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Financial and Social Tensions in Impact Venture Capital: Insights from Sensemaking

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Abstract

This thesis explores the complex relationship between financial and social objectives within Impact Venture Capital (IVC), a growing segment of the venture capital industry that seeks to balance profit with positive social impact. The study aims to understand how IVC professionals navigate and make sense of the inherent tensions between these dual goals.

The primary purpose of this research is to investigate the mechanisms through which IVC professionals reconcile financial returns with social impact. By examining their sensemaking processes, the study seeks to uncover how these individuals prioritize and evaluate impact alongside financial performance, and how their interpretations influence the practices and evolution of IVC. The research adopts a qualitative approach, employing in-depth interviews with professionals involved in IVC, including venture capital investors and startup entrepreneurs. The methodology is rooted in sensemaking theory, which provides a framework for analyzing how individuals construct meaning in complex and ambiguous contexts. Thematic analysis is used to identify key patterns and themes in the data, revealing the diverse ways in which professionals interpret and manage the tensions between financial and social goals.

The findings highlight the existence of significant tensions between financial and impact objectives in IVC. Professionals employ various sensemaking strategies to navigate these tensions, often relying on both quantitative metrics and qualitative judgments to evaluate impact. The study reveals that while there is a general convergence towards certain impact evaluation criteria, considerable divergence remains due to the subjective nature of social impact and the diverse priorities of stakeholders. The research contributes to the theoretical understanding of sensemaking in IVC and offers practical insights for improving impact evaluation practices. It underscores the importance of transparency, accountability, and continuous refinement of impact metrics to achieve a balanced approach in impact investing.

In summary, this thesis sheds light on the intricate balancing act performed by IVC professionals as they strive to align financial returns with social good, providing valuable insights for both scholars and practitioners in the field of impact investing.

Keywords: Impact Venture Capital (IVC), Impact Investing, Sensemaking, Sustainability

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1. Introduction

1.1 Background and Problematization

Venture Capitals (VCs) are entities defined as “independent, professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies” (Gompers and Lerner, 2001). During the early stages, VCs meticulously assess entrepreneurial ideas, selecting those with the potential of increasing value and innovation to evolve into viable companies and providing essential support (Marcus et al., 2013; Keuschnigg, 2004). Traditionally, this support was primarily financial (Cox, 2012), and VCs are expected to prioritize financial returns in their investment activities (Ormiston et al., 2015; Freireich and Fulton, 2009).

The contemporary global community is confronted with a multitude of grand challenges that span environmental, social, and economic dimensions (IPCC, 2018; World Bank, 2020). To systematically address these challenges, a series of global objectives have been established, epitomized by initiatives such as the Paris Agreement and the United Nations’ Sustainable Development Goals (SDGs), which aim to guide nations and industries toward sustainable and equitable growth (UNFCCC, 2015; United Nations, 2015). Additionally, initiatives like the Task Force on Climate-related Financial Disclosures (TCFD), encourage companies to disclose climate-related risks and opportunities, and enhance the transparency in investments (TCFD, 2017); and United Nations Principles for Responsible Investment (UNPRI), aims to promote the idea to the investors to pursue sustainable, long-term returns, is growing rapidly (UNPRI, 2023). These initiatives also play vital roles in pushing forward the fulfillment of the global objectives that have been set.

However, even with the growing requirements from the legislation along with the increased awareness of responsible practices in both the business field and academia, most corporations prioritize economics first, followed by social and ethical issues, and then the environment (Markman et al., 2016). Moreover, the broader understanding of sustainability inspires industry

stakeholders to assess not only the positive but also the potential negative effects of their actions (Hörisch, Schaltegger and Freeman, 2020; Ritala et al., 2018; Winston, 2021). This is where the notion of impact has been discovered and leveraged to complement the term sustainability (Malhotra et al., 2017).

The investment segment has integrated the idea of impact into its practices in the last 20 years (Addis et al., 2013). Impact Investing is different from traditional investing activities, it aims to attain specific and measurable social impact, including positive and negative, while conducting investments that promise market-competitive financial returns (Addis et al., 2013; Freireich and Fulton, 2009). Impact Venture Capital (IVC) is applying this method, structured like traditional VC but is distinguished by its *intentionality*. The Global Impact Investing Network (GIIN) defines an impact investor's intentionality as conducting "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." (GIIN, 2020), meaning that IVC demonstrates an intention to achieve both positive social or environmental returns and positive financial returns in their investments.

IVCs address environmental and social challenges by setting impact criteria and strategies aligned with the impact objectives mentioned above. The evaluation frameworks currently utilized by impact investors include the authenticity of the founding team, the significance of the societal problem being addressed, and the venture's financial sustainability (Block et al., 2021). However, in reality, the adoption of impact strategies in VCs is facing challenges and reluctance. Despite the stated goals of many VC impact investors to prioritize impact-driven enterprises, claiming that they strive to maximize social or environmental impact with a minimal necessary financial return, the actual allocation of investments may not always align with these goals. Many focus on *financial-first* investments (Freireich and Fulton, 2009; Ormiston et al., 2015), i.e. the traditional mindset that seeks to maximize financial returns with a floor for minimum expected social and environmental impact. Furthermore, there is a phenomenon of *mission drift*, where VC impact investors may deviate from their initial impact or mission-driven goals over time (Cetindamar and Ozkazanc-Pan, 2017). This disparity raises questions about the

effectiveness of impact investing practices and the extent to which investors are truly committed to driving positive social change.

Pioneers in impact investing are keenly aware of and seize the opportunities that impact investing presents, and are often willing to accept reduced financial returns partly in exchange for the non-pecuniary benefits associated with intentional impact investing (Barber et al., 2020). However, meanwhile, some recognize the uncertainty of this new concept. They addressed their aversion to potential loss by employing familiar investment decision-making processes, which are the mindset of the financial-first investment, using established professional finance techniques and practices (Ormiston et al., 2015). This is where the tension appears, namely, the utilization of assessment methodologies has not followed up on the value of impact investing. Investors often find themselves uncertain about how to effectively evaluate and incorporate impact investments into traditional portfolios, which makes them hesitant to fully engage in the field despite their interest. This tension is rooted in the fundamental challenge of balancing financial returns with social and environmental outcomes. In the context of IVC, this challenge is heightened by the need to reconcile the long-standing financial logic of maximizing returns with the newer logic of integrating impact considerations. The difficulty in measuring social and environmental value, compounded by a lack of standardized metrics and clear guidelines, exacerbates this tension. Moreover, while impact investors are driven by both financial and social motives, many tend to prioritize financial returns, which further complicates their investment decisions. This hybridity of financial and impact goals creates a dynamic tension in IVC, where professionals must navigate the competing demands of impact mission preservation and financial performance, often leading to a complex and sometimes conflicting decision-making process.

According to research by Guter-Sandu (2023), the values prevalent in the impact investing field emerge from the interplay among a diverse range of stakeholders, which includes impact investors. Currently, the evaluation criteria, even when initially relevant, can be framed and presented in an obscure way by investment professionals. Thus, the industry of impact

investing's promise largely hinges on the interpretation of impact investment professionals (Celse, Karakostas and Zizzo, 2023), which is related to their individual perceptions (Bruner, 1966). Here, Sensemaking, as a theory of individuals transforming circumstances into a situation that can be explicitly understood (Weick, Sutcliffe and Obstfeld, 2005), may provide insights into the perception of venture capitalists regarding impact investing.

When individuals are in uncertain and ambiguous situations, they will try to make sense of them. It is because they lack immediate access to knowledge that could offer a clear and plausible interpretation. They may confront novel, unexpected, conflicting, or confusing information, which requires them to prioritize one interpretation over others (Weick, 1995). Therefore, they extract cues from the environment. These cues build a coherent narrative that organizes and rationalizes the situation, enabling them to navigate and interact effectively within their environment, and thereafter enact the environment (Maitlis and Christianson, 2014).

Guter-Sandu (2023), Celse et al., (2023), as well as the theories of sensemaking (Weick, Sutcliffe and Obstfeld, 2005) highlight the pivotal role of perception in shaping how the impact is understood and communicated within the industry. As venture capitalists engage in sensemaking amidst uncertain and ambiguous contexts, their ability to extract meaningful cues from the environment shapes their strategic orientations. Thus, understanding how these perceptions inform investment strategies and industry practices is essential to advancing our comprehension of impact investing's broader societal and environmental contributions.

1.2 Purpose and Research Question

Altogether, this research aims to utilize sensemaking theory to understand the perceptive tension among IVC investors through focused analysis with an interpretive perspective. The primary objective is to comprehend how IVC investors perceive the concept of impact investing and integrate it into traditional VC investing strategies and criteria. To fulfill the purpose of this study, the following research questions were formulated:

How do venture capitalists make sense of and navigate the tensions between financial and impact objectives in their investment criteria?

To address the research question, this study employs a qualitative approach, conducting interviews with 22 individuals who possess sufficient experience in impact investing relevant to IVCs. By selecting a diverse sample, encompassing various organizational backgrounds, the research aims to capture a comprehensive spectrum of perspectives. This methodological choice enables the study to delve into the nuanced differences among organizations, thereby offering a deeper understanding of how impact is perceived, evaluated, and integrated within the traditional VC landscape. Through these interviews, the research seeks to uncover insights that contribute to answering the research question with rigor and depth.

2. Literature Review

2.1 IVC and Its Impact Investment Practices

VC refers to investments in new or early-stage ventures, focusing on enabling startup growth in the early stages when these lack steady income flows to access external debt finance from banks or other financial institutions (Berger and Udell, 1998). VC investors typically take an ownership stake in firms that are not yet publicly listed. Traditionally, VC firms prioritized financial returns, investing in companies with high growth potential to maximize profits (Ormiston et al., 2015; Freireich and Fulton, 2009). This is because, first, the successful (i.e., exit and becoming a unicorn) rate of ventures is low, VCs strive for higher expected returns of the investment (ROI) to compensate for the risk; second, the primary goal of a venture capital firm is to maximize returns upon exit for limited partners (LPs), who are often wealthy individuals, organizations, or foundations (Williams and Sharamitaro, 2002; Cetindamar and Jacobsson, 2000).

Different from traditional VC, IVC firms focus on mission-driven companies that aim to promote dual objectives, which are both social or environmental outcomes and financial success (Barber et al., 2020; Meyer, 2015). The concept of impact investing was first introduced at the Rockefeller Foundation's meeting on philanthropy and development in Italy in 2007 (Bugg-Levine and Emerson, 2011). The emerging reason for IVCs is a multitude of grand challenges that span environmental, social, and economic dimensions (IPCC, 2018; World Bank, 2020), leading to a series of global objectives have been established (UNFCCC, 2015; United Nations, 2015), and the initiatives that push forward the fulfillment of the global objectives (TCFD, 2017; UNPRI, 2023).

A widely accepted definition of impact investing is: "investments made to generate positive, measurable social and/or environmental impact alongside a financial return" (Hand et al., 2023; GIIN, 2020), emphasizing intention, measurability, and the pursuit of social, environmental, and financial returns (Gigante et al., 2023). This is the definition that is arguably most widely accepted in both industry and the literature, and this thesis is going to adopt this definition. On

one hand, IVCs resemble traditional venture capitalists in their governance frameworks and overall investment practices. On the other hand, they intentionally invest in businesses that are not only economically sustainable but also anticipated to create economic, environmental, and social value (Croce et al., 2021). Namely, the concept of impact investing, which is applied by IVCs, combines elements of traditional financial and philanthropic financial logic (Hehenberger et al., 2019).

2.2 The Tension in IVC

IVCs strive to balance financial performance with mission preservation, aiming to invest in ventures that yield positive social, environmental, and financial impacts (Agrawal, 2018; Milligan and Schöning, 2011). While traditional financial logic in the investment and VC landscape focuses on maximizing financial returns, which has existed for a long time, impact investing introduces a new logic that integrates social and environmental considerations into investment decisions (Gautier, Pache and Santos, 2023). Thus, the practice of IVC is borrowing principles and practices of the VC industry (Cetindamar and Ozkazanc-Pan, 2017), differentiating itself with the objective of channeling funds to address enduring domestic or global social issues. The integration of financial and impact logics creates a complex relationship, which can be described as a mergence of two logics, i.e., financials and impact.

In the application of IVC assessment criteria as traditional venture capitalists primarily aim to maximize financial returns to fulfill their fiduciary duty to investors (Roundy et al., 2017). In contrast, impact investors uniquely evaluate both financial strengths and social value-oriented criteria such as improvements in community health or environmental sustainability (Barber et al., 2020). Therefore, for investors aiming to incorporate an impact mandate into goals-based portfolios, a trade-off may exist between the two objectives (Parker, 2021). At the core of trade-offs, it involves making decisions under resource limitations among competing outcomes, i.e., the factors that may hurt the profitability, and competing objectives, i.e., the factors that can achieve higher earnings (Hahn et al., 2010). In IVC contexts, the former refers to impact, which may limit the earning potential of the new ventures, and the latter refers to financial profitability.

