Measurement of business social value generated through Impact Investing:

The Case for the South African Banking Sector

A Dissertation Report

presented to the

Witwatersrand Business School

Witwatersrand University

In fulfilment of the

requirements for the

DOCTOR OF PHILOSOPHY DEGREE IN MANAGEMENT

WITWATERSRAND UNIVERSITY

by

L M RALIPHADA

SUPERVISOR

DR RENEE HORNE

JUNE 2017

## DECLARATION

I, Lufuno Maxwell Raliphada, South African citizen declare the following under oath, that this document,

"*Measurement of business social value generated through Impact Investing: The Case for the South African Banking Sector*"

is my own work and that all sources I have used or quoted have been indicated and acknowledged by means of complete references that are attached to this document.

Full Name Lufuno Maxwell Raliphada

Signature ___________________________________________

Date & Location ___________________________________________

## ACKNOWLEDGEMENTS

My appreciation goes to Dr Horne for being a very patient supervisor and mentor who has supported me during these past three years. Dr Horne's is lively, enthusiastic, and energetic and the continual input and contribution has given me invaluable guidance throughout this process. A special thank you to the entire Witwatersrand Business School who encouraged and expected us to think more independently. In particular Mmabatho Leeuw extremely supportive in just about everything, helpful, and friendly.

I especially thank my mother Mulatwa Anna Raliphada for sowing an indestructible seed for education into my heart and mind, for her complete dedication to my siblings and myself and her unconditional love and care. My humble gratefulness to my beloved wife Neo. She is my best friend and soul-mate and during this period has unconditionally loved me through my good and bad times, supporting me by having great faith in my intellect. Neo is non-judgmental of me and instrumental in instilling my confidence in this world. My beloved sons Apfeswaho and Adivhaho, I love them so much, and I would not have made it this far without all their precious time they have sacrificed for this endeavour. To Matshidiso for being a guardian angel by offering to care and nurture my sons while I focused on this thesis. To my siblings Nditsheni, Itani, Ephraim and Mavis for their invaluable support. A special thank you to all my special nieces, nephews, cousins, relatives, friends and colleagues for their never ending support. I know I always have my family and friends to count on when times are rough. I also thank my friends (too many to list here but you know who you are!) for providing support and friendship that I needed. I thank all the present members of the Transnet group: A good support system is my incredible fellow colleagues. We've all been there for one another and have taught ourselves and each other.

I would like to take this opportunity to praise and give thanks to the almighty God. 'If God is for you, who can be against you?' It is through my relationship with God that I was granted the wisdom and strength to complete this thesis.

*'I dedicate this thesis to*
*God and my family for their constant support and unconditional love'*
L M RALIPHADA - JANUARY 2017

## ABSTRACT

Impact investment is an innovative mechanism developed within the realm of development finance to intentionally create measurable positive impact beyond financial returns. It has become an instrument for South African banks to achieve their Financial Sector Charter goals of making a viable contribution towards economic growth, development, empowerment and reduction of inequalities and poverty in our society. South Africa is the largest market in Southern Africa for impact investment and the management dilemma faced by the South African Banking Sector as the financial intermediaries is how to account and measure the social value created by the impact investments?

This study investigated the measurement practices of social value of impact investment and developed theoretical constructs on how the financial intermediaries measure social value. A multiple qualitative case study method utilising purposive sampling was employed. The sample included fourteen interviews that covered the South African Banking as financial intermediary (micro and macro perspective) and its value chain and the competitive landscape perspectives. The study had three sub-questions focusing on the conceptualisation of impact investment, the nature of the South African impact investment ecosystem and the nature of measurement of social value. Data was triangulated by integrating semi-structured interviews, field notes and secondary documents. The data analysis used Attride-Stirling's thematic networks as an analytical tool to analyse the qualitative data. This consisted of three stages that covered six steps of analysis. The analysis used Excel software to navigate from the interview question, coding, labelling, definition of codes, issues discussed, theme identification, organising and global theme deduction, description of network, and the triangulation of data (respondents quotes, field notes and document text).

The findings of the study developed three models, an impact investment conceptual model, impact investment ecosystem model for South African Banking Sector and the financial intermediary social value equation model that depicts the measurement ratios of hybrid returns of impact investment. The study recommends the seven emerging theoretical propositions as the backbone of measuring the innovative social finance. The emergent models' theoretical propositions will ensure that practitioners use the models to measure and account for the SA Banking Sector's social value creation and the models

will influence the intellectual framing of those in academic and reflective practitioner domain. This study's overall contribution was to create the foundation of a method and theory for measuring social value in anticipation and seeking to influence the types of managerial knowledge needed to deal with societal and organisational concerns in the fourth industrial revolution.

## Contents

## List of Abbreviations

| | |
|---|---|
| ABI | African Bank Investments |
| BASA | Banking Association of South Africa |
| BEE | Black Economic Empowerment |
| BVA | Blended Value Accounting |
| CAGR | Compound Annual Growth Rate |
| CSI | Corporate Social Investment |
| CSR | Corporate Social Responsibility |
| CSV | Creating Shared Value |
| DIB | Development Impact Bonds |
| CEO | Chief Executive Officer |
| EaSI | European Commission Social Innovation |
| ESG | Environment Social and Governance |
| EuSEF | European Social Entrepreneurship Fund |
| GIIRS | Global Impact Investing Rating System |
| IRIS | Impact Reporting and Investment Standards |
| NPO | Non-Profit Organisation |
| SADC | Southern African Development Community |
| SIB | Social Impact Bonds |
| SME | Small / Medium Enterprise |
| SROI | Social Return on Investment |

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# Chapter 1 Introduction

## 1.1 Outline of Impact Investing

Impact Investment is an innovative mechanism developed within the realm of development finance (Jackson, 2013), to intentionally create measurable positive impact beyond financial returns (Harji, Reynolds, Best, & Jeyaloganathan, 2014). It refers to the investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return (Global Impact Investing Network, 2016). It can be made in both emerging and developed markets, and target a range of returns from below-market to above-market rates, depending upon the impact investors' expectations.

