIP

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## **Abstract:**

Impact investing represents a fundamental shift in the role of capital: instead of focusing solely on financial returns, investors intentionally pursue measurable social and environmental outcomes. Distinct from ESG or socially responsible investment, impact investing is grounded in intentionality, additionality, and measurability. Its rapid growth fuels innovation across finance and entrepreneurship, stimulating new financial instruments, business models, and impact measurement methods. The article highlights the symbiotic relationship between impact investing and sustainable entrepreneurship, showing how impact capital enables purpose-driven ventures to scale solutions to societal challenges. It also adopts a critical perspective, addressing risks such as impact washing, mission drift, and power asymmetries. Finally, it outlines future challenges: regulatory developments, standardization of impact metrics, capacity building, and evolving governance frameworks to include vulnerable stakeholders. Impact investing contributes to shaping a more equitable and sustainable financial system.

**Keywords:** Impact investing, Sustainable entrepreneurship, Innovation, Stakeholder governance, Impact measurement

**JEL Codes :** G23, G28, M14, O31, L31

Economic development is transforming and global finance is changing. Capital now serves two purposes: it generates strong financial returns and fosters positive social and environmental transition. Impact investing leads this change. It creates measurable social and environmental impact alongside financial returns. This special issue of the *Journal of Innovation Economics & Management* explores innovation, entrepreneurship, and impact investing. It examines theoretical foundations, practical applications, and future directions. Impact investing began at a Rockefeller Foundation meeting in 2007 (Bugg-Levine and Emerson, 2011). It has since grown into a significant global financial force. By the end of 2020, the Global Impact Investing Network (GIIN) estimated the market size at \$715 billion. Projections show the global impact investing market will grow from \$3 trillion in 2023 to \$7.78 trillion by 2033. This growth shows a shift in how investors, entrepreneurs, and policymakers view capital's role in addressing global challenges. This expansion illustrates the steady transformation of what was once a marginal asset class into a more established field, now underpinned by an ambitious regulatory framework, a broader range of actors, and increasingly advanced measurement tools. In Europe, regulatory initiatives such as the European Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), and the Corporate Sustainability Due Diligence Directive (CSDDD) play a key role in structuring the market. These measures seek to harmonize the definition of sustainable activities, enhance non-financial reporting, and impose due diligence obligations across value chains. Yet, the growth of sustainable investing also raises concerns, notably the risks of impact washing and mission drift. Sustainable finance, including Socially Responsible Investment (SRI) and Environmental, Social, and Governance (ESG) criteria, has a long history. Impact investing stands apart through two dimensions: intentionality and measurability. SRI often avoids harmful industries. ESG assesses non-financial risks and opportunities. Impact investing commits to specific social and environmental outcomes. This commitment includes rigorous measurement and reporting of non-financial impact. This ensures accountability and transparency (Hockerts et al., 2022). Intentionality and measurability drive innovation. They create new approaches to capital allocation, enterprise development, and performance evaluation. This special issue contributes to impact investing knowledge. It brings together research exploring its many dimensions. We seek critical approaches that question current practices and examine ethical implications. As guest editors, we selected contributions that highlight impact investing's innovative aspects. We also focus on its influence on entrepreneurial ecosystems, and future challenges and opportunities. The papers in this issue advance our understanding of how impact investing reshapes Economics and Finance. They foster a new generation of purpose-driven enterprises. They contribute to a more sustainable and equitable future.

## **Innovation in Impact Investing: A Multifaceted Catalyst**

Impact investing drives innovation across finance and entrepreneurship. The pursuit of measurable social and environmental impact requires new approaches. It pushes the boundaries of traditional finance and business models. This section explores innovation spurred by impact investing. Impact investing (II) is defined as an investment strategy that deliberately seeks to generate measurable positive social and/or environmental outcomes alongside financial returns (GIIN, 2024). It differs from both traditional ESG practices and philanthropy by adhering to three core principles: intentionality (the explicit aim of achieving impact), additionality (the effective contribution of the investment to a change that would not have occurred otherwise), and measurability (the rigorous assessment of results). Although widely recognized, this definition has been subject to numerous debates and reinterpretations. Academic and institutional literature reflects these foundations (Dubocage & González, 2025; France Invest & FIR, 2021), yet confusion persists, with II often conflated with Socially Responsible Investment (SRI) or mere ESG compliance. Grounded in its three principles, II proves more demanding. Intentionality emphasizes the investor's *ex ante* commitment to deliver positive outcomes. Additionality requires that such outcomes would not exist without the investor's involvement, highlighting the importance of effective contribution. Measurability calls for robust indicators to track, quantify, and demonstrate the impact achieved. In France, FIR and France Invest have added a fourth principle: the alignment of impact objectives with stakeholder governance (France Invest & FIR, 2021). As an asset class, II encompasses four main categories (Yasuda, 2023): i. Private equity and venture capital in unlisted companies. These investments are channelled through social impact venture capital or impact private equity funds, which act as intermediaries between asset owners (Limited Partners, or LPs) and portfolio companies (Croce et al., 2021). Operating similarly to conventional venture capital, they finance early-stage to growth-stage firms with high potential for social or environmental innovation (Dubocage & Rivaud-Danset, 2006). In addition to providing equity capital, specialized managers (General Partners, or GPs) offer mentoring and strategic guidance. Unlike traditional venture capital, impact funds integrate impact considerations throughout the investment cycle, from due diligence to post-exit monitoring (Holtslag et al., 2021). At exit, they seek not only financial returns but also safeguards to ensure the company's mission endures, for instance by shaping contractual terms or supporting legal forms that protect sustainability commitments (e.g. "mission-driven company" status in France or Public Benefit Corporation in the United States; Islam & Akroyd, 2024). ii. Investments in listed equities through ETFs, mutual funds, or hedge funds. Here, impact is pursued via