This competition creates a form of tension, which is “two phenomena in a dynamic relationship that involve both competition and complementarity” (Epstein et al., 2015). This tension brings up challenges and considerations in the IVC landscape.

One of the challenges is created by the difficulty in measuring social and environmental value, distinct from financial value (Barman, 2015). Many impact investing metrics are now available to measure different forms of value in social impact programs, however, the lack of clear guidelines (Silva et al., 2019) leads to the need for greater standardization (Bouri et al., 2018; Reeder et al., 2015; Weber, 2013) since the practices and levels of stakeholder integration vary (Guter-Sandu, 2023).

Moreover, another challenge is that, despite the importance of positive impact, many impact investors prioritize financial returns over social outcomes (Phillips and Johnson, 2019). This is because they tend to optimize the positive effects generated by their choices (Heeb et al., 2023). Meanwhile, they may hesitate to admit that their primary investment intention is capital growth (Lewis, 2001), which is related to their motivation. The motivation of investors can be categorized into socially motivated concessionary (impact first) or non-concessionary (finance first) investors (Brest and Born, 2013). Most investors will avoid the social or environmental harm that may be caused by the investment. However, they do not recognize sufficient attraction from socially motivated concessionaires, meaning that although they have a substantial willingness to pay for impact investments, they do not necessarily pay significantly more for investments with a greater impact (Heeb et al., 2023; Humphrey et al., 2021).

The hybridity of financial performance with impact preservation is a primary source of tension in businesses as social and financial logic frequently clash (Wry and Zhao, 2018; Glac, 2008). This tension is extended to IVCs as they are financing organizations and earning returns from new businesses. Additionally, VC as a kind of private equity, has been recognized as the investing organization that is most likely to generate impact (ter Braak-Forstinger and Selian, 2020). In striving to achieve both objectives simultaneously, the professionals working in IVCs perceive considerable tension as IVCs that they work for do. This is because the accountability pressures

associated with different identities, as previously discussed, i.e., the promoter of impact and investors that need to be responsible for LPs' funding, are strong (Tadmor and Tetlock, 2006).

2.3 Professional's Involvement in IVC and Sensemaking

Current institutionalization of impact investing lacks explicit guidelines regarding the methods for collecting, measuring, and reporting (Guter-Sandu, 2023). Additionally, as mentioned in the previous section, various methods for calculating impact (Silva et al., 2019), and the wide spectrum of financial or impact focuses have created tension within IVC (Wry and Zhao, 2018; Glac, 2009). This tension creates a particular gray area that exists in the IVC industry. Furthermore, in impact assessment, context matters (Arjaliès et al., 2022). Hence, case-by-case negotiation and discretionary action are required for IVC professionals to resolve the inherent ambiguity present in impact investing contexts creation and to decide upon proper criteria from the existing metrics, or develop a completely new one to follow the requirement (Guter-Sandu, 2023). Namely, human judgment remains crucial (Arjaliès et al., 2022).

Previous research has explored the role of professionals in impact investment. The entire impact investing market is based on the largely unverified hypothesis of generating sufficient financial returns, while simultaneously achieving some environmental or social goal. As a result, professionals may need to find alternative methods to persuade fund providers and gain their trust (Celse et al., 2023). They wield discretion in determining the extent to which impact is integrated into decision-making processes. Their judgment significantly influences the integration of impact investing into normal VC investment decision-making processes (Hehenberger, Mair and Metz, 2019). On one hand, well-developed tools and systems for new venture assessment can enhance credibility (Chiapello, 2017); on the other hand, professionals will potentially distort impact metrics and select metrics that serve their own interests (Celse et al., 2023). This is where ethics play an important role in impact investment. There is a "liberal ethics of investment" (Langley, 2011) in the evaluation processes in IVC, and it is achieved by the professionals who utilize novel tools and concepts of assessing impact outcomes and

“complement” the traditional financial investment evaluation tools (Langley, 2018) as they sense the unalignment concept between impact creation and the intention of investing (Barman, 2015).

Impact investing is characterized by uncertainty, interdependence, and complexity, which influence the interactions among stakeholders such as IVC professionals. A study by Meng, Newth, and Woods (2022) suggests that in the impact investing landscape, stakeholders employed various context-specific rationales, including pragmatic, retrospective, and forecasting, to justify their behaviors and bolster their motives. These rationales are interdependent (Kramer, 2016) as professionals search for meaning and reasons in unclearness, although they are not necessarily fully complying with the “rules”. For example, professionals who recognize themselves as impact investors may still engage in fossil-fuel-related activities, and the reason for this is they believe as they keep contributing financially, these “unclear” activities will be developed and thereafter become “clean” one day (Meng, Newth and Woods, 2022).

Regarding the individual’s responses toward the integration of core elements of different logics in innovative ways, for example, in impact investing environments, there is a theoretical term called “hybrid practices” or “hybridity”. Hybrid practices deviate from conventional “pure practices” considered legitimate and, therefore elicit diverse responses from individuals (Wry et al., 2014; Maitlis and Christianson, 2014). For individuals who are experiencing it, hybrid practices are new, facing the risk of being neither understood nor accepted (Gümüsay, Smets and Morris, 2020). Therefore, the involvers need to make sense of judgments based on the alignment or differences between the occurring event and the relevant logic of practices. The acceptance of the hybrid practice, i.e., navigating the new hybrid concept, requires familiarity with all relevant concepts and their overarching logics (Gautier, Pache and Santos, 2023).

Previous literature suggests that sensemaking may be useful in understanding the decision-making processes of investors (Maitlis and Christianson, 2014) as it enables investors to create coherent narratives about potential investments, thereby reducing uncertainty and guiding decision-making processes (Clarke and Cornelissen, 2018). When investors develop the investment criteria, which is a part of the decision-making process (Andrews and Butler, 1986),

they tend to be attracted by the narratives that anchor their values (Grimes, 2010). New ventures gain cognitive legitimacy through narrative strategies, which increase the chances of them to get investments (Powell and Baker, 2017). This further creates the co-evolution loop between VC and its entrepreneurs (Navis and Glynn, 2011). VCs that possess the intention to achieve impact generation will attract impact entrepreneurs, and both of them will become even more impact-focused, and vice versa. Moreover, concerning LPs that increasingly seek to invest responsibly, VCs and entrepreneurs' sensemaking based on this characteristic of LPs, further adopting sustainability or impact agenda (Lameter and Goehlmann, 2022). These studies underscore the relevance of sensemaking theory in revealing the cognitive and interpretative processes underpinning VC behaviors, particularly in contexts marked by high uncertainty and the need for balancing diverse investment criteria.

Regarding the evolution of evaluation methods balancing diverse investment criteria, sensemaking theory can be helpful as well. Wry and York (2017) indicate that having a balanced pursuit of commercial and social welfare in sensemaking processes increases the possibility of developing novel ways to integrate commercial and social welfare logic because each is associated with a salient role identity. When organizations face the dual demands of achieving both sustainable and financial goals, stakeholders with a higher entrepreneurial orientation identity are more likely to transform opportunities for sustainability into innovative sustainable initiatives (Arya et al., 2021). These studies underscore the importance of sensemaking theory in understanding the cognitive and interpretative processes in the behaviors of stakeholders in VC, especially when balancing financial performance with sustainability outcomes.

2.4 Research Gap

The key aspect of this study's research question is the tension within the criteria that IVC and the individuals in its organization use in their impact investing practices. The tension is created by the dual objectives of IVC. The integration of impact evaluation into traditional portfolio methodologies combines the potentially conflicting logic of financials and impact, leading to both competition and complementarity between the two concepts (Gautier, Pache and Santos,

2023; Epstein et al. , 2015; Wry and Zhao, 2018). However, focusing solely on the fact that the tension exists and what the tension is about does not help future impact investors to ease the tension by evolving the application of achieving dual objectives effectively. If the tension persists, IVC and its relevant businesses will continue with conventional practices and have a limited understanding of what impact truly means. This may lead them to reframe their activities using impact language, such as the SDGs, increasing the risk of "impact washing" (Klingler Vidra, 2020). Therefore, the goal of this thesis is to expand the existing theoretical discourse within a distinct empirical context, identifying specific factors that drive this tension in impact investing by using sensemaking theory. This may potentially contribute to reflective methods in the future to ease the tensions mentioned.

The tension has been recognized by previous research, it will create pressure among relevant individuals (Tadmor and Tetlock, 2006), i.e., professionals, forcing them to make decisions and act based on their perception of impact. People who conduct investments, generally speaking, use various context-specific rationales to justify their behaviors and address ambiguity (Meng, Newth and Woods, 2022). Practices that combine different institutional logics, for instance, IVC's practice that combines financial and impact, elicit diverse responses and require familiarity with all relevant concepts for acceptance (Gautier, Pache and Santos, 2023). Hence, for impact investing, which is characterized by uncertainty, interdependence, and complexity, sensemaking is crucial for the individuals involved in these practices (Maitlis and Christianson, 2014; Clarke and Cornelissen, 2018).

Reflecting on the above issue regarding the tension, we already know that the sensemaking theory is capable of explaining how investors involve and influence each other in investment decision-making, and it also helps IVC professionals develop assessment criteria (Wry and York, 2017; Arya et al., 2021). Nevertheless, we do not know how it actually works and what the consequences are. Namely, the dynamic within IVC has been discovered but has not been understood properly. Thus, this thesis leverages sensemaking as an appropriate theoretical perspective for examining the evaluation dynamics of IVC. First of all, there is a need to understand how sensemaking works for IVC professionals to try to balance the dual objectives of

financial returns and social impact within IVC. For instance, the intricate interaction between financial and impact logic in the investment strategies of IVC, and the factors determining the predominant influence of one logic over the other (Croce et al., 2021). Second, given the evolving regulatory and market standards and the need for continuous balance, how this environmental evolvement contributes to the solution of the tension is unclear. Currently and generally, most research expected the influences of regulation and industrial governance to be positive (Lin, 2022). However, they do not elaborate on what change of particular direction would this influence bring to the evaluation criteria.

Based on the knowledge gaps of the two above, we believe that the research on IVC-related sensemaking remains in its early stages. There has been limited investigation into IVC professionals' sensemaking, despite their important role as stakeholders in IVC organizations. This includes how professionals' perception navigates in the field of applying the concept of impact investing in either the existing frameworks or new self-developed tools. Thus, we aim to make it clearer in this thesis and it is the research question of this thesis, which is "*How do venture capitalists make sense of and navigate the tensions between financial and impact objectives in their investment criteria?*. To achieve the answer, this thesis addresses a gap in the existing literature by investigating a broader range of IVC organizations focusing on the individual level, analyzing sensemaking processes, and exploring its connection to the methods and criteria that IVC professionals have used. This approach provides a more comprehensive understanding of the entire adoption process in IVC of the impact investing concept being integrated into relatively conventional VC investment assessment methodologies.

3. Theory

3.1 Sensemaking Theory

Sensemaking refers to the process by which individuals strive to comprehend novel, unexpected, conflicting, or confusing issues. This involves isolating cues from the environment and generating meanings through interpretations and actions (Weick, 1995; Maitlis and Christianson, 2014). It can be divided into three interconnected stages. First, individuals notice cues from their lived experiences that disrupt ongoing activities and defy expectations. Second, they interpret the situation by using cognitive frameworks and discursive practices. Third, they take action to restore order or initiate change in their environment (Weick, 1995). Taking action, typically such as ignoring, rejecting, or adopting a given activity, generates additional cues, allowing individuals to test their provisional understanding of the situation, which initiates a new cycle of sensemaking. Therefore, sensemaking is retrospective (Maitlis and Christianson, 2014), people will digest the experience and create new perceptions through it. In the ongoing experiencing processes, various "shocks", which can be seen as informational cues indicating a deviation from what is anticipated in a given situation, complement previous experience, making the process a continuous loop (Weick, 1995).

According to Weick (1995), sensemaking is central to constructing the organization due to its nature of shaping the environment. Sensemaking and organization co-constitute each other, with organizations emerging through ongoing sensemaking processes (Weick et al., 2005). People who face uncertainty are likely to seek out additional cues, enabling them to construct meaning that they lack based on previous experience. That is, sensemaking is being adopted as a tool to help individuals navigate, take action, and thereby influence their environment (Kudesia, 2017). In conclusion, as Maitlis and Christianson's (2014) summary described, "when organizational members encounter moments of ambiguity or uncertainty, they seek to clarify the situation by extracting and interpreting cues from their environment. These cues serve as the foundation for a plausible narrative that brings order and meaning to what has transpired, allowing them to continue navigating and influencing their environment."

There are seven properties interconnected in the sensemaking process. respectively are (1) Grounded in identity construction; (2) Retrospective; (3) Enactive of sensible environments; (4) social; (5) Ongoing; (6) Focused on and by extracted cues; and (7) Driven by plausibility rather than accuracy (Weick, 1995). In the following, all of them are explained and demonstrated.