On a global scale with an estimated global market size of $77, 4 billion in 2016 (Global Impact Investing Network, 2016), the Sub-Saharan African region has emerged as the dominant destination of Impact Investment in the emerging markets (Saltuk, El Idrissi, Bouri, & Schiff, 2014). Notably, the country of South Africa has become one of the more dominant destinations for Impact Investment within the Sub-Saharan African region with a figure of 74% which translates to approximately $4.9 billion in revenue (Global Impact Investing Network, 2016). This could be attributed to the high level of sophistication of South Africa's banking sector in the continent.

The concept of Impact Investment has redefined the role of business in a society (Turker, 2009) and also redefined business's' role in the value creation. Some academics and scholars contend that business role 'is to exclusively create an economic value (Friedman, 1970; Henderson, 2009; Jensen, 2002), however, others contend that its role is to directly and indirectly create economic and social value respectively (Lance, 2001; Sastry, 2011; Schwartz & Carroll, 2003; Warhurst, 2005). Narula (2012) defines exclusive focus on economic aspects which is unequal to the rate of the reduction of social and environmental challenges as one dimensional growth. Society's expectations of social and environmental value creation by businesses has increased over the years (Antonaras, 2011). Commercial businesses are integrated into both society and the physical environment and are therefore not able to separate themselves from the social, environmental, cultural, and ethical impacts (Bozesan, 2013).

Despite Impact Investment's global growth over the years, the pace of growth has been stunted by the bifurcated view of value, the silo-based approach which designates responsibility of social value creation exclusively to the public and civil society sectors and disparate measurement approaches of social value. Impact Investment if used as a business mechanism has the potential to challenge one dimensional growth by coupling economic growth with social progress because it measures financial and non-financial returns.

The non-financial returns are shown to create measurable positive social impact and the commercial business' direct contribution to solve social and environmental problems, is increasingly recognised (Brest & Born, 2013) and more businesses are expected to report and account for the financial and non-financial performance which reflects economic, social and environmental long-term value (Cho, 2012). In recent years Sub-Saharan African economies have experienced unparalleled economic growth and social progress, however based on the Gini-coefficient ratio, poverty and inequalities remain high (*African Pulse: An analysis of issues shaping Africa's economic future*, 2013) and makes sustainable long-term value creation a current challenge (Pfitzer, Bockstette, & Stamp, 2013).

Traditionally the banking sector is more dominant and catalytic in an emerging economy than in developed economies, as its role is to anchor economic and social growth within the territories and regions that they operate. The banking sector has had a significant role in developing the economic lifecycle particularly under the global trend of sustainable development (Raluca, 2012). The banking sector is essential in enabling individuals to achieve ambition, foster innovation and grow every industry and community (Pfitzer, Bockstette, & Stamp, 2013), so therefore the expectation of Impact Investment is higher for the banking sector within emerging markets and economies. In January 2004, South Africa adopted 'The Financial Sector Charter', a transformation charter in terms of the Broad-based Black Economic Empowerment Act. As a result of this charter, the banking sector then committed to the on-going socio-economic development of the South African society by enabling and directly participating in the economic and social whilst indirectly supporting the political development (Banking Association of South Africa, 2016). The objective of this charter was to encourage the financial sector to play a key and active role in social and economic transformation. South African banks have prudently adopted Impact Investment and despite the volume of Impact Investment activity, the impact capital represents a small portion of the $4.9 billion in revenue (Global Impact Investing Network, 2016). An important factor could be attributed to the actual measurement and reporting of social value that is generated by impact capital, and that the South African measurement and reporting is still at infancy and exploratory stage.

It is well documented that the relationship between banks and society in the post financial crisis of 2008 became antagonistic. Post this crisis the banking sector was then presented with a new task of solving social challenges that pose a threat to the growth and success of the sector (Pfitzer et al., 2013). With current global challenges, the South African banking sector is perfectly positioned to master the formula of Impact Investment by using it as the vehicle to drive successful economic growth and sustainable development in the region, thus supporting the objectives initiated by the Financial Charter. Globally Impact Investors have the ability and potential to deliver innovative solutions that target specific regions, sectors and markets with greater social impact such as education, energy, tourism, financial inclusion and agriculture by providing critical capital and access to finance (Global Impact Investing Network, 2016).

## 1.2 Problem Statement

The Sub-Saharan African region is considered an emerging economy, and Impact Investing has the potential to address poverty, unemployment and inequality since its objective is positive development that will impact and addresses social challenges. Impact Investment is a catalyst for measurable social value creation by businesses that address social challenges.