shareholder activism—proxy voting, shareholder resolutions, or engagement strategies (Goodman & Arenas, 2015). Unlike screening-based ESG funds, these investors may deliberately target underperforming firms—the so-called “black sheep”—to push them toward more responsible practices and reduced negative externalities (Dimson et al., 2015; Barko et al., 2022).

iii. Direct investments by foundations or development finance institutions (DFIs). These actors deploy capital in line with their missions, often complementing financing with technical assistance, much like impact venture funds. Unlike the latter, however, foundations and DFIs typically rely on public or philanthropic resources, pursue broader development goals, and may adopt different return expectations and measurement frameworks (OECD, 2019; Agrawal & Hockerts, 2021).

iv. Impact debt. In this category, investors provide loans—often below market rates—to finance high-impact activities such as affordable housing (Yasuda, 2023). Unlike equity investors, creditors lack governance rights, which limits their ability to steer company decisions (Bass et al., 2020; Hand et al., 2022). Nevertheless, debt instruments appeal to investors seeking lower risk and predictable returns while contributing to social and environmental objectives.

Social impact refers to the value created by organizations for society (Bassi, 2012). The term is often employed with semantic shortcuts: “social” may encompass both social and environmental dimensions, while “societal” and “social” are frequently used interchangeably. Closely related to notions such as “social value creation” (Emerson, 2023; Gentile, 2000), “social return” (Clark et al., 2004), and “social accounting,” the concept has been defined in multiple ways. A common framework highlights four core elements (Clifford, 2014): the value generated by an actor’s activity; the value perceived by beneficiaries and other affected stakeholders; impacts that can be both positive and negative; assessment against a counterfactual baseline, i.e., what would have occurred in the absence of the activity. In this study, we adopt the definition proposed by the European Commission’s Expert Group on Social Entrepreneurship (GECES, 2014), which describes social impact as “the translation of social outcomes into measures, both short- and long-term, adjusted to take into account the effects attributable to other actors (alternative attribution), the effects that would have occurred anyway (deadweight), negative consequences (displacement), and the diminishing effects over time (attrition).” Measuring impact is a critical area for innovation. ESG criteria are standard in sustainable finance. However, they often do not meet impact investing needs. ESG assesses risks and opportunities related to environmental, social, and governance factors within a company. Impact measurement quantifies the positive change from an investment. This distinction is important. A company with strong ESG practices may have low carbon emissions. An impact investment targets a venture developing carbon capture technology. It measures tons of CO<sub>2</sub> removed from the atmosphere. Developing robust,