(1) Grounded in identity construction

Sensemaking is centered and grounded by the identity that individuals establish and maintain (Weick, 1995). People tend to eagerly figure out who they are and what roles they play in equivocality or ambiguity as these will influence how they make sense (Kudesia, 2017; Helms Mills et al., 2010).

(2) Retrospective

Sensemaking involves individuals looking back at past experiences as they make sense of current situations, people tend to use the experience of past events to make sense of the present event (Helms Mills et al., 2010). Meanwhile, they will utilize their previous and current experiences to prospect the future, and this also affects their sensemaking and perspectives (Maitlis and Christenson, 2014).

(3) Enactive of sensible environments

The individual who is proceeding with sensemaking is involved in an environment, so they are both influencing and are influenced by their environments when they enact themselves through sensemaking (Weick, 1995). When going through this process, they aim to create an environment that is more explainable to themselves and ease the equivocality (Kudesia, 2017).

(4) Social

Since the behavior of an individual depends on the behavior of others, sensemaking is inherently a social process (Weick, 1995). The way individuals interact with others, mainly the dialogues, influences sensemaking (Helms Mills et al., 2010). These dialogues create “narratives”, which may not be fully agreed upon by all but collectively constructed by the communities (Maitlis and Christenson, 2014). Hence, sensemaking can be considered both an individual and a social process.

(5) Ongoing

Sensemaking is a constantly flowing process, individuals are always engaged in this process, constantly identifying cues within it to make sense of the events they encounter (Helms Mills et al., 2010). Sensemaking processes can always be disrupted by "shocks", creating a continuous need for further sensemaking (Weick, 1995; Kudesia, 2017).

(6) Focused on and by extracted cues

Sensemaking process focuses on extracting cues (Weick, 1995). Past experiences decide which cues individuals extract, and individuals use these selected cues as reference points for sensemaking, which provides the raw material for interpretation and subsequent action (Helms Mills et al., 2010; Kudesia, 2017).

(7) Driven by plausibility

Sensemaking is driven by plausibility rather than accuracy, meaning that plausibility is the core that helps the sensemaker gain enough clarity to act in the process, even if the understanding is not accurate (Weick 1995; Helms Mills et al., 2010).

Based on seven properties suggested by Weick (1995), Kudesia (2017) further developed the three stages of the sensemaking process, which respectively are Enactment, Selection, and Retention. According to the theory proposed by Kudesia (2017), sensemaking is enacted when individuals are facing change in their environment or the relevant environment creating equivocality, which, in the theory, is named Ecological Change. Enactment means that individuals notice and organize information from the environment and act based on their interpretations, and try to shape the environment to make it more understandable and disciplined (Kudesia, 2017; Weick et al., 2005). Therefore, this stage covers two of the seven properties, which are the Enactive of sensible environments, as well as Focused on and by extracted cues (Kudesia, 2017).

Selection means that individuals interpret the environmentally given information, combining their previous experience, and narrowing down the possible interpretations of the change and equivocality that they are facing. The selection is not necessarily accurate, and the purpose is to

rationalize the environment and make it actionable for the individuals (Kudesia, 2017; Weick, Sutcliffe and Obstfeld, 2005). This stage is dynamic and will be disrupted by "shocks", creating a continuous need for further sensemaking (Weick, 1995). Thus, this stage includes two of the seven properties as well, which are Retrospectivity and Driven by plausibility rather than accuracy (Kudesia, 2017).

The last stage, Retention, is that the interpretations that have been selected by individuals, with time proceeding, will become more consolidated and tangible. This is because they are linked to individuals' identities and communicated through interactions and dialogues among people (Kudesia, 2017; Weick et al., 2005). Therefore, this stage includes three of the seven properties, which are Grounded in identity construction, Social, and Ongoing (Kudesia, 2017).

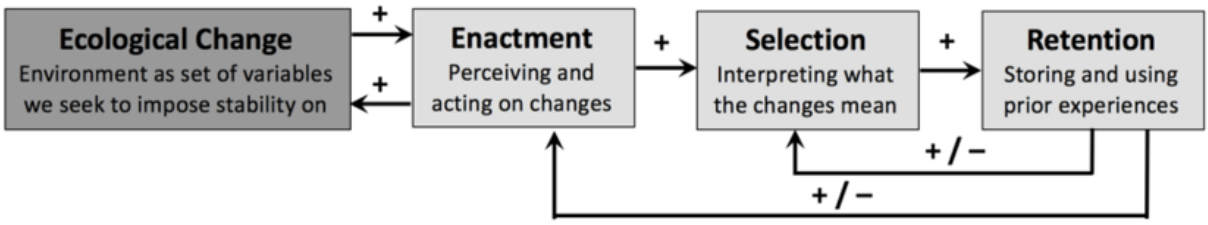


Figure 1: Sensemaking Process (Kudesia, 2017)

The whole sensemaking process, as shown in Figure 1, is continuously repetitive and has no fixed patterns. It involves the ongoing redrafting of an emerging story to make it more comprehensive, to incorporate more observed data, and to become more resilient in the face of challenges (Weick et al., 2005). It will never be perfect, but it helps individuals and thereafter organizations to understand the change and adapt to it with the passing of time (Kudesia, 2017).

3.2 Theoretical Framework

The theoretical framework utilized in this thesis conceptually combines the seven properties proposed by Weick (1995) with the three stages outlined by Kudesia (2017). As previously demonstrated, sensemaking starts from ecological change. Once an individual notices the change and receives information that is not understandable to them from their organizational environment, their identity is inter-affected by the environment. They will try to collect all available cues and retrospectively interpret them through previous experience to make the

situation plausible and actionable. The interpretations will be selected and used as foundations to build the most plausible interpretations. However, this most plausible interpretation can be neither accurate nor unchangeable. The goal of formulating it is to resolve the confusion faced by individuals in the relatively new environment at the time. Thus, it will be continuously altered and solidified along with the communications and interactions of people, shaping and reshaping the individuals' identities and the selection of interpretations.

To make the framework best suitable for the analysis of this thesis, we involved certain specific settings in the combined concept of Weick (1995) and Kudesia (2017). First, the ecological change in this thesis, i.e., existing among IVCs, is the tension between impact evaluation and the financial assessment criteria traditionally used by VCs. This tension, as discussed in previous sections, is creating uncertainty and ambiguity for IVC professionals, which is aligned with the background that applies to sensemaking. This is because impact investing itself is characterized by uncertainty, interdependence, and complexity (Meng, Newth and Woods, 2022). When IVCs integrate impact criteria into normal VC investment decision-making processes, competition and complementarity between the two logic appear (Hahn et al., 2010; Epstein et al., 2015; Parker, 2021). Thereafter, in order to navigate the tension and ideally manage the prioritization of two logic, IVC professionals have to make sense of this environment and their own decisions and behaviors.

Second, this thesis amplified the social perspective of the sensemaking theory. This is because the goal of this thesis is to answer how impact is perceived, evaluated, and integrated from the traditional VC to the IVC landscape, and either VCs or IVCs are organizations. Moreover, the IVC industry as a whole, the professionals and relevant stakeholders can be collectively inter-influenced by each other, as mentioned in the previous chapter. Despite the professionals as individuals playing crucial roles in investment decisions, their identities and interpretations can be partly constructed by conversations or discourses among individuals (Wry and York, 2017; Arya et al., 2021). Therefore, this thesis adapted both an individual and a social process of sensemaking into the theoretical framework, i.e., to have social interaction as a retention process to deal with the most plausible interpretation and the step of formulating collective accepted narratives from social interaction included, aiming to understand the tension of IVC practices

among professionals comprehensively. The theoretical framework of this thesis is illustrated in Figure 2.

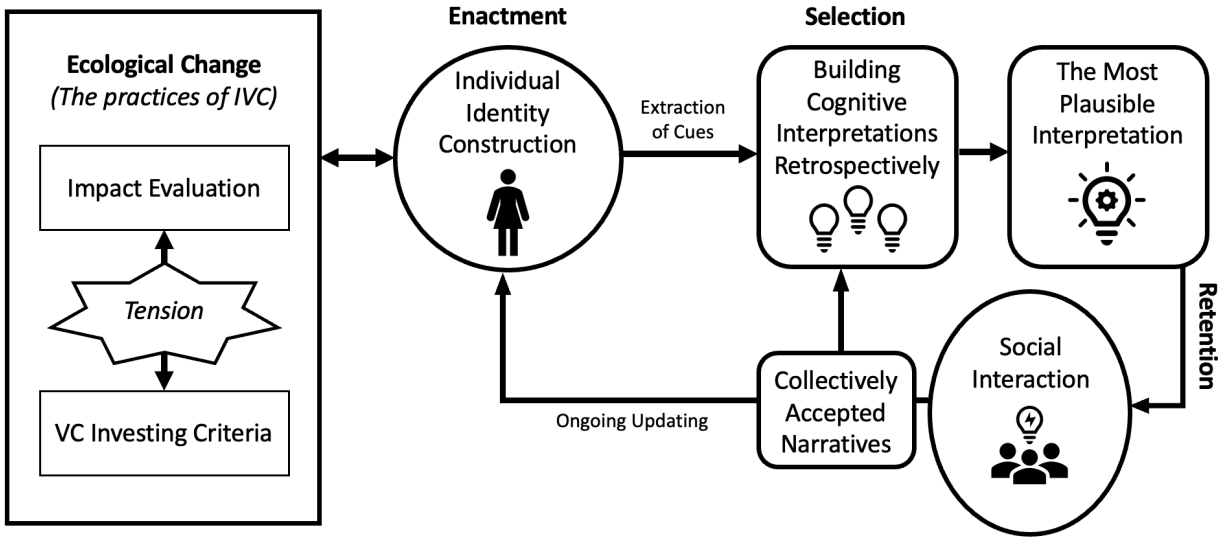


Figure 2: The Theoretical Framework of This Thesis

4. Methodology

4.1 Research Approach

This thesis employed sensemaking theory to explore the perceptual tensions among IVC investors, aiming to understand how IVC investors perceive impact investing and incorporate it into traditional VC investment strategies and criteria. To achieve this objective and answer the research question, a qualitative approach utilizing in-depth semi-structured interviews was chosen for three main reasons.

First, qualitative analysis emphasizes “sensemaking”, i.e., understanding a phenomenon, which is the theory applied in the thesis. Meanwhile, the subjective intention of this thesis is to “interpret” specific texts within their historical context, employing an interpretive technique for qualitative data analysis (Bhattacherjee, 2012). Thus, this research approach is adopted. Second, qualitative methods provide distinct advantages when exploring topics that have not been extensively researched previously (Edmondson and Mcmanus, 2007). Given that IVC remains an unexplored field, particularly in its adoption of impact evaluation into the traditional VC financial portfolio assessment methods, the qualitative method provides the versatility and depth essential for comprehensive exploration. Third, part of the emphasis of this thesis lies in studying the interactions among individuals and aims to comprehend the social environment in which individuals are embedded by examining their interpretations of that world (Bell et al., 2022). Compared to quantitative approach, using qualitative techniques allows researchers to collect diverse non-numerical data, allowing researchers to gain insights into what respondents consider relevant and significant, which facilitates nuanced interpretation and reveals deeper meanings (Bell et al., 2022; Jamshed, 2014). Hence, we found that a qualitative research method is suitable for this thesis.

This study also employs an abductive research design, enabling data collection in a way that supports theory elaboration (Ketokivi and Choi, 2014). Fruitful research results indicate the relationships between financial and impact, as well as the IVC practices, which are the core

perspectives of this thesis, therefore, these existing general theories can be initially applied to approach the empirical context. However, when it comes to the complex tension between financial and impact logic in the investment strategies of IVC among professionals, it remains only partially understood, requiring the search for evidence beyond current theories. This is where the abductive approach can be utilized as its function is to resolve empirical phenomena that could not be explained by existing theories (Bell et al., 2022). The interviews provided insights into the mechanisms through which IVC professionals make sense of the tension described in the previous chapter, thereby influencing the future of IVC industry. In this thesis, abduction supports theory elaboration by enabling a deeper understanding of the relationships between financial objectives and impact in IVC practices. While initial general theories provide a foundation, the complex tension between financial and impact logic in IVC strategies requires the search for additional evidence and insights beyond current theoretical frameworks. The abductive approach was chosen to address the partially understood complex tension between financial and impact logic in IVC investment strategies. This method allows for resolving empirical phenomena that existing theories cannot explain, facilitating the development of new theoretical insights development (Dubois and Gadde, 2002; Timmermans and Tavory, 2012).