Measurement of social value created through Impact Investing is faced with an uphill being at a nascent stage compared to that of well-established economic value, it is a challenge that Impact Investment field is contending with (Chleuh, 2013), an active area of interest in the Impact Investing industry and a drawback to the growth of the industry (Brest & Born, 2013). Despite the significance and growth of Impact Investing in the Sub-Saharan African and South African region, Impact Investment requires an advanced and refined measurement process to be developed in order to fully assess and understand its impact on both society and the environment (The African investing for impact barometer, 2014).

Brest and Born (2013) pose that the question on how to assess impact is flawed by concerns about achieving unrealistic expectations of positive social impact and market-rate returns. Progress by impact measurements and more acceptance in practice provides scholars with a perfect opportunity to test all the aspects of validity and reliability of various metrics (Clarkin & Cangioni, 2016). Therefore much more research and development is required to improve the measurement of actual social impact (Jackson, 2012; Bugg-Levin & Emerson, 2011; and Fornaziere 2012). Currently the cautious approach or slow uptake of Impact Investment by the financial sectors in the Sub-Saharan African region could be that investors and financial intermediaries seek a justifiable and rational measurement of non-financial returns.

The financial intermediaries are the Impact Investment creators that match the supply and demand side of the Impact Investment ecosystem (Reeder & Colantonio, 2014). As Impact Investment creators they are expected to measure financial and non-financial returns of Impact Investing so that they can drive Impact Investment products that meet investors' expectations of financial returns and create positive social impact that couple economic growth and social progress. The measurement approach therefore should balance needs and expectations of supply and demand, intermediaries and other stakeholders (European Commission, 2013).

This requires a robust measurement of Impact Investment returns. Traditional measurements for financial returns are well-established, practiced and documented. Financial intermediaries through their asset and sustainability managers are expected to measure both financial and non-financial returns yet the measurement of non-financial or social returns are currently at a nascent stage and are full of trials and errors in the real world. This fact poses a direct drawback to Impact Investment in the Sub-Saharan African region as it limits the potential exponential growth of impact capital required to support economic development.

A specific challenge facing the South African banking sector is the ever increasing expectation to provide, account and measure non-financial returns or (social value creation). The current key focus of asset managers is to simply deliver on financial returns to the investors for targeted investments. Based on the outline provided, the objective of this thesis was to study the various processes and methods used by the South African Banking sector within the Sub-Saharan African region to measure non-financial returns or (social value creation) values generated by Impact Investing as a specific case study.

## 1.3 Research Questions

*Key research question:*

*The central research question of this study is 'how do the financial intermediaries of Impact Investing, asset and sustainability managers in the South African banking sector, measure non-financial returns or (social value creation) and what is the direct impact on social progress?'*

Impact Investing measurement is split into two prerequisites, actual financial return and non-financial impact (Hochstadter & Scheck, 2014). This thesis takes an in-depth view at the current challenges and measurement tools currently used to present the non-financial impact findings to both the investor/investees and relevant stakeholders in the South African banking sector.

*Secondary questions:*

These are the three main sub-questions listed that proved vital to the central research question:

- ❖ How do South African financial intermediaries conceptualize and define impact investing?
- ❖ What is the nature of South African impact investing ecosystem?

- ❖ What indicators do the South African financial intermediaries use to measure non-financial returns (social value) generated through impact investing? What modifications need to be adopted to improve these indicators?

## 1.4 Research Objective (Purpose) of the work

The research objective of this thesis was to study the current measurement practises of the social value of Impact Investing and develop the theoretical constructs on how the financial intermediaries measure social value of Impact Investments. More specifically, this study explores the current experiences and challenges of asset and sustainability managers in the South African banking sector to measure the social value of Impact Investing and its contribution to the society's social progress. Furthermore the study seeks to develop global contemporary theoretical models that will ultimately form the theoretical basis of measuring non-financial returns of the innovative social finance. The study looks at contemporary financial intermediaries in South Africa with the following objectives:

- ❖ *Conceptualisation of Impact Investing by the financial intermediary or impact creators of the South African banking sector;*
- ❖ *Understanding the nature of Impact Investing ecosystem of South African banking sector;*
- ❖ *Understanding and modelling the measurement of social value by financial intermediary or impact creator of South African banking sector.*

## 1.5 Delineation and Limitations

Although emerging markets are the dominant recipients of the Impact Investments the Impact Investors and creators who supply the investments are mainly from the developed markets (Global Impact Investing Network, 2016). Currently Impact Investment practitioners from emerging economies are lagging behind their counterparts in the developed economies resulting in limited data and information available in the Sub-Saharan African region.

The current climate in South Africa makes the banking sector a fiercely driven and competitive market thus the concept is a relatively new field in the region every competitor seeks to gain an early (first-move) competitive advantage making data collection a challenging task based on fear of industrial espionage. Impact Investment is considered a mechanism within a growing innovative social finance space that is able to provide a new source of revenue therefore the banking sector is unwilling to publicly share their measurement formulas' and approach. This study sought to develop the measurement model based on the current practices in the field that is practitioner-led. Impact Investing as a practitioner led field has limited theoretical body of works as a result of which the practitioners' input become crucial for the further development of the theory for the field. Thus the study became limited to the participants' responses and the public documents currently available.

Proper measurement of non-financial returns (social value) investment will therefore give commercial companies an early competitive edge. Although the banking sector is viewed as oligopoly and having high barriers of entry the sector it remains very competitive in terms of product differentiation and measurement of social value could be one key differentiation element.