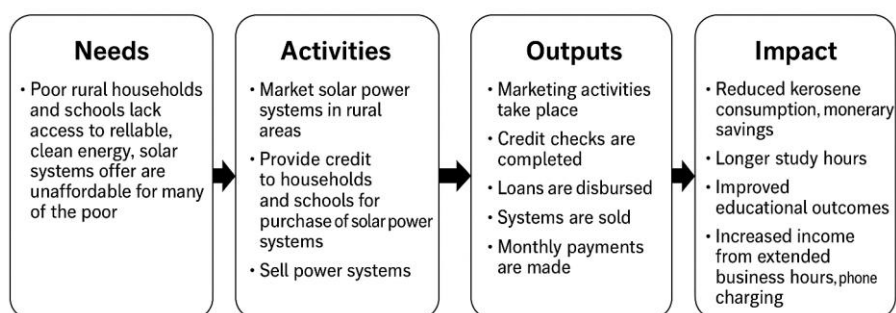
standardized, and verifiable methods for non-financial impact measurement is a challenge. Social and environmental outcomes are complex, long-term, and difficult to attribute to a single investment. This special issue invites research examining existing impact measurement frameworks. It also explores their influence on innovation strategies and creative management practices for investors and impact enterprises. Questions arise about measurement ease. Do innovations in areas like decarbonization, which are easier to quantify, attract more capital? This inquiry ensures capital flows equitably across impact opportunities. Impact measurement also renews traditional performance metrics. Social Return on Investment (SROI), pioneered by the Roberts Enterprise Development Fund, integrates environmental and societal dimensions into financial analysis. SROI monetizes social and environmental value. It provides a holistic view of an investment's total return. This raises questions for impact investors. Do they sacrifice financial returns for impact? To what extent do non-financial returns offset these trade-offs? Rigorous academic inquiry into these questions builds an evidence base for impact investing's efficacy and value. Impact investing growth requires financial engineering innovation. Traditional financial instruments often do not fit impact investments' unique risk-return profiles and objectives. New methods incentivize impact at the fund level. These innovations include performance-linked incentives tied to impact metrics. They also include blended finance structures. These combine philanthropic capital with commercial investment to de-risk early-stage impact ventures. Innovative financial products like social impact bonds, green bonds, and outcomes-based financing exemplify this trend. These instruments channel capital towards specific social or environmental outcomes. Repayment often depends on achieving predefined impact targets. Impact investing funds are active partners in fostering innovation within their portfolio companies. This involves strategic guidance, technical assistance, and network access. This helps impact enterprises scale solutions and enhance social and environmental performance. This hands-on approach, with monitoring and mentoring, differs from conventional private equity or venture capital models. Those models focus almost exclusively on financial growth. Impact funds integrate social and environmental issues into their support frameworks. They co-create innovation with their investees (Château-Terrisse and Dubocage, 2022). Impact investing fuels innovation in enterprise development. It targets companies designed to address social and environmental challenges. This encourages new solutions. These enterprises, social enterprises or impact ventures, are innovative. They disrupt existing systems or create new markets for positive change. This includes sustainable energy solutions, affordable healthcare in underserved communities, or inclusive employment opportunities. Impact investing channels capital to ventures addressing complex societal problems (Debref et al., 2022; Pyka et al., 2022). The

demand for measurable impact pushes these companies to innovate products, services, and operational models. This maximizes positive externalities. This interaction between impact capital and purpose-driven enterprises creates a cycle of innovation. Financial support enables groundbreaking solutions, which attract further impact investment.

### Box 1 - Acumen: Using patient capital to expand access to clean energy in East Africa

Acumen is one of the global pioneers of impact investing. Its *patient capital* model consists in financing enterprises serving low-income populations, accepting long time horizons and higher risk to support sustainable business models.

A well-documented example is its investment in **SolarNow** (<https://acumen.org/companies/solarnow/>), a Ugandan company providing modular solar home systems through flexible pay-as-you-go financing.



**FIGURE 1. SOLARNOW THEORY OF CHANGE**

**Intentionality:** expanding access to clean, reliable energy in rural areas disconnected from conventional electricity grids.

**Additionality:** Acumen’s early-stage capital enabled SolarNow to test and validate a commercial model among low-income households, a segment historically underserved by traditional lenders.

**Measurability:** indicators include the number of solar units deployed, reductions in kerosene expenditures, and additional safe lighting hours per household.

This example illustrates how an impact investor can catalyse inclusive markets by combining technological innovation, adapted business models, and rigorous measurement of social results.

**Sources:**

Acumen – *Case Studies:* <https://acumen.org/case-studies>

### ***Sustainable Entrepreneurship and Impact Investing: A Symbiotic Relationship***

Impact investing connects with sustainable entrepreneurship. A new generation of entrepreneurs emerges. They are driven by economic gain and personal fulfillment. They also consider social, family, and environmental consequences of their work. This shift in motivation creates a symbiotic relationship with impact investing. These purpose-driven ventures represent the demand for impact capital. Sustainable entrepreneurs create social and environmental value alongside economic value. Their ventures use innovative business models. These models integrate sustainability. They address market failures and societal needs. Impact investing provides financial support for these enterprises. It helps them scale solutions and amplify positive impact. Without capital that understands their dual mission, many sustainable ventures would struggle. This special issue explores research avenues between sustainable entrepreneurship and impact investing. First, understand impact investing's place within the entrepreneurial ecosystem. How do impact investors influence support structures for sustainable ventures? This includes incubators, accelerators, and mentorship programs. What are the consequences for traditional investors, policymakers, and other support organizations? Second, impact investing's specific structuring dynamics shape the entrepreneurial landscape. Impact investing has unique approaches to due diligence, investment terms, and post-investment support. Research could explore how these dynamics influence funding, growth trajectories, and capital allocation efficiency. For example, how do impact investors assess social innovation scalability? What challenges do they face in valuing non-financial returns? Finally, consider the added value impact investing brings to investors and entrepreneurs. For investors, what are the tangible and intangible benefits beyond financial returns? Does it enhance reputation, attract talent, or provide purpose? For entrepreneurs with environmental or societal impact, impact investing offers new opportunities. It provides patient capital, strategic guidance, and aligned networks. However, it also introduces constraints, such as rigorous impact measurement and reporting. Understanding these opportunities and constraints optimizes impact investing as a tool for fostering sustainable entrepreneurship. The convergence of sustainable entrepreneurship and impact investing creates positive change. It signifies a shift where economic activity addresses societal and environmental

challenges. This symbiotic relationship holds potential for driving innovation, creating inclusive growth, and building a resilient future. Continued research refines our understanding of this interplay. It identifies best practices to accelerate sustainable entrepreneurship and impact investing globally.

investing globally.