4.2 Data Collection

The data sample for this study consists of 22 interviewees. They are professionals from the VC sectors who are currently directly relevant to impact investing, or have a strong ambition to be involved in impact investing in the future. Their identities include investors, entrepreneurs, and industry experts. These interviewees were identified primarily through two channels. First, some of them were recommended by professional networks, meaning that they are referred by impact investing experts or researchers. This method ensures the relevance of the background of these interviewees and the reliability of their claims. Second, the other and the main part of them were randomly contacted via LinkedIn, meaning that we randomly found their suitable profile on Linkedin so we reached out to them by sending cold email, and had one or several short pre-communications to make sure that their position is actually relevant to our thesis, and finally arranged the interviews. Both these two methods indicate that these interviewees were selected

through purposeful sampling, aiming to select a case relevant to the research questions, and the interviews were continued until no new codes or themes emerged (Bell et al., 2022). The detailed information about the interviewees is available in Table 1.

Adhering to the principle of data saturation, we continued interviews until no new codes or themes emerged, as detailed by Bell et al. (2022). This methodological approach helped us ensure that we thoroughly explored all relevant aspects of the topic until additional data no longer contributed new insights or dimensions to our emerging theories.

Table 1: List of the Interviewees

Group	Label	Role
Investors	VC 1	Innovation Lead
	VC 2	Investment Director
	VC 3	Investment Manager & Head of Sustainability
	VC 4	Entrepreneur and Investor
	VC 5	Investment Manager
	VC 6	Head of Venture Capital
	VC 7	Global Director Sustainable Innovation
	VC 8	Head of Sustainability
	VC 9	Head of Impact Strategy
	VC 10	Sustainability Strategist
	VC 11	Partner & Co-founder
	VC 12	Senior Impact Advisor
	VC 13	Board Member
	VC 14	Ex-Head of ESG
	VC 15	Investment Manager
	VC 16	Head of Sustainability
	VC 17	ESG and Impact Lead
Industry Experts	Expert 1	Corporate Venture Coach
	Expert 2	Sustainability Manager
	Expert 3	Director
Entrepreneurs	Entrepreneur 1	Intrapreneur
	Entrepreneur 2	Intrapreneur

This thesis employed a semi-structured interview format with open-ended questions to capture a broad spectrum of authentic experiences and perspectives in impact investing, each interview lasting between 45 to 60 minutes in length. The interviews conducted, as stated, were

semi-structured, meaning that we were not fully following the outlined interview questions as shown in Appendix A and B. Instead, we allowed and encouraged interviewees to freely respond in ways that diverge from the interview questions, as suggested by Bell, Bryman, and Harley (2022).

All interviews were conducted digitally as it is commonly employed as a practical method for conducting research nowadays (Engward et al., 2022). Two authors were both presented during the interviews, one leading the discussion and the other taking notes on key points and observing non-verbal cues to enhance understanding of the responses and underlying sentiments (Wiebe et al., 2010; Saunders et al., 2019). Before beginning, we reiterated assurances of confidentiality and anonymity to encourage open and honest responses, which was stated in the invitation to the interviews, and all interviewees consented to digital recording. Both authors were present during the interviews—one leading the discussion and the other taking notes on key points and observing non-verbal cues to enhance understanding of the responses and underlying sentiments (Bell et al., 2022; Saunders et al., 2019). All interviews were conducted in English, therefore, the risk of biases or ambiguity was minimal. Moreover, after each interview, recordings were promptly transcribed to capture both verbal and non-verbal content, ensuring a comprehensive understanding of the discussions (Bell et al., 2022). These transcriptions were then shared with interviewees for review and approval, allowing them to clarify any points of confusion and verify their perspectives. We strive to display detailed original interview quotes. However, due to space constraints, we were sometimes forced to omit complex narratives and translate the interviewee's original words into our own description and present it in the form of ordinary text. However, we will still provide this text to the interviewees and obtain their consent to ensure that we have not misunderstood their meaning. These iterative processes helped maintain the accuracy and integrity of the data.

The thesis's data set consists of primary data gathered from interviews. Given that the research question focuses on individuals' perceptions, which is how IVC professionals make sense of a phenomenon, primary data was considered the most suitable type of data for this thesis, while

secondary data sources were considered of limited value to the empirical aspect of this study. However, during the research process of this thesis, we did access some secondary data such as online articles and reports, and the IVC or VC's websites for the interview design, as well as the prior study of the organizations and the interviewees.

4.3 Data Analysis

The recorded interviews, i.e., the data collected, totaled more than 20 hours. It has been analyzed through thematic analysis, which involves systematically searching across the collected data to identify recurring patterns or themes. It is a widely used method for analyzing qualitative data as it can offer a flexible approach to analyzing qualitative data in a rich and detailed manner (Bell et al., 2022; Braun and Clarke, 2006).

This thesis leverages the six-step approach proposed by Braun and Clarke (2006) to dive into the data. The initial step involves becoming familiar with the data, which includes immersing oneself in the data through repeated readings. The second step involves generating initial codes, which entails systematically coding interesting features of the data. This research has 11 codes. The third step is to search for themes, which involves sorting the codes generated in step two, making them more manageable and allowing for clearer analysis. In this step, we consolidated the initial codes into 5 order themes by discussing the identified codes together to determine similarities and differences. Step four is to review and refine the themes, as well as review the codes against the themes and revisit the dataset with the themes in mind, including the merging, refining, or removal of some themes, to ensure their validity. The fifth step, named the themes, completes the structuring of the data. In this step, the themes were continuously altered and structured. The sixth step involves producing the report, which includes writing the final report using examples from the data and relating the analysis to the literature and research questions of the study.

This structured data, along with a detailed analysis, was used to develop a grounded theory model. Illustrated in Figure 3, this model depicts the connections among the emerging codes and themes, providing a comprehensive view of the phenomena under study, which also follows the

structure of the study's empirical analysis chapter. In the next chapter, this model and data structure will be further enhanced with narrative analysis and direct quotes from interviewees, offering a deeper insight into key findings from the interviews.

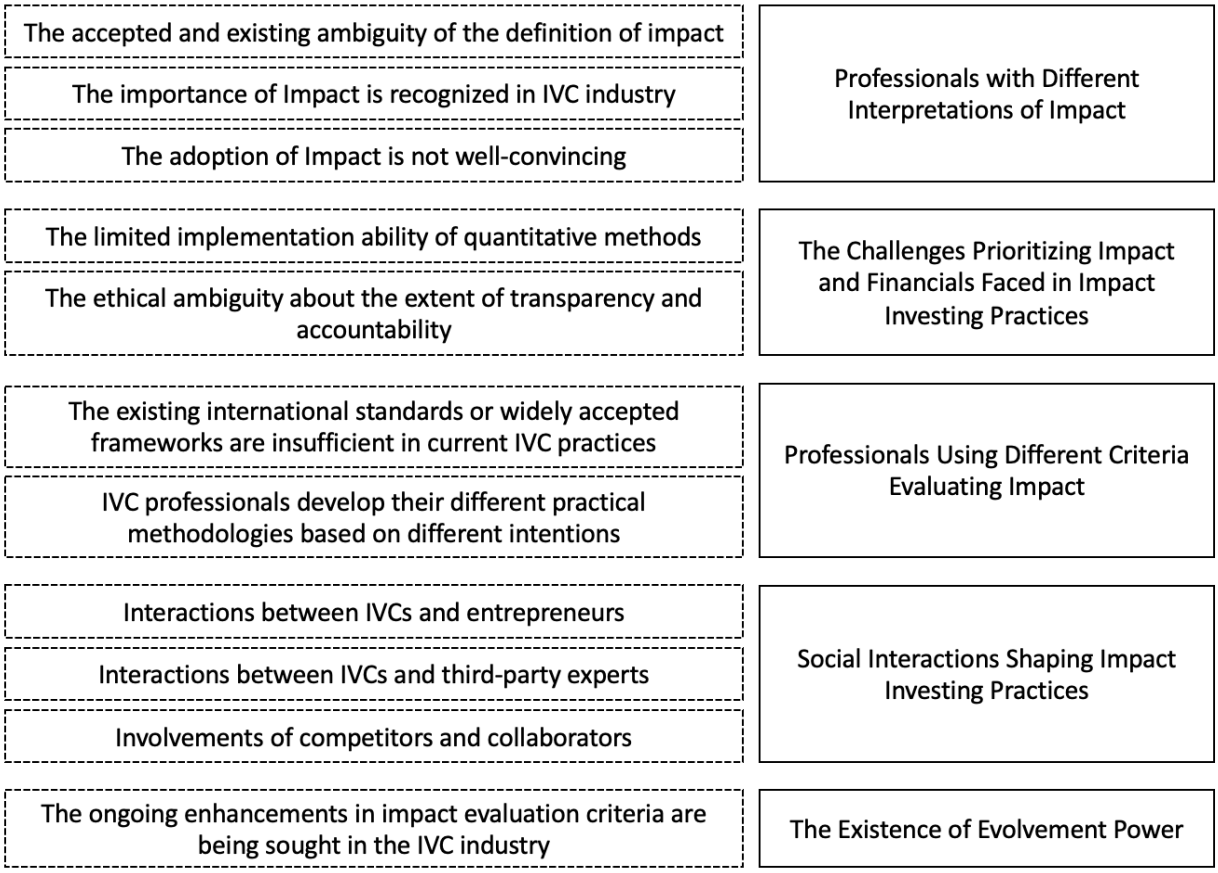


Figure 3: Data structure of central dimensions, themes, and concepts

4.4 Quality and Trustworthiness

The framework for evaluating qualitative research includes four criteria: credibility, transferability, dependability, and confirmability. These criteria are essential for assessing the trustworthiness and rigor of qualitative research findings (Denzin and Lincoln, 2000).

(1) Credibility

Credibility involves ensuring that the research adheres to best practices and that researchers' interpretations of the social world align with the perspectives of the interviewees (Bell et al.,

2022). Since this study relies primarily on firsthand data, triangulation, as proposed by Bell, Bryman, and Harley (2022), was not used to enhance credibility. Instead, respondent validation was prioritized. Respondent validation entails providing interviewees with a summary of the study's findings (Bell et al., 2022). In this study, interviewees were given access to the quotes stated by themselves before publication to verify the accuracy of data interpretation and ensure correct quotations in the transcribed material. Therefore, through this process, the credibility of this research is confirmed.

(2) Transferability

Transferability refers to how applicable the findings can be to different settings (Bell et al., 2022). Regarding this, the selection of interviewees in this thesis aimed to encompass a diverse array of industries, companies, and backgrounds to ensure broad applicability. Additionally, thick descriptions were used to enhance transferability, involving detailed accounts that emphasize the study's contextual factors. This approach allows others to assess whether the findings can be applied to their own contexts (Geertz, 1973; Bell et al., 2022). Worth mentioning, ensuring the anonymity of interviewees was also crucial to encourage candid responses, which will be discussed further in the Ethical Considerations section.

(3) Dependability

Dependability concerns the reliability of the study, which is ensured by meticulously auditing the conducted research through comprehensive and easily accessible documentation of the research procedures (Bell et al., 2022). The study's dependability has been ensured by documenting the research process, including recorded videos and detailed transcripts, allowing for a thorough assessment of the research undertaken. Moreover, we have endeavored to present an accurate and detailed account of the research process in this chapter to ensure transparency regarding our methodological choices, data collection, and analysis procedures. Throughout our work, we have also consistently sought feedback from our supervisors on the research process, which enhances the dependability as well.

(4) Confirmability

Confirmability of research findings is another crucial consideration for researchers. It involves ensuring that personal values and theoretical perspectives do not influence the data collection, interpretation, and analysis of research outcomes (Bell et al., 2022). To address this criterion, we have conscientiously examined and endeavored to maintain a distinction between our personal beliefs and theoretical orientations from the research process, aiming to prevent biases in our analysis and conclusions. Additionally, the author has clearly and meticulously outlined the rationale behind selecting the theoretical framework and methodology in the paper, enhancing transparency and enabling others to grasp the research process effectively (Bailey, 2008).

4.5 Ethical Considerations

Safeguarding the welfare of research interviewees is a top priority in any research endeavor. This includes securing informed consent, ensuring data confidentiality, maintaining anonymity, and treating respondents with transparency and integrity (Bell et al., 2022). In our study, every interviewee received clear explanations of their voluntary involvement and the option to withdraw from the interview at any time. Prior to each interview, we thoroughly briefed interviewees on the study's objectives so they could make informed decisions about participation. Moreover, strict measures were implemented to uphold anonymity, safeguarding individuals and organizations unless explicit permission was granted. Interviewees also had control over how their personal data was used. Throughout interviews, interviewees were given the choice to consent to recording and note-taking. Finally, interviewees were offered access to the research findings, promoting reciprocity and mutual benefit. These measures ensured interviewees' well-being, secured informed consent, preserved data confidentiality, and prevented any form of deception (Bell et al., 2022).