The study was limited to four cases of the South African banks (three commercial banks and one development bank), one case of Banking Association of South Africa and four cases from the value chain represented by one supply-side, one demand-side and two asset management companies offering insight into the Impact Investment value chain in South Africa:

1. *Financial intermediaries*
2. *A macro view of banking association*
3. *The supply-side of the sector*
4. *The demand-side of the sector*
5. *Asset management sector*

The non-financial returns of Impact Investing are comprised of both social and environmental returns and in some instances social and environmental returns are jointly measured by these institutions and this limited research. Therefore this study focuses on the non-financial returns (social value) investment returns only and unfortunately excludes environmental aspects.

Although the study uses non-probability purposive sampling the qualitative case study results can be generalised through analytic generalisability that aims to generalise the results through intense analysis of the few cases (refer to *Chapter 7*).

## 1.6 Definition of terms and concepts

**Business social value**

According to (Emerson, Wachowicz, & Suzi, 2001) social value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. (Lautermann, 2013) cited Phills, Deiglmeier & Miller's definition of social value as:

"*the creation of benefits or reductions of costs for society – through efforts to address social needs and problems – in ways that go beyond the private gains and general benefits of market activity*."

According to Certo & Miller social value refers to the fulfilment of basic and long-standing needs such as food, water, shelter, education, and medical services to the needy members of society (Certo & Miller, 2008). All these definitions centres on change in people's lives as a results of intentional investments. The first two definitions refers to change in people's lives whilst Certo & Miller's definition is descriptive on the types of social benefits. In this study business social value refers to the improvement of life to individuals or society as a direct result of financial investment through Impact Investment transactions.

## Financial intermediary

Financial intermediary refers to impact creators who attracts capital from the supply-side (investors) and places the capital with the demand-side (non-profit organisations/charities/section 21 companies) (Harji, Reynolds, Best, & Jeyaloganathan, 2014). Financial intermediary refers to a third party acting as a coordinating agent whose role ranges from supporting early feasibility studies and working with service providers, to engaging investors, capital raising and supporting performance management (Center for Global Development & Social Finance, 2013).

Both definitions point out at the critical role of the financial intermediary in impact investment transaction. They are similar showing how the intermediary connects the supply and demand-side of the impact investment value chain.

## Impact Investment

Impact Investing refers to investments that are primarily made to create tangible social impact, but also have the potential for financial return on the investment (Schwab Foundation for Social, 2012). Impact investments are distinguished by characteristics of intentionality, defined expectations on returns from among a set of return expectations and asset classes, and a commitment to impact measurement (Jones & Turner, 2014).

The first definition describe what an impact investment does and the second one identifies unique characteristics that distinguish impact investment from other type of investments. The first definition focus on creation of social impact alongside financial return whilst the second one refers to the investor’s intent, defined expectations of returns, asset class and measurement of impact.

## Impact Measurement

Impact measurement refers to articulation of whether Impact Investing actually makes a difference (Harji, Reynolds, Best, & Jeyaloganathan, 2014). The measurements of impact refers to the quantification of the impact on demand-side (communities and the environment) realised as a result of the investment made by large infrastructure projects (Clarkin & Cangioni, 2016). It refers to the approach to understand the investments' social outcomes and impacts mainly through qualitative means (Jones & Turner, 2014). Impact measurement is defined as a practice that should be applied on a deep qualitative basis and taking contextual factors heavily into account (Reeder, Jones, Loder, & Colantonia, 2014).

## Social progress

The study adopted the Social Progress Imperative definition of social progress:

'*Social progress is the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential*' (Social Progress Imperative 2015).

Prout defines *social progress as movement directed towards the goal of well-being for all, from the first expression of ethical consciousness to the establishment of universal Neo humanism* (Maheshvarananda, 2016)

Both definitions' ultimate focus is on improvement in the social conditions or well-being of the individuals. The first definition focus on the capacity of society whilst the second is focusing on the movement.

## 1.7 Rationale - Significance of the study

A study that explores the measurement of social value by financial intermediaries in the South African Banking Sector is important for a number of reasons:

Firstly, it is exploring an emerging research field where scholarly literature is currently very limited (Hochstadter & Scheck, 2014). The study sets out to explore the experiences of asset and sustainability managers in measuring social value that positively contributes to social impact. It is important to understand that the intention of Impact investors is to allocate capital where they make a financial return and a positive social impact (Harji, Reynolds, Best, & Jeyaloganathan, 2014). This study will provide an opportunity to close the gap between everyday life and scientific world by seeking to understand the insider perspective of current practitioners. Prescience involves anticipating and influencing the types of managerial knowledge needed to deal with coming societal and organisational concerns (Corley & Gioia, 2011). This study sought to answer the banking management dilemma of measuring and accounting for social value generated by Impact Investments.

This study's overall objective is to create the foundation of a method and theory for measuring social value based on the insight gained from different practitioner perspectives. Impact Investing is being driven by practitioners whose key focus is on the measureable impact created rather than theoretical constructs (Hochstadter & Scheck, 2014). This study will benefit Impact Investing as a whole since academic research establishes and supports the credibility of a specific field (Smalling & Emerson, 2015).

Although there is interest in this area and some commendable research efforts that have been made there remains limited literature on the study of how to assess the social impact generated through Impact Investing from the practitioner's perspective, especially from within emerging economies where the Impact Investments are most dominant. Impact Investing inherently has different measurements intended to report financial and non-financial impact. Practitioner perspective is key to the research because the Impact Investing discourse is predominantly driven by practitioners (Hochstadter & Scheck, 2014). This case study is conducted in a vital emerging economy namely South Africa that currently faces massive social challenges and in the banking sector that is mandated to create greater economic growth impact by channelling funds to social development in the region with a positive outcome.