#### **Box 2 - Real-world example: Bridges Fund Management and impact-oriented governance**

##### **Bridges Fund Management: Embedding impact into investment governance**

Bridges Fund Management, a UK-based impact investment firm founded in 2002, specialises in investments delivering measurable social or environmental benefits. Its distinctive feature lies in governance structures that place impact at the heart of investment decision-making.

**Intentionality:** each fund - whether the *Sustainable Growth Funds* or the *Social Outcomes Funds* - is designed with explicit impact objectives embedded from the outset.

**Strengthened governance:** Bridges uses dedicated impact committees, systematic ex-ante impact analyses, and structured monitoring throughout the investment cycle.

**Measurability:** its methodological framework *More than Measurement* has helped professionalise impact management practices across the sector.

This case demonstrates how a private equity firm can move beyond ESG compliance to adopt a governance model fully oriented towards impact, reinforcing credibility and enabling capital allocation aligned with verifiable social and environmental goals.

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### ***Critical Approaches and Ethical Dimensions in Impact Investing***

Enthusiasm for impact investing is clear. Its transformative power is widely recognized. However, academic discourse demands critical examination of its practices and ethical dimensions. This special issue considers critical approaches. A nuanced understanding of impact investing requires scrutinizing its claims, challenges, and potential pitfalls. The goal is to foster healthy development through constructive critique and ethical principles. One area for critical inquiry involves 'impact washing' or 'greenwashing.' Entities may superficially align with impact principles without genuine commitment to measurable social or environmental outcomes. As impact investing gains mainstream appeal, the risk of diluting its core tenets increases. This requires robust due diligence, transparent reporting, and independent verification. These mechanisms ensure investments deliver promised impact. Research in this area explores current safeguards against impact washing. It also proposes new frameworks for enhancing accountability and integrity within the sector. Another critical perspective concerns power dynamics in impact investing. Who defines 'impact'? Whose interests are prioritized in capital allocation? Impact investing, if not carefully managed, could perpetuate existing inequalities. It could impose solutions not co-created with communities it aims to serve. Ethical considerations demand participatory approaches. Impact investors ensure beneficiaries' voices and needs are central to the investment process. This includes examining equity, access, and representation within the impact investing ecosystem. Ethical implications of financial returns alongside social impact warrant consideration. The dual objective defines impact investing. Questions arise about the balance between profit and purpose. Does pursuing financial returns compromise social mission integrity? How do you manage trade-offs when financial and impact objectives diverge? This special issue encourages research into these complex ethical dilemmas. It explores how impact investors navigate tension between financial viability and social imperative. It also examines whether certain financial structures or incentives create perverse outcomes. Finally, apply a critical lens to scalability and systemic impact. Individual impact investments yield positive change. The ultimate goal is broader systemic transformation. This raises questions about impact investing's capacity to address entrenched social and environmental problems at scale. What limits market-based solutions in tackling issues requiring fundamental policy changes or societal norm shifts? Research explores conditions where impact investing contributes to systemic change. It also examines how it complements other interventions. These include philanthropy, government funding, and advocacy. Embracing critical perspectives and prioritizing ethical considerations strengthens impact investing. It enhances credibility and maximizes potential for genuine, lasting positive change.