5. Empirical Findings

5.1 Professionals with Different Interpretations of Impact

Divergent views appear among interviews regarding what is impact in the VC investment context, including the definition of "impact". Moreover, most investors agree that this term is often being mixed-used with the term "sustainability". When we asked about what they meant exactly, they explained that these terms are the same in terms of contributing to positive social or environmental impact in the investment field. At the same time, many investors also claimed that they do not think this issue is important as they think investors should focus more on doing the right things instead of saying things right. Therefore, on one hand, sustainability can be considered to complement and explain the impact to some extent in the practice of IVC. On the other hand, this confirms the previous research result that there is ambiguity in the impact investing field.

> *"Impact" can often be misused or misunderstood. In my eyes, I do not think there is a right way, nor should anyone be policed for their definition. It should be based on the outcome: did you do good or did you do bad?*
> - *Investment Manager, VC 15*

> *Some sustainability investors are quite advanced in their impact, just that they're not using that terminology. I think the confusion is quite widespread, a better way to do this is not just to say this is impact or sustainability, but to try and assess if it is fundamentally on the good side or the bad side.*
> - *Entrepreneur and Investor, VC 4*

Despite the different terms, impact or sustainability, being used, both VCs and entrepreneurs agree that creating a positive impact on the planet has become a fundamental requirement for startups in many countries, with many new startups incorporating at least one social or environmental consideration.

The entrepreneurial environment in Northern Europe, or the whole set of business logic in Northern Europe, is relatively mature, which means that everyone will default to this thing (being impactful).

- *Intrapreneur, ENTREPRENEUR 2*

In our interviews, many investors agree that impact has become a fundamental requirement for startups these days when being asked if it is. Elaborating on this claim, they added on by explaining that they will explore entrepreneurs' true intentions carefully in order to ensure that the impact will be created along with the business automatically, especially at the very initial stages. Based on these statements, we interpret that this consensus between impact investors and entrepreneurs indicates that impact investing systems in many countries are developing and gradually gaining recognition.

We have to really put it (impact) in their (entrepreneurs') minds very early. Whatever they build, it (impact) will be part of the natural DNA of the company.

- *Head of Sustainability, VC 16*

However, there remain some VCs that currently do not prioritize screening startups through an impact lens, despite recognizing its importance. When asked about this, they explain that they hold the belief that the businesses they invest in naturally comply with minimum impact standards so they do not need to particularly do this.

We do not actively look for startups that develop impact-specific solutions, we believe that impact is something that is defaulted in the pitch of startups.

- *Investment Director, VC 2*

Moreover, some of the investors have observed a phenomenon - generally successful exit portfolio startups are not impact-focused companies. On the contrary, they have no interest in impact. In other words, it seems like impact startups have fewer chances to succeed, at least most exits demonstrated this perception. This will probably hinder VCs' willingness to start investing impact, and impact VCs' confidence to continuously invest for impact.

If you look at our portfolio, most successful exits in the previous years have nothing to do with impact. And when we asked if they are interested in impact educational sessions, to be honest, they do not care at all.

- *Ex-Head of ESG, VC 14*

5.2 The Challenges Prioritizing Impact and Financials Faced in Impact Investing Practices

Taking the information given by investors and entrepreneurs in the last section together, impact investing is an emerging VC investment category that is supported and believed by many investors and entrepreneurs. However, describing equivocality persists, although investors mostly do not think the existence of this confusion is a substantial problem as professionals in the IVC industry are devoting themselves to generating positive impact, which is the most important component of the concept "impact". Compared to the terminology issue, the hesitation created by the unknown chance to become a successful exit, i.e., the doubt of impact investing's earning potential, is considered by IVC investors.

This consideration can be explained by several factors. The first reason is the fact that impact investing in the context of VC is a relatively new field. Experienced professionals in IVCs mostly started their careers in traditional VCs so they are used to the financial-oriented methods instead of impact investing tools. The methodologies that have been used by IVCs today were introduced and tested in the past 10-20 years, even for those countries that have the most mature impact investing systems in the world. Therefore, investors pay attention to the aim of their investment and the way they want to pursue it - are they looking mainly for impact creation or financial returns?

I landed and started to work with that very systematically in 2010 on impact investment focusing on venture philanthropy, which was very new and almost nonexistent in Sweden at the time. The key to a successful impact investment is to understand the problem you want to solve and what solutions you believe in to achieve the kind of impact you want to pursue with your investment, how do you know that your investment actually contributed to a positive change? ... Another area of importance for impact investors is to define on a scale whether it is impact

only that is important, or do you just want to get your money back or do you want a financial return as well as an impact on the problem you want to solve?

- *Board Member, VC 13*

The second reason is, IVC investors have recognized that they need to answer this question at the very beginning of their practices, and they have diverse perspectives towards it. Most of them see a trade-off between impact and financials, and more importantly, they think that they have to prioritize finances, although they probably know that ethically they are supposed to look at impact first. They explained this by saying that impact only comes along when the financial side of the business is promised, i.e., if the business fails, there will be definitely no impact created. This phenomenon demonstrates the tension mentioned many times in the previous sections - the use of assessment methodologies often is not capable of adequately reflecting the true value of impact investing as they do not officially consider impact with finance in the same importance position. This is because IVC investors themselves have confusion and contradiction in their minds.

You would probably classify me as more of a NEO capitalist right in there, but if you can't feed yourself and you fail, you cannot make any impact.

- *Partner & Co-founder, VC 11*

I think all VCs would have to prioritize financial targets. Because if you do not, you will not get any funding, and if you do not get any funding, you are not going to have an impact anyway.

- *Investment Manager, VC 5*

Meanwhile, there are investors holding a more optimistic viewpoint as they do not think it is necessary to consider the balance between impact and financial outcomes since impact should naturally constitute the core of the business. Namely, once the business/product is consumed by the customers, the impact is automatically being created accordingly.

It is never a trade-off (between impact and financial outcomes) when it comes to impact investing. The business model is based on impact. If you remove the

impact, you remove the business so they can't sell a product they can't sell a service without also improving their financials.

- *ESG and Impact Lead, VC 17*

However, in our data only a minority of IVC investors support the above point. Thus, the tension can be considered widely existing. Moreover, it shapes the IVC investors' perspectives in the impact investing practices dealing with the challenges brought by the tension. The Professionals' perspectives will be showcased in the following sections, including that they think they (1) possess limited ability using quantitative approaches, and (2) confuse in deciding the level of impact disclosure transparency and enhancing accountability

5.2.1 The Limited Implementation Ability of Quantitative Methods

IVC Investors agreed that having quantitative data within investment evaluation frameworks or tools is essential. However, almost all investors that have been interviewed indicated that quantitative methods are not mature enough now in the impact investment industry. As individuals who have personal experiences and thoughts, IVC professionals have different aspects of looking at an investing project. Hence, the comparable criteria can vary and it is sometimes too complex to collect seemingly "objective" numbers, leading to the lack of capacity and motivation for self-improvement. Even for those trying to use quantitative evaluation criteria, because no impact evaluation methodology has been uniformly accepted by the investment community, interviewees stress it may be hard to convince people that the calculation is accurate or not. These types of tensions seem to be in part related to their high self-expectation as they want to be as reliable to their LPs and the society as possible.

You could always find an angle saying that this is impact investing, but we don't like that. We want to be very specific because it also goes towards the reporting, and we want to be able to actually back our claims with data.

- *Head of Sustainability, VC 8*

There needs to be a degree of convergence within the industry on impact calculation methodologies and definitions, otherwise we will be comparing oranges to apples.

- *Head of Impact Strategy, VC 9*

Encountering difficulties in measuring impact in solid numbers sometimes forces investors to look more for financial returns because this can divert their attention and make them more confident in their investment decisions. This further strengthens the tension discussed previously.

(Because quantifying impact is hard,) for me I probably check what is more realistic... I believe that if there is a company is success financially, and that business model is having positive impact, then they are making impact.

- *Partner & Co-founder, VC 11*

5.2.2 The Ethical Ambiguity about the Extent of Transparency and Accountability

Following their investments, IVC investors typically seek a certain level of transparency to confirm that startups are progressing toward their impact objectives. Yet, the extent of engaging in it remains an operable space for IVC professionals as it can be a double-sided sword. On one hand, it can increase the trustworthiness of an impact investing project creating true impact; on the other hand, it is very resource-consuming.

I would love to see more transparency there. I think I have a love-hate relationship with reporting. It is beneficial that companies report and show transparency, especially in demonstrating their activities. However, on the other hand, sometimes I feel that if a company has limited resources, it would make more sense for them to use those resources for actual work rather than reporting.

- *Investment Manager & Head of Sustainability, VC 3*

As a result, some investors compromise by not promising transparency at the beginning of their impact investing project. But that does not mean they do not care. Instead, they promise to provide transparency reporting as the startup reaches a more mature state.

> *I would argue that as investors, we probably should not stress too much about reporting in the early stages. We should help prepare companies to be ready to report, when you get to Series A and Series B. But at the pre-seed stage, your whole game is figuring out if you are doing something that works.*
>
> - *Entrepreneur and Investor, VC 4*

From the startups' perspective, because they are often small in teams and operate under tight resource constraints, they are not capable of detailed reporting. Several IVC investors are aware of that and agree that for these companies, survival is the priority. Therefore, while transparency is important, it ideally should not hinder the startups' growth or operational efficiency. Demanding extensive transparency from early-stage startups, which are still in the process of creating substantial value, may in fact hamper the startups.

> *I think there is a risk that, with all the fear of greenwashing, we may ask the good companies for so much reporting that they end up doing more reporting than actually selling good products. This, in turn, could make it more difficult for the good companies and not affect the companies that do not care. Transparency has no place in that discussion because you have not created anything valuable yet.*
>
> - *Entrepreneur and Investor, VC 4*

From the IVC investors' perspective, the risks of both greenwashing and green-hushing are recognized. Most of them seek a certain degree of transparency, noting that honest disclosure is crucial for validating impact. However, many IVC investors are increasingly worried about green hushing, which describes scenarios where excessive reporting demands may divert well-intentioned companies' focus from product development and impact creation towards mere compliance.

Most IVC professionals acknowledged that not having proper transparency, leading to the lack of accountability system, is risky ethically. For example, general accountability criteria can be misaligned with their specific values and cases. However, they are also afraid of bureaucratic inefficiencies that may be brought about by proprietary systems such as scorecards or checklists,

which standardized assessments across startups by rating various characteristics such as stakeholder involvement and impact levels.

> *(Checklists) create bureaucracy and are around something for the sake of bureaucracy. You risk actually ruling out certain companies that would have a massive impact.*
>
> - *Partner & Co-founder, VC 11*

These spaces of hesitation and confusion demonstrated above compose part of the identity of IVC professionals, and these reflections are based on and will be further shaped by their continuous experience in the IVC industry.

5.3 Professionals Using Different Criteria Evaluating Impact

Having those self-identities that are gradually developed and shaped as discussed in the previous section, IVC professionals strive to achieve fair financial returns for impact investing while meeting the social and ethical expectations. Dealing with this complex tension between financial returns and impact, most of them actively search and analyze different published impact investing evaluation criteria, as well as developing their own practical perceptions based on these international standards or widely accepted frameworks such as SDGs, the Five Dimensions of Impact, and the Impact Principles. By doing this, they can initially ensure their investments meet the fundamental impact requirements. IVC professionals collect multiple plausible understandings of impact in their investments through this process. However, they frequently find these frameworks too generic and insufficiently detailed for their specific needs, leading to their eagerness to explore more available information.

> *The IMP Five Dimensions of Impact is popular amongst the impact investing community and it forms the foundation of our impact assessment process, but it only provides high-level guidance.*
>
> - *Head of Impact Strategy, VC 9*

> *We mapped towards the SDGs, but that is not sufficient. That is just the qualification of an investment. For an investment to qualify as impact for us, then the next step really is how to measure the impact, which is maybe the key thing.*
>
> - *Head of Sustainability, VC 8*

This iterative process highlights the IVC professionals' need for a deeper, or more tailored approach to impact evaluation, where they continuously reinterpret and refine their understanding based on their experiences and specific contexts to fit their unique contexts.

In this information collection and multiple interpretations formulation stage, some IVC professionals have developed their practical methodologies without basing on the existing tools. This is due to their perception that developing custom and unique impact evaluation systems enables them to address the specific needs and goals of their portfolios more effectively. These professionals who resist or have the intention to resist adopting standardized frameworks often cite the complexity and administrative burdens these frameworks impose, indicating that they made this decision after understanding and considering the existing tools and methods. Therefore, to them, compared to other interpretations they have touched upon, this is "the most plausible interpretation".

> *Us being such a small team, there is a trade-off between having frameworks, following up and spending a lot of time on administration, and actually meeting with as many possible entrepreneurs to figure out which companies to invest into and actually make the investments.*
>
> - *Investment Manager, VC 5*

Moreover, some professionals demonstrate that they are doing this because they do not want to be amoral and irrelevant, showing the ethical identity discussed in the previous section is driving the process. This iterative approach to developing evaluation criteria reflects the core principles of sensemaking—extracting cues, interpreting them in context, adapting actions based on interpretations, and finally selecting one most plausible interpretation.