A prescience study entails the process of discerning and studying cutting edge trends and practices that solve genuine problems, as a result of which the study then will influence the intellectual framing of those in academic and reflective practitioner domain (Corley & Gioia, 2011). In addition to this there are current initiatives for measurement and metrics of social impact focus on standardising the language and rating system (Bugg-Levine & Emerson, 2011) (Fornaziere, 2012) (Jackson, 2012).

This study intends to close the gap between practice and academia, which has seen management sciences loose its appeal and usefulness due to a widening gap between practitioners and academia (Patton & Appebaum, 2003). It will also give insight into practical measurement of social value of Impact Investing and will therefore influence the intellectual framing (De Massis & Kotlar, 2014). This study sought to understand the measurement of social value of Impact Investing as a field driven by the practitioners and influence the intellectual framing as the Impact Investing evolves and address social challenges.

This study develops theoretical propositions from multiple cases and such theories are viewed as robust and rigorous because the evidence is assumed to be deeply grounded (De Massis & Kotlar, 2014). Theoretical explanation from this study will frame approaches to the measurement of social value at both academic and practitioner level.

This study is unique and a first in the Sub-Saharan African financial intermediary sector that has emerged from a developing economy and that focuses purely on the measurement of non-financial returns (social value). The theory is based on empirical findings of this study and practices of the practitioners. In terms of the significant contribution of this study the theory developed is unique and original, and can be viewed in quadrant 1 in the figure below where the contribution arose when the theory revealed what had not been seen, known or conceived because it is a prescience.

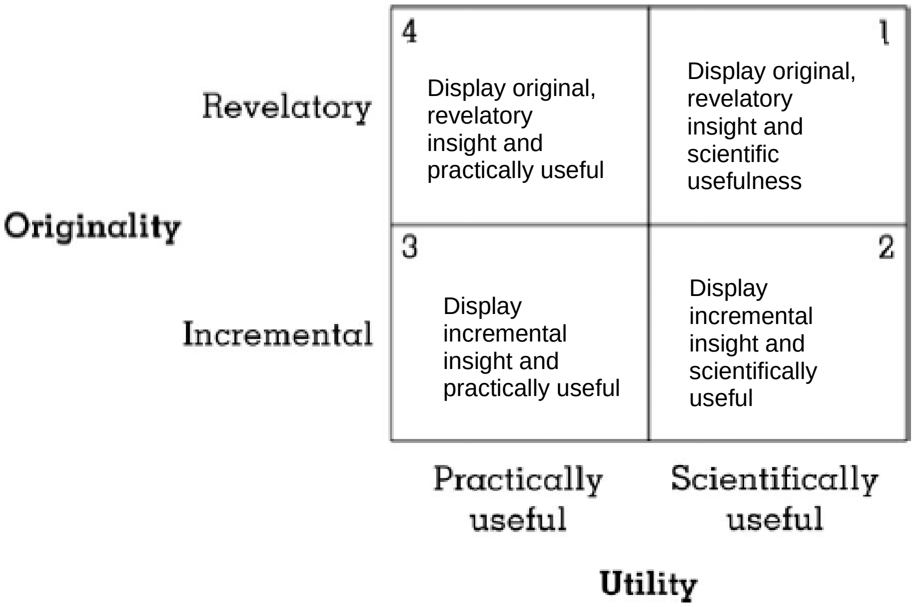


**Figure 1 Current Dimensions of theoretical contribution** (Corley & Gioia, 2011)

Corley and Gioia (2011) argue that the theory's significance can be determined by two critical components namely originality and utility. Originality focused on whether the theory is original or increasing on an existing one. Utility focused on whether the theory is scientifically or practically used.

*Quadrant 1 shows that the theory has revelatory originality and scientifically utility*
*Quadrant 2 shows that incremental originality with scientific utility*
*Quadrant 3 shows incremental originality and practical utility*
*Quadrant 4 shows revelatory originality and practical utility.*

This study as aforementioned is on quadrant one that posit findings with revelatory originality and scientifically utility (in terms of theoretical models developed). The findings of the study are highly original and offer new revelatory insights that add into existing body of language. Emerging theoretical constructs are fundamental building blocks of measurement of non-financial returns of social finance. Thus it is scientifically useful to advance Impact Investing and innovative social finance field.

## 1.8 Summary of Chapter Overview

**Chapter 2** Conceptual Framework

- ❖ Contains six key sections based on six assumptions on conceptual framework which broadly located Impact Investment in the paradigm shift from shareholder to shared value creation, financial returns to hybrid returns and inclusive role of South African Banking Sector in the social and economic space.

**Chapter 3** Research Methodology

- ❖ Focus on research methodology including methods of research and the collection of data.
- ❖ Data collection procedure covers step 1-3 of the thematic network analysis which entail code material, identification of themes and construction of thematic networks (from basic to global themes).

**Chapter 4** Impact Investment conceptualisation

- ❖ Focus on research sub-questions: conceptualisation of Impact Investment within the:
    - o micro perspective (individual bank cases analysis)
    - o macro perspective
    - o Impact Investing value chain perspective and competition landscape perspective
- ❖ The thematic network analysis of step 4 which describes and explores thematic networks based on the understanding of Impact Investment in an emerging economy.