## ***The Future Outlook of Impact Investing: Challenges and Opportunities Ahead***

Impact investing will continue to grow and become more sophisticated. This expansion presents challenges. Navigating these challenges helps the field reach its full potential. This section outlines key challenges and opportunities shaping impact investing's future. Scaling impact and mobilizing capital is a primary challenge. The market has grown significantly, reaching \$715 billion by 2020. It will reach \$7.78 trillion by 2033. This remains a fraction of global financial markets. Mobilizing mainstream capital, including institutional investors, pension funds, and sovereign wealth funds, is a critical objective. This requires demonstrating competitive financial returns and robust, verifiable impact. Standardized impact metrics and clearer reporting frameworks build confidence among traditional investors. They facilitate larger capital flows into the sector. Scaling impact means addressing systemic issues. This requires moving beyond niche investments. It shifts from individual project-level impact to broader, portfolio-level impact. It contributes to systems change. This involves investing in solutions that replicate, adapt, and scale across geographies and contexts. It emphasizes collaborative approaches. Diverse stakeholders—governments, corporations, philanthropies, and local communities—work together. They tackle complex problems no single entity solves alone. Impact investing's future depends on advancements in data, technology, and transparency. The demand for rigorous impact measurement drives new technology adoption. This includes blockchain for impact verification, artificial intelligence for data analysis, and remote sensing for environmental monitoring. These tools enhance efficiency, accuracy, and credibility of impact reporting. They reduce the burden on impact enterprises. They provide investors with reliable data. Increased transparency is vital for the field's continued growth and legitimacy. This includes greater disclosure of impact performance. It also includes clearer methodologies for impact valuation. More accessible information about impact investment opportunities is needed. Platforms connecting investors with impact ventures facilitate due diligence. They streamline reporting processes. They play a role in fostering an efficient and transparent impact investing ecosystem. The challenge ensures equitable access to these technological advancements. It prevents new barriers for smaller impact enterprises or investors in developing markets. Policy and regulatory environments shape impact investing's future. Governments and international bodies recognize impact investing's potential to contribute to sustainable development goals (SDGs). They explore ways to create enabling environments. This includes supportive legal frameworks, tax incentives for impact investments, and integrating impact considerations into public procurement and financial regulations. Aligning national and international policies with impact investing principles unlocks capital. It accelerates

the transition to a sustainable economy. Over-regulation or overly prescriptive rules could stifle innovation and flexibility. Balancing growth and integrity is a delicate act. Research on policy intervention effectiveness, regulatory framework impact on capital flows, and public-private partnerships in scaling solutions informs future policy decisions. Impact investing will experience mainstreaming and specialization as it matures. Mainstreaming integrates impact considerations into conventional investment practices. It moves beyond a niche category to a fundamental component of responsible investing. This involves widespread adoption of impact metrics. It includes impact objectives in standard portfolio construction. It sees impact-focused products emerge within traditional financial institutions. Specialization will grow within the field. Investors focus on specific impact themes. Examples include climate change, affordable housing, or gender equality. They focus on geographies, such as emerging markets or underserved regions. They also focus on asset classes, like venture capital, private equity, or debt. This specialization allows deeper expertise, tailored financial solutions, and nuanced understanding of specific challenges. The challenge ensures specialization contributes to a robust, interconnected ecosystem. This ecosystem addresses the full spectrum of global challenges. Impact investing's growth depends on human capital development and capacity building. Professionals need a blend of financial acumen, social and environmental expertise, and understanding of impact measurement and management. This includes investment managers, financial advisors, impact measurement specialists, and entrepreneurs. They build and scale impact ventures. Educational institutions, professional associations, and industry initiatives train the next generation of leaders. They foster continuous learning and innovation.

### **The Role of Policy and Regulation in Fostering Impact Investing**

Impact investing's growth depends on market forces and entrepreneurial drive. It is also shaped by policy and regulation. Governments and international bodies create an environment that encourages impact capital flows. A supportive policy framework accelerates mainstreaming impact investing. It unlocks new capital sources. It ensures impact objectives are pursued and measured. Financial regulations historically focused on investor protection, market stability, and preventing illicit activities. Integrating social and environmental considerations into these frameworks is recent. Early policy interventions promoted corporate social responsibility or encouraged sustainable finance through disclosure. As impact investing gained prominence, targeted policies address its unique characteristics and foster its growth. One key policy area creates legal and regulatory clarity for impact investments. This defines impact investment. It

establishes legal structures for social enterprises. It clarifies fiduciary duties for institutional investors. This allows them to consider social and environmental factors alongside financial returns. Some jurisdictions legislate for benefit corporations or social purpose corporations. These legally embed commitment to social and environmental objectives alongside profit. Such legal innovations provide a clear framework for impact-driven entities. They attract investors seeking to align capital with broader societal goals. Governments stimulate impact investing through financial incentives and support. These include tax credits for impact investments, grants for early-stage impact ventures, or co-investment funds. These blend public and private capital. For example, the UK government pioneered social investment tax relief. It supported social impact bonds. Such mechanisms de-risk impact investments, especially in nascent sectors or challenging geographies. This attracts a wider range of investors. They might otherwise hesitate due to perceived higher risks or lower financial returns. Policy also develops robust standards and frameworks for impact measurement and reporting. Industry-led initiatives like GIIN's IRIS+ metrics made strides. Government endorsement or regulatory mandates standardize and legitimize impact data. This requires certain impact reporting for publicly traded companies or entities receiving public funds. The European Union's Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation create a harmonized framework for sustainable and impact-oriented investments. They aim to increase transparency and prevent greenwashing. These regulations evolve and present implementation challenges. They signal intent to integrate sustainability and impact into financial markets. Public procurement policies foster impact. Incorporating social and environmental criteria into government contracts creates demand for goods and services from social enterprises and impact-driven businesses. This provides market opportunities for these entities. It signals broader societal commitment to impact. It encourages private sector innovation and investment in areas aligned with public good. International cooperation and cross-border policy alignment scale impact investing globally. Challenges impact investing addresses, like climate change, poverty, and inequality, are global. Harmonized policies, shared best practices, and collaborative initiatives among nations facilitate cross-border impact investments. They ensure capital flows where needed. Organizations like the OECD and the UN support impact investing. They foster international collaboration. Developing effective policy and regulation for impact investing is complex. Balance guidance and support without stifling innovation or imposing burdensome compliance. Policies must accommodate diverse impact investments and evolving social and environmental challenges. Policymakers guard against regulatory capture. They ensure frameworks serve public interest, not specific market