I am thinking (about having our own checklist for impact investing), how can we frame it in a framework that makes it easier to always work. I do not want to just tick the boxes and say we have the SDG and so on.

- *Head of Venture Capital, VC 6*

5.4 Social Interactions Shaping Impact Investing Practices

As the previous sections demonstrated, IVC professionals recognize the tension within the practice of impact investing. On the purpose of navigating the tension with achieving the duo-goals, i.e., impact creation and financial success, their identities and applicable interpretations have been shaped. In the interpretation formulating process, they are eager to collect information and strive to stay ethical and relevant at all times. Therefore, they will be affected not only by themselves and the information collected from their surrounding environment but also by the relevant people. In other words, the conversations between IVC professionals as well as the organization as a whole, and the stakeholders outside of the IVC organization, i.e., the societal interactions, play pivotal roles in the interpretation shaping processes.

The interviews conducted indicate three main groups of people that potentially have the power to affect the perceptions of IVCs and IVC professionals. These people include (1) entrepreneurs, (2) third-party experts, and (3) competitors and collaborators, namely, other IVCs or VCs. All of them will be elaborated on in the following section.

5.4.1 Interactions Between IVCs and Entrepreneurs

Entrepreneurs as the most closely worked with parties with IVCs, with no doubts have constant conversations with IVC professionals and will have impacts on their interpretation formulation. Moreover, this relationship helps IVC professionals to acquire necessary information and streamline the information-gathering process. Nevertheless, it may also present biases or incomplete perspectives, as the data is sourced directly from those who have a vested interest in the investment's success.

The conversations can be one-way. In the interviews, we discovered that most of the one-way conversations are educational programs provided by IVCs and their professionals, for instance, the training sessions to enhance the capabilities of the entrepreneurs. These educational supports serve not only to reduce IVCs' risk associated with a potential lack of experience or expertise among entrepreneurs but also to inform the IVC professionals of the overall maturity condition of the startup teams.

> *You (the entrepreneurs) apply in the beginning with an idea, and we coached them in business development, person presentation techniques, sales strategy, impact or sustainability, etc.*
> - *Innovation Lead, VC 1*

These kinds of conversations are appreciated by entrepreneurs funded by IVCs. This is because in this case, they can be more aligned with the value that the IVCs hold, thus performing better in the following stages of impact startup development.

> *I assume that (they hold workshops) if they notice that we are lacking in developing a specific area of the project. So it would benefit us the most when it comes to these different workshops or assessments.*
> - *Intrapreneur, ENTREPRENEUR 1*

The conversation can be two-way as well, for example, the entrepreneurs and IVC professionals evaluate the impact potentials of the project jointly. If they have any concerns in this kind of conversation, they will try to discuss and sort it out together, which will empower both sides in the understanding of impact investing. Particularly, IVCs can potentially alter and evolve their impact investing evaluation methods to make them more relevant to real cases as they aim to solve the problems that emerge.

> *In the beginning of the project, we invite the entrepreneur to evaluate themselves, based on how they think their idea will make the most positive or negative impact from a list. If negative, they need to include what they can do to minimize this risk.*

- *Global Director Sustainable Innovation, VC 7*

5.4.2 Interactions Between IVCs and Third-party Experts

Third-party experts are involved in impact investing decisions often. This is mainly because of the different expertise possessed by IVC professionals and industrial specialists. In venture projects, particularly in the process of due diligence, new knowledge about industrial technologies, insights about markets and products, and legislation professions in impact or sustainability etc., are usually needed. In this case, IVC professionals may find themselves lacking the necessary expertise to verify the reliability of the information required. Consequently, they often resort to seeking third-party assistance.

> *I need to have a bespoke DD (due diligence) because you can't have a one size fits all. I need to find that person or I need to find someone that can help me find that person to assess the information.*
> - *Sustainability Strategist, VC 10*

However, if the IVC has internal experts available, it is not necessary to reach out to external experts, especially for impact CVCs that are under the umbrella of a big parent company.

> *We can use the (external) experts if we need it, but today we do not need it because we have a lot of experts in the house within sustainability field.*
> - *Head of Venture Capital, VC 6*

Both IVC professionals and third-party experts who have been asked for assistance need to recognize the importance of being aligned and well-informed. They are exchanging information and knowledge and, at the same time, revising and reconstructing their own interpretation regarding impact investing. This collaborative approach leverages the specialized expertise of different departments to enhance the thoroughness of the impact investing evaluation.

In our (investing) team, two of us have been working quite closely with the energy sector for many years, so of course in that sector we have quite a bit of insights. But many other topics where generalists, so we are bound to listen to experts.

- *Investment Manager, VC 5*

I think that (having external experts or committee to involve into the decision making of impact investing) is the way you'd go. If you have enough budget for it.

- *Director, EXPERT 3*

5.4.3 Involvements of Competitors and Collaborators

In addition to the entrepreneurs of their own investments, as well as specific outside experts who have the knowledge they need, IVC professionals are concerned about what their peers are doing. Furthermore, they will be affected by them or want to affect them. The most prominent example is that they will conduct examinations of other investors that have been or will be involved in the venture project that they are planning to invest in. Ideally, they expect these peer investment firms to act ethically as they do to avoid the potential for public relations crises, or, they will try to align themselves with these peers' standards to keep the competition.

We are doing due diligence on other investors to make sure that we can all have the same high ethical standard. And it is not only the ethical part, but also the branding part for us that we can't participate with any kind of investor. We have to make sure that we are safe with those investors that we collaborate with.

- *Investment Manager, VC 5*

Interestingly, some investors express a seemingly more nuanced view of involving those with less favorable reputations in their investment projects. These investors argue that careful investigation and risk assessment can sufficiently prevent problems that might arise from these peers. Also, they are not overly troubled by involving such peers in their projects. Instead, they think it could bring positive change. Instead, they argue that attracting investors from industries with a bad reputation, like fossil fuels or high

emissions, could lead to moving capital towards sustainable industries and encouraging broader shifts towards sustainability in industries.

> *It does not have to be problematic, but if there are conflicting interests as an investor, this will be part of my risk assessment. I do not recommend pretending that the fossil industry does not exist and therefore missing the financial opportunity to collaborate with them. It does not mean always welcoming the oil and gas industry; however, it is usually worth assessing if they can participate and speed up their transition. At the same time, always be conscious of the risk of conflicting strategy and long-term goals.*
>
> - *Sustainability Strategist, VC 10*

In conclusion, IVC professionals acquire necessary information through interactions with entrepreneurs, third-party experts, as well as their peers, i.e., other investing entities. They have initial interpretations toward impact investing practices with them before getting into contact with these people and organizations, however, their interpretations will be constantly shaped by these interactions. At the same time, they have a certain level of expectation that they can influence others' interpretation.

5.5 The Existence of Evolvement Power

The data previously mentioned demonstrate the interpretation of concepts and methods of impact investing among IVCs and IVC professionals. Through the data, the need for continuous refinement of impact criteria to keep pace with evolving industry standards is clearly perceived by IVCs and IVC professionals. Moreover, objectively speaking, as legislations like the EU Green Deal and the Sustainable Finance Disclosure Regulation (SFDR) evolve, there is only a growing demand for more comprehensive disclosures from companies. Thus, persistently reflecting on and changing their interpretation regarding the concept and methods of impact investing along with the time moving forward is required for IVCs.

Most VC investors recognize that the existing methodologies for measuring impact are limited. They actively advocate for the development and adoption of improved evaluation tools that can more accurately reflect the true social and environmental outcomes of their investments.

> *One of the things that SFDR does is that it compels disclosure. Therefore, if an underlying portfolio company is generating significant negative harms, you cannot call yourself a sustainable investment and you have to disclose what is the proportion of sustainable investments in your portfolio.*
>
> - *Head of Impact Strategy, VC 9*

> *Over the years we have seen a huge evolution in sustainability issues across the Nordic VC's, in terms of regulations, the LPs, and now the shift in consumers.*
>
> - *Ex-Head of ESG, VC 14*

The process of updating and refining impact criteria is not a one-time task but a continuous effort. Most VC investors frequently review and enhance their evaluation methodologies to stay ahead of market trends and regulatory requirements. However, this should not be the sole motivation. More importantly, investors should focus on improving their resource decision-making processes to ensure they are reaching their impact goals. This ongoing process is crucial for maintaining credibility in the impact investing field. While measuring and reporting are important, what is vital is how investors use their own Impact Measurement and Management (IMM) processes to improve their impact in alignment with their goals. This ensures that investment strategies remain aligned with both investor and societal objectives.

> *The most important part of impact measurement and management is to improve company's decision-making process in terms of how they allocate resources to reach their impact goals. Therefore, the process often evolves over time and the company learns what is most effective.*
>
> - *Senior Impact Advisor, VC 12*

> *The regulation, especially the SFDR that has come out now, is not adapted to early stage investing. We are in a transitional period now where everybody does not really know how to do it and how to approach it and how to handle this if they are reporting in the early-stage investment landscape.*
>
> - *ESG and Impact Lead, VC 17*

Overall, these ongoing enhancements in impact evaluation criteria enable more impact investments that significantly contribute to societal and environmental goals, showcasing the interconnected roles of multi-stakeholder engagement, and criterion evolution in promoting impact growth.

6. Analysis and Discussion

According to Weick (1995), Weick et al. (2005) and Kudesia (2017), sensemaking is an ongoing process. All of the stages of our framework, which is proposed and has been discussed by this thesis in section 3.2, link together and feed into one another. Based on this framework and the theories supporting this framework proposed by Weick (1995) and Kudesia (2017), the most intuitive starting point of sensemaking is ecological change (Weick, 1995; Kudesia, 2017), i.e., the tension that is aimed to be discussed in this thesis - in the context of impact investing practiced by IVC and its professionals. According to the data displayed in section 5.2, most IVC professionals said that they noticed the dynamics of the tension - IVCs deciding whether to go closer with financials or impact in investments is a spectrum. In this spectrum, they feel the changes of the decisions and the evaluation developments along with time and they also think that the change will continue.

Hence, we have chosen to use it as our entry point to start the analysis of IVC professionals' sensemaking processes. It is composed of the fact that IVC is integrating the impact evaluation with the financial assessment criteria traditionally used by VCs, creating a changing and equivocal environment for IVC professionals. To navigate the tension and ideally manage the prioritization of two logic, IVC professionals have to make sense of this environment and their own decisions and behaviors, where the sensemaking processes start. After this, the following processes of sensemaking, namely, the enactment, selection and retention, will continue. In this chapter, the process of sensemaking showcased in section 3.2 will be sequentially analyzed and elaborated with support from the empirical data demonstrated in Chapter 5.

6.1 Existence and Meaning of the Tension in Sensemaking

The empirical findings presented in the previous sections indicate that the logic behind the evaluation criteria for impact investing, developed by IVCs and their professionals, can be understood as a sensemaking process. This aligns with the sensemaking theory as formulated by Weick (1995) and Kudesia (2017). A predominant theme emerged regarding how IVC professionals explore information or trends from the industry and its stakeholders in diverse forms and subsequently interpret this information and these trends. In this study's context, IVC

professionals are conceptualized as the primary agents of sensemaking, while the IVC industry and its stakeholders, such as entrepreneurs, relevant experts, and other VCs, constitute the environment in which these professionals enact and shape their interpretations.

The empirical findings confirm that IVC professionals recognize the ambiguity of the concept "impact", as the previous research indicated (Guter-Sandu, 2023; Arjaliès et al., 2022). This ambiguity has two dimensions. The first dimension is the ununified definition of impact as a word to be used, namely, the mixed-using of terms, particularly impact and sustainability. This on one hand showcases the newness of impact as its definition is not perfected and is still under construction (Meng et al., 2022); on the other hand, telling the origin of the term impact is developed from sustainability and can be cross-explained and complemented by each other, reflecting on the conclusions made by Malhotra, Clavier and Bailard (2017).

The second dimension of ambiguity is that, the way to describe or conduct impact in IVCs is understood on the theory level by the professionals, however, is not ensured in practical scenarios. Our interviewees overall expressed an awareness that impact is very important in investment. However, since the resources that can be leveraged currently are limited and have to be distributed reasonably, many IVC professionals have made their choices in the trade-off between impact and financials – many professionals do not consider impact first when it has any type of clash with financials, moreover, they often recommend their peers to prioritize finances in their investments as caution that investment failures definitely do not contribute to impact. This phenomenon is partly contradictory to Lewis's (2001) statement that impact investors hesitate to admit that their primary investment intention is capital growth. This may be because the research conducted by us, compared to the research conducted by Lewis, has about a time gap of 20 years. It may also be due to differences in samples, questions, or forthrightness among investors. Our findings do imply impact investors have developed different sensemaking interpretations over time, making many of them be more direct in stating their thoughts that do not necessarily match the expected or "politically correct" answer.