**Chapter 5** Impact investment ecosystem

- ❖ Focus on research sub-question two on the nature of Impact Investment ecosystem within the: micro perspective (individual bank cases analysis), macro perspective, Impact Investing value chain perspective and competition landscape perspective.

- ❖ This covers step 4 of the thematic network analysis which describe and explore thematic networks for understanding Impact Investment ecosystem of South African Banking Sector.

**Chapter 6** Measurement of Social Value

- ❖ Focuses on research sub-question three on the measurement of social value generated through Impact Investment within the: micro perspective (individual bank cases analysis), macro perspective, Impact Investing value chain perspective and competition landscape perspective.
- ❖ This covers step 4 of the thematic network analysis which describe and explore thematic network of social value equations of the four perspectives that are integral part of the Impact Investment ecosystem of South African Banking Sector.

**Chapter 7** Analytical Generalisation

- ❖ Focuses on cross-cases analysis and synthesis of the nine cases covered from *Chapters 4 – 6* grouped according to the three sub-research questions.
- ❖ This covers step 5 of the thematic network analysis that summarise the principal themes across the cases.

**Chapter 8** Conclusion

- ❖ Focuses on how the findings responded to research question and sub-questions.
- ❖ This covers step 6 of the thematic network analysis that addresses how the financial intermediaries of Impact Investing, asset and sustainability managers in the South African banking sector, measure non-financial returns or (social value creation) and its impact on social progress?‘ (with arguments grounded on the emerging patterns from exploration of texts).

# Chapter 2 Conceptual Framework

## Introduction

Conceptual framework provides an analysis of the key factors, concepts, or variables and the presumed relationships between them. It is primarily a conception or model and presents a tentative theory of the phenomena that one is investigating (Maxwell, 2013). Conceptual framework has the ability to determine what elements influence the whole research process from formulating problem statement, indicating how one goes about investigating the problem and then gives meaning and insight to the data collected (Imenda, 2014). Literature reviewed was guided by subject topics under review such as value proposition of business, Impact Investment, measurement of social value and financial intermediary of Impact Investment. The conceptual framework is therefore framed by the existing literature review that was perused.

This conceptual framework captures the researcher's map of the territory being investigated (Miles & Huberman, 1994). The debates on the role and responsibilities of business in society consist of two dominant theoretical approaches on the value creation of a business to society, economic and social value. Various scholars (Friedman, 1970; Jensen, 2001, 2002 and 2010; and Henderson, 2009) argue that business' role is to create an economic value exclusively while others argue that business has a primary role of creating economic value and a secondary role of creating social value (Lance, 2001; Sastry, 2011; Schwartz & Carroll, 2003; and Warhurst, 2005).

Impact Investing has emerged as a new mechanism that requires a different measurement approach from the traditional investment formulas. The traditional investments return on investment, which is measured by means of actual financial returns and this process has established valuation methods. Impact Investing's return on investment is focused on creating a combined blended value that includes non-financial dimension comprised of social and environmental value.

The change on return on investment perspectives is informed by the evolving relationship between business and society and the growing demand for an inclusive capitalism that addresses questions of socially equity (Dacin, Dacin, & Tracey, 2011). Business and society are inseparable and interdependent (Stephenson, 2008), although they are independent domains they remain intertwined and connected as a single system (Marcus, 2012).

This outlook on business and society's relationship is supported by a new form of investing that advocates social value creation that leads to positive social impact. Impact Investment's return on investment intentionally focuses and measures both the financial and non-financial returns. There is however, an emerging new perspective which underpins Impact Investing. This emergent perspective seeks to reconcile the two dominant polarised theoretical approaches underpinned by the blended value proposition concept. It argues that business creates an indivisible value comprised of economic, social and environment.

The conceptual framework traced the evolution of debates around what interest capitalism serve the shareholder or broader stakeholders, hence this will outline a theoretical base upon which Impact Investing is located. The conceptual framework is organised according to four sections (with own concluding remarks respectively) that underline the existing theory review as follows:

| | |
|---|---|
| Section 1 | Value Creation – exclusive economic value, secondary social value and indivisible economic, social and environmental value. |
| Section 2 | Impact Investment – concept and ecosystem. |
| Section 3 | Measurement of social value. |
| Section 4 | Financial intermediary – the South African Banking Sector. |

## Conceptual Framework Chart

A conceptual framework chart was drafted to depict the conceptual framework that locate the research gap and the methodology to answer the research problem and build emergent theory. Conceptual framework depicts four sections as captured by business' value creation in a society and traditional and Impact Investment paradigms. *Chapters 2.3* *to 2.8* depict how the data is collected and analysed, then reconstructed into new theoretical models and concepts.