players. Continued research into policy intervention effectiveness, unintended consequences of regulation, and government's optimal role fosters a supportive and impactful ecosystem.

### ***Rethinking Impact Fund Governance***

The stakeholder concept, introduced by Freeman (1984), posits that companies should extend their focus beyond shareholder returns to include the needs and interests of a broader set of actors, including employees, customers, and local communities. Building on this idea, a substantial body of research has explored stakeholder-oriented governance across different contexts, often centred on the principle that all stakeholders should have some form of representation or influence at the board level (Krlev, 2023; Roloff, 2008; Svendsen & Laberge, 2005). While this approach does not constitute a formalized theory comparable to agency theory (Mercier, 2006), it remains compelling because it stresses cooperation, shared responsibilities, and collective accountability (Civera & Freeman, 2019). Examining the position, influence, and decision-making power of stakeholders within SIVC-created funds and their portfolio companies thus provides a useful lens through which to assess how sustainable finance might operate more effectively. In the field of impact investing, Casanovas and Jones (2022) call for rethinking stakeholder structures by giving a stronger voice to a particularly relevant group: vulnerable stakeholders. These are the individuals or organizations that impact funds and businesses are designed to serve through their social and environmental missions. Their inclusion, the authors argue, should go beyond investment funds themselves and extend to all sectoral actors. By bringing in their perspectives and expertise, these stakeholders could enhance the legitimacy of the field. Forums that foster dialogue between actors who rarely interact (Mair & Hehenberger, 2014; Svendsen & Laberge, 2005) are especially valuable when addressing complex social challenges (Dorado, 2005). The underlying idea is that impact venture capital funds should integrate vulnerable stakeholders into the design, measurement, and management of investments to both preserve their mission and avoid mission drift. Dubocage and Gonzalez (2025) highlight that future research could investigate ways to embed vulnerable actors across multiple layers of the investment ecosystem—including impact funds, sustainable businesses, and investor networks—through experimental governance arrangements. Such approaches could generate fresh insights into impact fund governance and encourage the broader adoption of participatory practices. Intermediary organizations such as associations and foundations also play a crucial role in shaping emerging fields (Dubocage et al., 2024; Yamahaki, 2019). Analysing their contribution to actor categorization and sectoral identity-building across national contexts could clarify which

governance mechanisms are transferable and which require local adaptation (Dubocage & Rousselet, 2022; Durand et al., 2017; Gonzalez et al., 2024). Another avenue of inquiry concerns the meaning of “giving stakeholders a voice” (Casasnovas & Jones, 2022). Does this imply simply granting the right to speak, or does it extend to voting rights and real decision-making authority? If it involves power, what mechanisms—such as equity ownership or formal board representation—should be used? Who decides the rules of representation, and who should represent nature or society in governance bodies like investment committees or advisory boards? How should voting rights be allocated, and how can remuneration systems be structured so that financial performance, impact objectives, and stakeholder interests remain aligned, ensuring tangible social and environmental outcomes? Solidarity-based venture capital offers useful parallels, particularly in examining the contribution of volunteers in solidarity funds (Château Terrisse & Dubocage, 2022). Other relevant models include perma-enterprises, which place participatory governance at the heart of sustainable value creation (Breuzard & Appert, 2024), and cooperatives, which operate under democratic governance structures (Becuwe et al., 2014). Cooperatives demonstrate notable advantages in terms of inclusiveness, adaptability, and social outcomes (Kyazze et al., 2017; Novković et al., 2023). At the same time, they face governance challenges (Becuwe et al., 2014; Novković et al., 2023) that may be addressed through targeted training, well-defined frameworks, and transparent information-sharing practices (Joannidès De Lautour & Cortese, 2016; Kyazze et al., 2017).