Although the manner and extent of their expressions seem to have changed over the past decade, the obscurity remains. Not all investors have made their choices, and there is a consensus that,

until now, there is a high degree of flexibility in impact measurement for impact investing. Namely, the decision of this trade-off has not yet been finalized in the IVC industry, instead, it is more like a spectrum. Impact investors apply impact investing on this spectrum including trade-offs, sometimes looking more at the financial performance, sometimes paying more attention to impact. This trade-off is where the tension in this thesis comes from, which is aligned with previous research conducted by Parker (2021) and Epstein, Buhovac, and Yuthas (2015). This tension generates an environment that enacts sensemaking as it is a moment of ambiguity or uncertainty, forcing the actors in it to seek clarification of the situation by extracting and interpreting cues from their environment (Maitlis and Christianson, 2014). Thus, the existence of the tension, which is included in the theoretical framework, and the role of the tension, which is ecological change in the context of IVC professionals' sensemaking process regarding the impact evaluation methodologies (Kudesia, 2017), are confirmed.

6.2 Simultaneous Existence of Convergence and Divergence

After examining the condition for activating sensemaking, which is the ecological change that provides sensible environments, the next step is enactment. According to Weick (1995) and Kudesia (2017), enactment involves properties such as being enactive of sensible environments and being focused on extracted cues. It refers to how individuals notice and concentrate information from their organizational environment and how they act on that information to shape their environments in a reciprocal process.

The interviews revealed that while IVC professionals tend to perceive and categorize impact-related cues in a similar manner—they recognize that impact is crucial and should be more intensively applied and developed within the industry—their actions regarding impact in their work differ. For example, most IVC professionals agreed that they tend to prioritize financials in their impact investment evaluation projects, but they explained this decision for different reasons. The most widely accepted saying in our data is that IVCs consider the survival of a business as the most critical issue for startups, and if an impact investment project does not survive, it can no longer generate impact. This explanation reflects that there is no fair definition and measurement of the value of impact investing yet, although people are constantly working on it. Consequently, the use of assessment methodologies recently may fail to adequately capture

the true value of impact investing, as demonstrated in section 5.2, reflecting the confusion and contradictions within the minds of IVC investors that have been interviewed and stated this, while the pressure on them to achieve the dual mission is strong and is getting stronger, together anchoring the research of Tadmor and Tetlock (2006). In the landscape of sensemaking, this finding aligns with the theories proposed by Weick, Sutcliffe and Obstfeld (2005) and Kudesia (2017), who state that individuals draw upon such cues to impose structure on their environment when faced with equivocality or ambiguity. In the IVC context, professionals facing uncertainty tend to choose to use the method that they are familiar with, which is traditional financial-focused evaluation, to look at impact investing projects in the IVC environment. Moreover, they rationalized it through general industry condition, that is, the highly frangible nature of new ventures.

Interestingly, although IVC professionals who were interviewed differ in stating the reasons and logic behind their investing actions, they concluded the challenges that have been faced in impact investing impact evaluation rather similarly. Sections 5.2.1 and 5.2.2 displayed the two main challenges recognized and considered important by the IVC professionals studied, which are (1) the limited implementation ability of quantitative methods, and (2) the ethical ambiguity about the extent of transparency and accountability. These recognitions are formulated by the cues they gathered, further shaping the IVC professionals' identities, and thereafter structuring the interpretations. As time passes, IVC professionals have explored a wide range of frameworks and tools, composing the cues available, allowing them to make possible interpretations.

More specifically discussing these two challenges, first, since IVC professionals are driven by professional norms and social expectations to be reliable, not only due to their responsibility to LPs but also their desire to meet self-expectations, they frequently use quantitative numbers to support their statements. However, in the current development landscape of impact evaluation in IVC, they have not seen any frameworks or tools that utilize widely accepted quantitative data or criteria. This to a certain extent seems to push impact investors to move closely to financials when they evaluate a venture as the frameworks or tools to assess financials performance are well-established, which further can serve to accentuate the tension in the IVC industry. Second, many investors are seeking transparency, i.e., reporting and disclosure systems in impact investing, in order to avoid accountability issues such as greenwashing and green-hushing.

Nevertheless, they are unsure about the commitment level from entrepreneurs towards this effort due to the extra cost that may be required in these systems. Therefore, in the current financial landscape, there seems to be a limited number of transparency-related actions enacted in practice. Even for those IVC that are contributing or trying to contribute, they only apply it to investments in later stages and let early-stage startups concentrate on their business operations.

The two challenges illustrate how impact investors perceive themselves and the industry, creating cues that professionals utilize in making sense, particularly interpreting, what impact means and how it should be managed within the context of IVC impact investing evaluation. As Weick (1995) and Kudesia (2017) asserted, actions are a means for individuals to reduce equivocality in their environment. These challenges are calling for the actions of IVC professionals, and according to our interviews, they do have things to do in their minds. First, IVC professionals prioritize financial considerations until more quantitative data can be leveraged and verified, and second, they often delay actions regarding transparency in their investment projects until impact startups can be less vulnerable.

This phenomenon further reflects the theoretical assertion that individuals simultaneously affect and are affected by their environments through their actions (Kudesia, 2017; Weick, 1995). Specifically in our research context, the interpretations and behaviors of IVC professionals are based on and will be further shaped by their continuous experience in the IVC industry. Currently, they have noticed the characteristic of the IVC industry that it temporarily lacks widely accepted impact measurement so they prioritize finance; while they understand the characteristics of their most relevant stakeholders, i.e., the entrepreneurs of the startups they invested in, they are too fragile to manage impact at the beginning of the operation. Consequently, IVC professionals shape the IVC industry and influence the stakeholders to keep the escalating power in evaluating methods of impact new ventures.

6.3 Multi-Developments Achieved of Impact Evaluation Criteria

Having generated interpretations, the selection process becomes active, according to the framework discussed in section 3.2. As the empirical data in section 5.3 indicated, IVC professionals extensively search for solutions to address the challenges encountered when evaluating the impact of their investment projects. Based on our interview results, international

standards or widely accepted frameworks, such as the SDGs, the Five Dimensions of Impact, and the Impact Principles, are the most frequently referenced frameworks. Professionals use these tools to ensure their investments align with fundamental impact requirements, aiming to achieve fair financial returns for impact investing while meeting social and ethical expectations.

However, this exploration is broad. Due to limited cognitive capacity, individuals must narrow down available information and decide which options are most plausible and worth acting on to rationalize and deal with the equivocal environment they face (Kudesia, 2017; Weick et al., 2005). In the interviews, IVC professionals stated that although they frequently refer to and use these frameworks, they still find them too generic and insufficiently detailed for their specific needs. For instance, these frameworks provide high-level guidance but lack detailed instructions on how to measure impact. Consequently, there is a need for a deeper, more tailored approach to impact evaluation.

Answering the need mentioned above, IVC professionals develop, or at least try to develop, custom and unique impact evaluation systems that address the specific needs and goals of their portfolios more effectively. This approach to developing evaluation criteria embodies the fundamental principles of sensemaking, which involve extracting cues, interpreting them within their context, and selecting the most plausible interpretation. This most plausible interpretation is not necessarily perfect. It is usable as long as it matches the situation's needs at the moment (Kudesia, 2017). Furthermore, as situations change, so do needs, continuously reshaping the most plausible interpretation. The relevant interpretations of sensemaking are not fixed and constantly stay the same (Weick, 1995), instead, it is retrospective and inherently inaccurate (Helms Mills et al., 2010; Maitlis and Christenson, 2014).

Worth mentioning, having these most plausible interpretations, i.e., self-developed frameworks, enhanced the confidence of IVC professionals in being moral and relevant actors. According to the empirical data in section 5.3, IVC professionals consider themselves different from others as they support their impact performance more concretely. The development of these frameworks also makes their work easier since it gives them a relatively clear guideline to follow instead of doing things without standard order. This finding supports Wry and York’s (2017) research

results, indicating that sensemaking is being adopted as a tool to help individuals navigate, take action, and thereby influence their environment.

6.4 Answer to Research Question: Impact Evaluation Criteria are Continuously Refined

The previous sections in this chapter explore the tension in IVC by examining how professionals navigate the dual objectives of financial returns and social impact. The tension is identified as stemming from the ambiguous and evolving nature of impact measurement, which forces IVC professionals to constantly make sense of and balance these competing demands. In the environment the tension exists, the simultaneous existence of convergence and divergence in the industry. The professionals recognize the importance of impact but prioritize financial survival due to the lack of concrete impact evaluation frameworks. At the same time, they develop their own impact evaluation criteria to address this tension, reflecting a dynamic and ongoing process of sensemaking as they strive to align IVC professionals' investments with both financial and social objectives. To analyze the sensemaking of IVC professionals in another deeper, according to Weick (1995), Helms Mills et al. (2010) and Maitlis and Christenson (2014), social interactions are influential.

Looking into the influences created by different social interactions, there are three groups of people or organizations involved - entrepreneurs, third-party experts, and other relevant VCs or investors. Among these entities, the most frequent interactors with IVCs and IVC professionals, with no doubt, are the entrepreneurs. The types of interactions between them are most diverse as well, including one-way, such as events held by IVCs to educate the entrepreneurs, as well as two-way, for instance, those daily conversations about investment projects. All these interactions, as showcased in section 5.4.1, help both IVC professionals to collect more information regarding impact investing and further influence their actions following on. For example, the overall maturity condition of the startup teams is disclosed in the conversation, leading to the potential alteration of IVC professionals' application of impact investing evaluation strategies toward the entrepreneurs to minimize the risks.

Third-party experts play significant roles in the interpretation retention process of IVC professionals. They provide missing information and complement the expertise gaps of IVC

professionals. Consequently, interactions between these experts and IVC professionals either consolidate or alter previously made interpretations. Meanwhile, other relevant VCs or investors, i.e., the peers of IVCs, are crucial as well. IVC professionals are concerned about the actions of these peers as they potentially refer to their practices as benchmarks. As presented in section 5.4.3, IVC professionals conduct examinations of other investors who have been or will be involved in the venture projects they are planning to invest in. This is because they aim to avoid any potential public relations crises. In some cases, they may try to align themselves with their peers' standards to maintain competitiveness and relevance.

All these interactions above frame the understanding of both sides regarding impact investing, reflecting the claims of Wry and York (2017) and Arya et al. (2021). Individuals strive to collect as much and as detailed information as they can, therefore, they of course would not let go of the chances to gather cues from other people, i.e., from interactions such as conversations with them. Based on the interview responses, the current possible development directions can be the exploration of how tangible results can be delivered over time. This potentially includes measuring how many units of impact have been produced per unit of financial resource invested, and the financial returns or paybacks this impact has generated for the investors, etc. The usage of concrete numbers regarding the descriptions of impact can be a booster of transparency and accountability. This is because it can record and display the figures that serve as a means of verification, reassessing the investment expectations against the actual numerical results obtained.

While this aligns with previous research, our study brings new insights by emphasizing the importance of real-time data collection and feedback loops in improving impact measurement. Unlike prior studies that primarily focus on post-investment assessments, our approach advocates for continuous monitoring and adjustment. By implementing ongoing updates on the impact generated, IVC professionals can make timely decisions and adjustments to their investment strategies. This method not only enhances the accuracy of impact measurement but also increases investor confidence through improved transparency and accountability. Moreover, our research adds a temporal dimension to the assessment of impact investments. This concept helps in understanding how quickly an investment generates impact, providing a more nuanced view of investment effectiveness. By comparing the speed of impact generation across different

investments, investors can better allocate resources to projects that deliver quicker and more significant social or environmental benefits.

Through these social interactions, the retention process is activated. Collectively accepted narratives about how impact is perceived, evaluated, and integrated from the traditional VC to the IVC landscape are formulated and reformulated. Therefore, the sensemaking process, in this thesis, aligns with the theories proposed by Kudesia (2017), as an endless loop. This concept naturally includes evolutionary power. The conducted interviews revealed that in recent years, IVC professionals have seen significant industrial changes among all stakeholders. They recognize the need for continuous refinement of impact criteria to keep pace with evolving industry standards. Moreover, on the regulatory side, as legislation such as the EU Green Deal and the Sustainable Finance Disclosure Regulation (SFDR) evolve, IVCs must persistently reflect on and adapt their interpretations regarding the concept and methods of impact investing over time. As Weick, Sutcliffe, and Obstfeld (2005) argued, sensemaking is not about discovering the truth or achieving perfect accuracy. Instead, it involves the ongoing redrafting of an emerging narrative to make it more comprehensive, incorporate more observed data, and become more resilient to criticism and challenges.