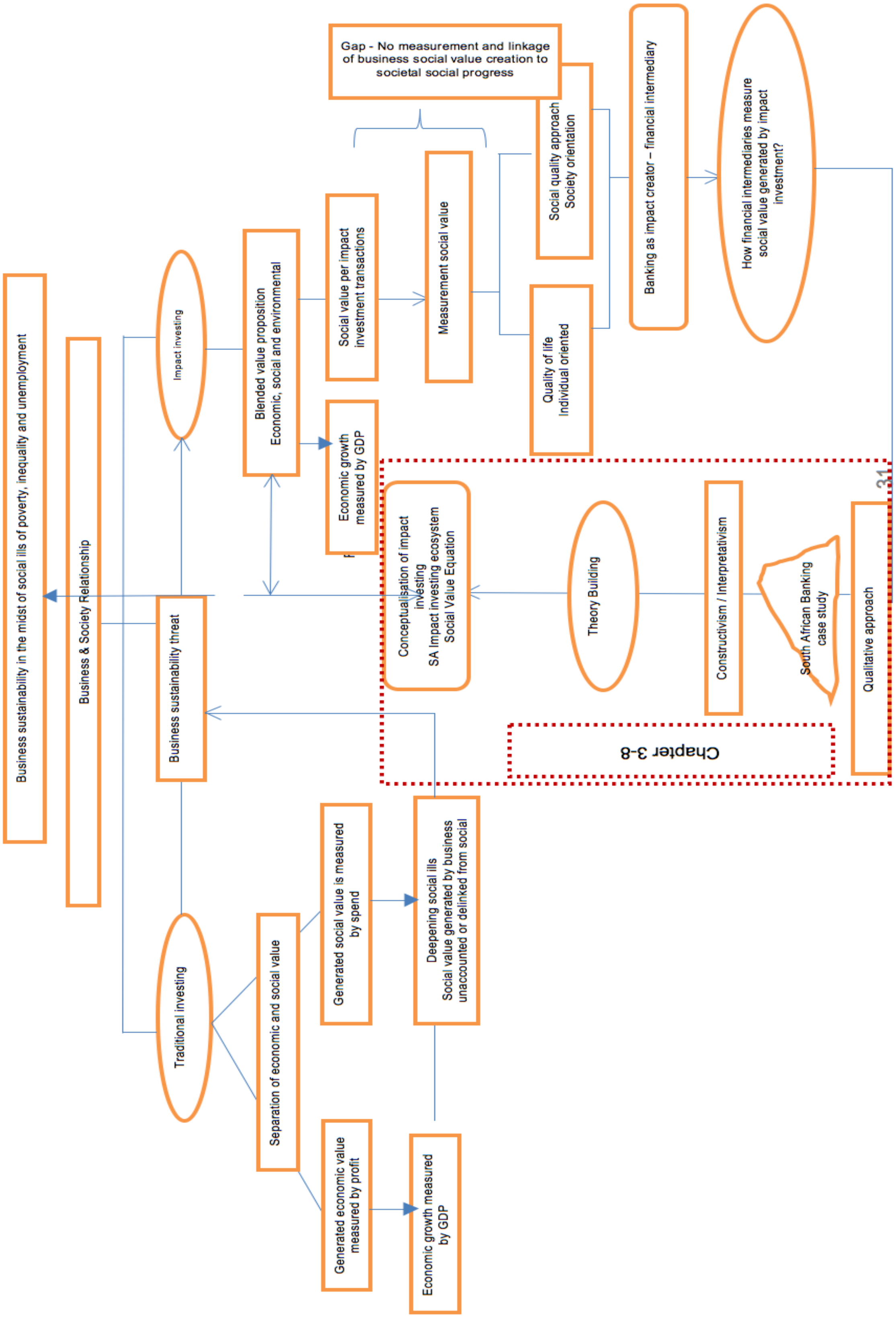


Figure 2 Conceptual Framework Diagram

## 2.1 Value Creation

Every company or organisation's activities knowingly or unknowingly create or destroy value through its activities. Value creation is about understanding the purpose of business in society. Companies are agents with a mandate to create value for stakeholders (Pies, Beckmann, & Hielscher, 2010).

This section will trace the argument on the type of value that business adds to social society. Sections 2.1.1 and 2.1.2 depict the bifurcated perspective of the role of business in value creation to society. These sections provide a descriptive and succinct overview of the two main school of thoughts on the role of business in creating economic and social value. Economic value is viewed as primary and social value as the subservient. As social value does not form part of business returns the measurement of the business returns has always been focused on economic returns.

### 2.1.1 Exclusive Economic Value

***Business' responsibility is to exclusively create economic value***

The first dominant theoretical approach could be traced to a neo-classical view that limits business' role to an economic role of providing employment and paying taxes to government (Friedman, 1970). This approach believes that business creates economic value by increasing profit, maximising shareholder value and having a single focus objective of their business mission (Henderson, 2009; Jensen, 2001 and 2002; and Michael, 2003).

It is traditionally assumed that the business role in a society is to exclusively create economic value. Milton Friedman, who is considered as the post Second World War dominant theorist of this approach, advocates for a limited role of business in a society and he argued that business' role is to create economic value in a society and nothing more.

Friedman (1970) argued that it is not the responsibility of business to create social value but to increase its profit. Friedmanite theorists (Byerly, 2013) contend that the role of a businessman in a society is to make a profit and to maximize shareholder value and considered corporate social responsibility which creates social value to society to be a 'subversive doctrine ' that poses a threat to the foundation of free enterprise system (Henderson, 2009; Michael, 2003; and Jensen, 2010).

A dominant viewpoint in the finance literature maintains that the goal of the firm is to maximise the value of shareholders' equity only (Martin, Petty, & Wallace, 2009). This view is often attributed to Adam Smith's notion of the 'invisible hand' which states that when a man pursues his own (economic) interest, he inadvertently and frequently promotes that of society better than when he sets out to create social value (Martin, Petty & Wallace, 2009; Brewer, 2009; Bishop, 1995; Kennedy, 2009; and Smith, 2011). Thus, businesses do better when they intentionally set out to create economic value without any mention or explicit intention to create social value.