### ***Charting the Course for a Purpose-Driven Financial Future***

Impact investing has grown from a niche concept to a significant force in global finance. Its growth comes from recognizing that capital serves a dual mandate. It generates competitive financial returns. It also intentionally creates measurable social and environmental impact. This dual intentionality, with rigorous measurement, distinguishes impact investing. It positions impact investing as a catalyst for innovation across domains. Impact investing fosters innovation in critical areas. This includes impact measurement. It pushes boundaries beyond traditional ESG criteria to quantify positive change. Robust methodologies and frameworks develop. This includes refining Social Return on Investment. This enhances accountability. It demonstrates tangible value from impact capital. The field drives innovation in financial engineering. This leads to new instruments and structures. These incentivize and channel capital towards specific social and environmental outcomes. Beyond finance, impact investing fuels enterprise development. It supports a new generation of sustainable entrepreneurs. They build businesses

with purpose. The symbiotic relationship between sustainable entrepreneurship and impact investing is compelling. It highlights a shift in entrepreneurial motivation. Individuals address societal challenges alongside economic aspirations. Impact investing provides essential financial and strategic support for these ventures. It enables them to scale solutions and amplify positive impact within the entrepreneurial ecosystem. Understanding this relationship fosters inclusive growth and builds resilient economies. Impact investing faces complexities and challenges. As it gains mainstream traction, critical scrutiny guards against pitfalls. This includes 'impact washing.' It ensures ethical considerations remain central. Questions about power dynamics, equitable benefit distribution, and the balance between financial returns and social mission demand continuous academic inquiry and transparent dialogue. Rigorous, critical approaches strengthen impact investing's integrity and effectiveness. Impact investing's future holds immense opportunities for growth and deeper impact. Scaling capital mobilization, enhancing data and technology for transparency, and fostering supportive policy and regulatory environments are paramount. Mainstreaming and specialization suggest a maturing field. Impact considerations integrate into conventional finance. Specialized expertise develops in specific impact themes and geographies. Investing in human capital and capacity building cultivates the next generation of leaders. They navigate this evolving landscape. This special issue's contributions underscore impact investing's transformative potential. They provide insights for academics, practitioners, and policymakers. They help understand, engage with, and develop this dynamic field. As guest editors, we believe impact investing represents a re-imagining of capital deployment. It builds a sustainable, equitable, and innovative future. The rigorous research presented serves as a foundation for charting this purpose-driven financial course.

### **Presentation of the special issue**

This special issue consists of four articles. In the first, Jeremy Lévêque, Thomas Enjalbert, Kevin Levillain, and Blanche Segrestin propose a study entitled **“How to Keep Track on Impact Investing Promises: Exploring the Potentials of New Governance Schemes”** Impact investing is increasingly attracting attention and gaining momentum within financial markets. However, this growing interest raises a crucial question: how can the promise of directing capital toward the achievement of social and environmental objectives be effectively fulfilled and sustained over time? This issue is addressed by examining the role of governance and the different levers it provides, with particular emphasis placed on the importance of formal governance structures in advancing the practice of impact investing. The investigation is grounded in a focus group

organized by the French Sustainable Investment Forum (FIR), which provided a space for dialogue between investors, practitioners, and experts. Drawing on this collaborative exchange, the innovative framework of the Société à Mission - a legal form introduced in France that integrates social and environmental purposes into corporate governance - is mobilized as an analytical lens to capture and interpret investor expectations regarding the transformation of governance mechanisms in order to embed impact considerations more firmly into investment practices. The review highlights that, in conventional finance, governance has primarily been conceived as a tool to reduce agency problems, limit opportunistic behaviour, and ensure alignment and transparency between stakeholders. While these functions remain relevant, they appear insufficient to address the unique challenges inherent in impact investing. The very nature of “impact” - which encompasses social, environmental, and ethical dimensions—creates specific difficulties in terms of evaluation (how outcomes can be measured reliably), integration (how impact can be embedded into decision-making processes), and institutionalization (how impact can be consistently pursued over time). It is therefore argued that these challenges require an extension of the scope of governance beyond its traditional remit. Governance in impact investing must also incorporate cognitive and methodological dimensions. Shared understandings of impact objectives among stakeholders must be fostered, appropriate measurement and assessment tools must be developed, and impact considerations must be embedded at every stage of the investment chain—from capital allocation and project selection to monitoring, reporting, and long-term accountability. Ultimately, the findings suggest that governance must evolve from a narrow focus on mitigating agency problems to a broader, multidimensional approach that recognises the complexity of impact. In this way, governance can serve not only as a mechanism of control and alignment but also as an enabler of innovation, collaboration, and credibility in the field of impact investing. Jocelline Keita Pandojo et Rene Yves Carraz propose a second article entitled **“Innovation at the Crossroads: Managing Competing Institutional Logics in Indonesia’s Impact Investing Ecosystem”**. Impact investing is expanding rapidly in Southeast Asia, with Indonesia as the leading market, yet research on investor–investee dynamics there remains scarce- especially regarding the coexistence of social and commercial logics. Drawing on multiple case studies and interviews with impact investors and social enterprises, this paper highlights key Indonesian challenges: limited standardization, information asymmetry, and weak local investment. It identifies adaptive strategies, including constructive sensemaking, focused investment theses, due and reverse due diligence, stronger communication, and social impact measurement. The study shows how emerging-market institutional complexity can spur institutional innovation and help manage dual logics in impact investing. In a third article, Thi