Worth discussing, differentiating from previous studies that often consider sensemaking only as a retrospective activity, our research adds a proactive and dynamic nature. IVC professionals can closely observe their peers and the environments that they are in to continuously update their impact criteria, ensuring alignment with current regulatory standards and market conditions. Moreover, our study highlights the role of facilitating more interactive and immediate sensemaking among stakeholders. Nowadays, the rapid dissemination of information and collective interpretation leads to quicker adaptation and more robust impact assessment. It not only enhances the understanding of sensemaking in the context of impact investing but also provides practical tools for IVC professionals to navigate an ever-changing regulatory and market environment. All these approaches offer valuable insights to IVC professionals into the continuous evolution and development of the IVC industry.

7. Conclusion

The exploration of how IVC professionals navigate the tension between financial returns and social impact has unveiled a nuanced landscape marked by ambiguity, diverse interpretations, and ongoing sensemaking processes. This study aimed to understand these dynamics by answering the central research question: "*How do venture capitalists make sense of and navigate the tensions between financial and impact objectives in their investment criteria?"* Through the application of sensemaking theory, this research sheds light on the complex interactions and evolving practices within the IVC industry.

7.1 Theoretical Contributions

This study makes several important contributions to the existing body of knowledge on sensemaking theory and impact investing. While it aligns with previous research in recognizing the complexity and subjective nature of impact evaluation, it extends these findings in several novel ways.

First, this study goes beyond merely validating the applicability of sensemaking theory in the context of impact investing by identifying specific factors that influence the sensemaking processes of IVC professionals. For example, the research reveals how ecological changes, such as evolving regulatory standards like the EU Green Deal and SFDR, act as catalysts for sensemaking. This adds a dynamic dimension to our understanding, showing that sensemaking in IVC is not static but continuously shaped by external pressures and changes.

Second, the study provides empirical evidence on the role of social interactions in shaping the sensemaking processes within IVC firms. By examining the interactions between IVC professionals and various stakeholders, such as entrepreneurs and third-party experts, this research highlights how these relationships influence the development and refinement of impact evaluation criteria. This finding suggests that sensemaking in IVC is deeply interconnected with the social fabric of the industry, adding a collective dimension to what has often been viewed as an individual cognitive process.

Additionally, the research provides new insights into the ethical ambiguities and trade-offs that IVC professionals navigate. For instance, it sheds light on how professionals balance the desire for transparency with the practical constraints of early-stage investments, often delaying comprehensive reporting until startups are more established. This practical insight adds depth to our understanding of the ethical considerations in impact investing, which has been less explored in previous studies.

By offering these new perspectives and examples, this study not only confirms existing theories but also expands them, providing a richer, more detailed picture of the complex landscape of impact investing. These contributions lay the groundwork for future research to further explore the dynamic interplay between individual sensemaking, social interactions, and evolving industry practices in the field of IVC.

7.2 Practical Implications

The practical implications of this study offer valuable insights for IVC professionals, policymakers, and academia in the field of impact investing.

Firstly, the study highlights the importance of developing flexible and adaptive impact assessment frameworks. Given the diverse interpretations of impact among IVC professionals, there is a need for frameworks that can accommodate various perspectives and contexts. Practitioners should focus on creating tools that are not only robust but also adaptable to the unique needs of different investment scenarios.

Secondly, the role of social interactions in sensemaking processes suggests that fostering collaborative environments can enhance the effectiveness of impact investing. IVC firms should encourage regular interactions among stakeholders, including investors, entrepreneurs, and experts, to share knowledge and refine impact assessment practices continually. This collaborative approach can lead to more nuanced and comprehensive interpretations of impact.

Moreover, the use of concrete numbers regarding the descriptions of impact can be a booster of transparency and accountability. It is crucial to record and display figures that serve as a means of verification, reassessing the investment expectations against the actual numerical results

obtained. If these expectations are not met, it is essential to identify and analyze the root causes and thereafter pivot in the future.

Lastly, the recognition of ecological change as a trigger for sensemaking implies that IVC professionals need to be proactive in monitoring and responding to industry shifts. Staying informed about regulatory changes, market trends, and evolving best practices can help IVC firms navigate the tension between financial returns and social impact more effectively. Continuous learning and adaptation are essential for maintaining relevance and achieving dual objectives in the dynamic landscape of impact investing.

7.3 Limitations and Future Research

The limitations of this study primarily lie in the methodological choices and the scope of the research. One significant limitation is the reliance on interviews as the sole source of data collection. While interviews provided valuable insights into the sensemaking processes of IVC professionals, they are inherently based on subjective accounts. Although these accounts are interesting and valuable, they could be strengthened through additional data collection methods such as ethnography and participant observations. Observing IVC professionals in their daily work settings could complement interview data by revealing how they practically make sense of the tension between financials and impact, as opposed to relying solely on their conceptual understandings. Therefore, future research should incorporate such data collection methods to provide a more comprehensive understanding.

Another limitation is the focus on a specific geographic and cultural context, which may limit the generalizability of the findings. This study focused primarily on IVC professionals within a particular region, and the findings may not fully capture the diversity of practices and interpretations present in other regions. Future research could expand the scope to include a more diverse range of IVC professionals from different regions and cultural backgrounds. This broader perspective would provide a more comprehensive understanding of sensemaking processes and the applicability of the findings across different contexts. Additionally, the study's timeframe poses a limitation. The sensemaking processes and industry practices observed may evolve over time, influenced by regulatory changes, market dynamics, and emerging best practices. Future research could adopt a longitudinal approach to investigate how sensemaking processes evolve

and their long-term impacts on IVC practices. This approach would offer deeper insights into the dynamic nature of sensemaking and its implications for the sustainability and success of impact investments.

Future research should explore several key areas to build on the findings of this study. First, incorporating ethnographic studies and participant observations would provide a richer, more nuanced understanding of how IVC professionals navigate the tensions between financial returns and social impact in their daily operations. Such studies could reveal the practical challenges and strategies used by professionals in real-time, offering a more grounded perspective on sensemaking. Second, expanding the geographic scope of research to include IVC professionals from diverse cultural and regional backgrounds would enhance the generalizability of the findings. Comparative studies across different regions could identify unique factors influencing sensemaking processes and highlight best practices that could be adopted globally. Third, future research should delve into the long-term impacts of sensemaking on IVC practices through longitudinal studies. These studies could track the evolution of sensemaking processes over time, examining how regulatory changes, market trends, and industry shifts influence the interpretation and application of impact criteria. Understanding these dynamics would provide valuable insights into the sustainability and adaptability of impact investing practices.

Moreover, future studies could investigate the role of technological advancements in shaping sensemaking processes within IVC. For example, the integration of data analytics and AI in impact assessment could significantly influence how professionals interpret and act on impact data. Exploring these technological influences would provide a forward-looking perspective on the future of impact investing.

Lastly, future research could examine the intersection of sensemaking with other theoretical frameworks, such as institutional theory or stakeholder theory. This approach would offer a more comprehensive theoretical understanding of the factors driving sensemaking in impact investing and how these processes interact with broader institutional and stakeholder dynamics.

By addressing these areas, future research can provide deeper, more actionable insights into the complex landscape of impact investing, ultimately contributing to more effective and sustainable IVC practices.

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9. Appendices

Appendix A. The Interview Questions for VC Investors

1. Background information
    1.1. Tell us about yourself, for example, when did you start working in your current field, and what are your main responsibilities?
2. The evaluation of sustainable impact
    2.1. Can you please share a bit about your knowledge and experience working in the venture capital industry?
    2.2. What is the scope when you evaluate impact? Is it wide or is it particularly focused on one of the ESG topics?
    2.3. Have you always selected businesses like this, or have you changed your strategy because of any reason?
    2.4. What metrics and tools do you and your organization use to evaluate the sustainability impact in your projects? (Note: for those who have not published their criteria, ask them if they can share it to us)
    2.5. Are the assessments based on some general guidelines / dimensions, e.g., SDGs or Five Dimensions?
    2.6. Do you have different criteria for different startup stages?
    2.7. How do the decisions be made, particularly, what is the standard process making the decisions?
    2.8. What roles and parties are involved in investment decision making?
        2.8.1. Does the decision-making party change in different stages?
        2.8.2. Do you have an external committee to assess your own decision?
    2.9. What difficulties have you encountered when adapting these criteria in your work?
    2.10. How do you assess this methodology, for example, do you consider it as an effective tool?
    2.11. Is there anything that you think can be improved in these criteria?
    2.12. Have you ever decided not to, or stop investing in a business once you find out that the business has done something that did not match your expectation?

3. The relationship between sustainability and financial performance
    3.1. How will you describe the relationship between sustainability and financial performance, for example, are they contradicted by each other?
    3.2. What challenges have you met regarding the balance between sustainability and financial performance?
4. Greenwashing
    4.1. What is your opinion towards the term greenwashing?
    4.2. Based on your own experience, what can be done to prevent greenwashing, for example, do you have any follow-up measurements, report-back system, or checkpoints in your organization?

Ending question

5. Is there anything else you want to add for us to learn more about the topics we have discussed?
6. Is it ok for us to ask a few follow-up questions later if needed?

Thanking notes

Thank you for attending this interview. We will provide you with the material afterward to ensure that we understand your words clearly and correctly today. You will be able to access our work related to this interview and give feedback before we publish it. Please feel free to contact us if you have any further questions or concerns.

Appendix B. The Interview Questions for Startup Entrepreneurs

1. Background information
    1.1. Tell us about yourself, for example, when did you start working in your current field, and what are your main responsibilities?
    1.2. Can you share a bit with us about your investors, for example, who are they and what do they do?
2. The selection of the investors
    2.1. What is the process to make the decision regarding the selection of investors in your team?
    2.2. When seeking a new investor, what aspects do you particularly focus on?
        2.2.1. If the sustainability is not a factor that the interviewee cares about,
            2.2.1.1. Will an investor focusing on certain ESG topics interest you more than those who do not?
            2.2.1.2. Will the reputation of the investors affect your decision to have them invest in your business?
        2.2.2. If the interviewee does prefer impact investors or only wants to work with impact investors,
            2.2.2.1. Among these impact investors, will any specialty offer by the investors especially attract you, for example, a certain ESG topic?
            2.2.2.2. Have you always selected investors like this, or have you changed your strategy because of any reason?
3. The evaluation of sustainable impact
    3.1. What metrics and tools do your investors use to evaluate your business, and do they consider sustainability in this evaluation system? (Note: for those who have not published their criteria, ask them if they can share it to us)
    3.2. How does the follow-up procedure conducted by your investors look like, for example, do they modify the criteria in different funding stages of yours?
    3.3. How do the decisions be made in the investor's organization, and does the decision-making party change in different stages?
    3.4. What difficulties have you encountered in these evaluation processes?

3.5. How does it feel to be evaluated and monitored by these tools, or do you think the job that has been done by the investors is too much or too little?

3.6. Is there anything that you think can be improved in these criteria?

4. The relationship between sustainability and financial performance

4.1. How will you describe the relationship between sustainability and financial performance, for example, are they contradicted by each other?

4.2. What challenges have you met regarding the balance between sustainability and financial performance?

5. Greenwashing

5.1. Can you share with us a bit about your understanding regarding the term greenwashing?

5.2. Based on your own experience, what can be done to prevent greenwashing? For example, have you established any follow-up system or checkpoints to avoid greenwashing?

Ending question

6. Is there anything else you want to add for us to learn more about the topics we have discussed?
7. Is it ok for us to ask a few follow-up questions later if needed?

Thanking notes

Thank you for attending this interview. We will provide you with the material afterward to ensure that we understand your words clearly and correctly today. You will be able to access our work related to this interview and give feedback before we publish it. Please feel free to contact us if you have any further questions or concerns.

Appendix C. The Use of AI

During the thesis writing process, ChatGPT was employed in two main areas: first, to assist in summarizing and synthesizing key findings from a diverse range of sources during the literature review. Second, to provide suggestions for improving text clarity, coherence, and logical flow throughout the writing process. These interventions by ChatGPT enhanced the overall readability and argumentative structure of the thesis.

The integration of ChatGPT into the research and writing phases significantly enhanced the quality of the thesis. It ensured a thorough analysis of literature and contributed to clearer and more persuasive writing. Feedback from academic advisors particularly highlighted improvements in the depth and clarity of arguments, which were partly attributed to the iterative refinement process facilitated by AI. These enhancements were crucial in elevating the academic rigor and persuasive power of the thesis.

Utilizing ChatGPT introduced specific risks, notably the potential for data bias and inaccuracies. To counteract potential biases in AI-generated content, all information derived from ChatGPT was cross-verified with primary sources and peer-reviewed literature. Continuous oversight and manual editing were critical measures employed to maintain academic standards and ensure the coherence and accuracy of the final text.

Employing ChatGPT provided significant insights into the benefits and challenges of integrating AI tools in academic research. It enhanced efficiency in data handling and idea generation, fostering a more innovative approach to problem-solving and critical analysis. The experience illuminated the potential of AI to complement traditional research methodologies, highlighting the importance of vigilant oversight to effectively leverage these powerful tools.