Minh Anh Bui, Thanh Ha Le, Thi Minh Chau Pham, Hoang Quynh Anh Ngo et Hong Hanh Nguyen propose an article intitled « **A Comprehensive Evaluation of the Non-Linear Effects of Financial Development and Economic Freedom on Firm Innovation: Insights from a Logistic Model** ». Innovation activities are inherently demanding, as they often involve substantial financial costs, require the mobilization of highly qualified human resources, and depend on the existence of a supportive macroeconomic environment. Within this broader context, two structural factors - financial development and economic freedom—emerge as particularly decisive in shaping the conditions that allow businesses to secure the capital necessary for engaging in innovation. To investigate the influence of these factors, our study employs a logistic model, which enables us to capture the non-linear nature of the relationship between financial development, economic freedom, and firm-level innovation. The results point to complex and non-linear dynamics. In the initial stages of financial development, the expansion of financial systems may paradoxically hinder innovation, due to inefficiencies, misallocation of capital, or institutional weaknesses that can accompany early phases of market growth. However, as financial systems mature and become more sophisticated, this negative relationship is reversed, and advanced financial development begins to actively promote innovation by improving access to capital, lowering transaction costs, and facilitating risk-sharing mechanisms. A similar non-linear pattern is observed with regard to economic freedom. While greater economic freedom initially enhances innovation by reducing barriers, fostering competition, and expanding opportunities for entrepreneurs, its benefits diminish beyond a certain threshold. Excessive deregulation or unchecked freedom may generate market volatility, weaken institutional safeguards, or reduce the stability needed for long-term innovative investment. This suggests that there exists an optimal range of economic freedom and financial development that maximizes the capacity of firms to innovate effectively. From a policy perspective, these findings underline the importance of carefully calibrating economic and financial reforms. To stimulate and sustain innovation, it is not enough to pursue linear increases in financial development or economic liberalization. Instead, policymakers should focus on developing robust, transparent, and inclusive financial markets, while ensuring that the degree of economic freedom remains conducive to entrepreneurial activity without undermining institutional stability. Furthermore, the design and implementation of targeted incentive mechanisms—such as subsidies, tax breaks, or public–private partnerships—can provide additional support to innovative enterprises, particularly in their early stages. In sum, the research highlights that fostering innovation requires a nuanced and balanced approach: one that recognizes the non-linear dynamics of financial and economic structures and seeks to optimize, rather than simply expand, the institutional and policy

environment in which firms operate. Finally, Jean-Michel Sahut, Math Marza et Lubica Hikkerova publish a study entitled “**Diversity and performance in Cameroonian small microfinance institutions: The mediating role of entrepreneurial orientation** ». This research investigates the influence of managerial diversity and entrepreneurial orientation on both the financial and social performance of microfinance institutions (MFIs) operating in Cameroon, with a particular focus on small and medium-sized enterprises (SMEs). To collect empirical evidence, a quantitative survey was administered to a sample of 397 managers of Cameroonian MFIs. These participants were selected through purposive sampling, ensuring that the respondents possessed relevant managerial experience and were able to provide informed perspectives. The data collection took place between January and February 2023. The analysis relied on structural equation modelling (SEM) to test the proposed hypotheses. The findings reveal several noteworthy relationships. First, demographic diversity within management teams shows a direct positive effect on financial performance, suggesting that differences in age, gender, or educational background can contribute to stronger economic outcomes. In contrast, cultural diversity exerts a direct effect on social performance, indicating that varied cultural perspectives are especially valuable for fulfilling the social mission of MFIs, such as financial inclusion and community development. Moreover, entrepreneurial orientation emerges as a mediating factor: it indirectly shapes the impact of diversity on both financial and social outcomes. An important nuance revealed by the study is that the financial and social performance of MFIs are not influenced by the same dimensions of entrepreneurial orientation. On the one hand, financial performance benefits particularly from innovation, calculated risk-taking, autonomy, and competitive aggressiveness, which collectively enable institutions to strengthen their market position and generate sustainable revenue. On the other hand, social performance appears to depend more strongly on autonomy, which allows managers and employees to adapt their practices to local needs and to remain responsive to the social objectives embedded in microfinance. Overall, these results underline the importance for MFI managers of capitalising on the diversity present within their teams and fostering an entrepreneurial mindset. Encouraging innovation, promoting responsible risk-taking, and cultivating a culture of independence and competitiveness are crucial for achieving financial success. At the same time, giving particular emphasis to autonomy is essential for sustaining the social mission of MFIs, thereby ensuring a balanced pursuit of both economic and social objectives.

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