The central premise of this theoretical approach is that a business' role is to create economic value and that social value is the responsibility of public officials (Friedman, 1970). Thus, it segregates the role of economic and public actors, with the role of business being to maximise shareholder wealth whilst the role of public officials and civil society is to address social problems (Lee, 2008; Sastry, 2011; and Scott, 2007).

Theorists contend that economic and social values are separate and created by totally different institutions. This led to the bifurcated view on the role of business in value creation. It holds that businessmen account to the shareholders whose concern is economic value and public officials account to the citizens/public whose concern is social value which leads to social development.

Michael (2003) stated that the overriding belief amongst advocates of this approach is that the firm's main objective is to maximise shareholder value, but Martin et al. (2009) cautioned that shareholder value maximisation does not always result in the maximisation of social welfare, as such any social value created becomes a bonus. Henceforth economic growth that is unmatched with the social progress and hope for the trickle-down effect someday has failed to materialise when expected and desired because there is no direct and measurable intent.

Jensen (2001, 2002, 2010) argued that business has a single-value objective; that of maximising shareholder value (exclusive economic value). He stated that it is impossible to maximise in more than one dimension at the same time. He also maintained that businesses should focus on what it is good at: maximising shareholder wealth. Henderson (2009) argued that a focus on social responsibility is harmful to individual enterprises and the economy as a whole. The primary role and contribution of private business is to act as a vehicle for economic progress. Byerly (2013) contends that this theory subscribe to notion of a traditional market-based perspective, in which business is viewed as an independent domain that only relates to the broader communities as a source of resources or market of products and or services.

These theorists argue that business has no direct role of addressing challenges such as poverty and inequality but theirs is to make profit and hope that their tax will be wisely spent in return to address social challenges. This led to the traditional approach to investment, whose primary and only focus is financial return and profit and measurement of such returns. A single focus on economic value creation by business is characterised as a traditional perspective of investment due to the narrow and exclusive focus on economic value (Antonaras, Lacovidou, & Memtsa, 2011) (Lautermann, 2013).

Managers in the United States of America are predominantly mandated to maximise wealth for the company shareholders through the maximisation of profits (Jones & Felps, 2013). It can be argued that Friedmanite theorists subscribe to principal-agent theory, in that managers are seen as corporate employees who have been hired to act as agents for the firm's shareholders (Martin, Petty, & Wallace, 2009). Their responsibility is to satisfy or meet expectations of the principal.

This school of thought advocates that business' role is to create economic value through maximising shareholder wealth hence there is no need to report on social value created by business because that is not its forte. The economic value is measured through the use of GDP per capita which could facilitate international comparatives in the market (Koponen, 2012). The measurement methods or approaches of economic value created by business are very established.

Economic value is measured primarily on profit and return on investment of shareholders. Business' value creation is limited to economic value or financial returns direct to the shareholder through increase in equity and indirectly to the society through corporate tax and job creation. The sole focus is on the financial returns to the shareholder.

### 2.1.2 Subservient or Secondary Social Value

***Business' primary responsibility is to create economic value and also to create social value as a secondary responsibility***

The second dominant theoretical approach however, challenges the narrow focus on the economic value, advocating a much wider role that includes social development which is created by social value (Warhurst, 2005). Social value has the potential to satisfy a variety of stakeholders due to its multiplier effect that creates financial and social and environmental returns (Emerson, 2000)

According to Antonaras, Lacovidou, & Memtsa (2011) social value is created when resources, inputs, processes or policies are combined to improve the lives of the individuals or society as a whole. According to Lee (2008) Bowen is considered the post Second World War dominant theorist of this approach. His book about the social responsibilities of businessmen is considered seminal for this theoretical approach that really challenged the traditional role of business in a society that was exclusively creating economic value (Garriga & Mele, 2004) (Lee, 2008). Bowen suggested that business can create social value through corporate social responsibility (CSR) which is a complementary and corrective measure for some social failures inherent in a laissez-faire economy (Lee, 2008).

The proponents of this theory questioned the logic of segregating the economic and social value creation of business and argued that the two cannot be wholly segregated (Byerly, 2013). (Juscius & Jonikas, 2013), on the other hand, questioned a single-minded focus on shareholder interest and claimed that this can be economically short-sighted and socially divisive.

This view has advocated a broader view of the goal of the firm that incorporates multiple stakeholders. Jones & Felps (2013) reasoned that shareholder wealth maximisation is not a good way to link social wealth maximisation to social welfare because such link's validity seems dubious.

This theoretical approach's central premise is that business creates both economic and social value, however, it is still biased in favour of economic value at the expense of social value. Economic value creation is primary whilst social value creation is secondary, often without being linked to organisation performance and or business strategy. They argue that business is duty bound to create social value as an ancillary, whilst its primary focus is still on the creation of economic value. Consequently this resulted in a situation where social responsibility within business is not fully integrated with core business (Porter & Kramer, 2002 and 2006). This theoretical approach is dominated by corporate social responsibility (CSR) which has evolved over time.

There are three levels in which companies directly and indirectly contribute to creation of social value namely, basic game is an arena where the company creates value directly, meta-game the companies indirectly involve rule-setting and establishing functional institutional arrangements, and meta-meta game of business where the companies cultivate and participate in a common rule-finding aimed at identifying common interests (Pies, Beckmann, & Hielscher, 2010). CSR span both direct and indirect contributions of business to social value creation. This solely depends on the type of the CSR initiative.

Warhurst (2005) argues that the role of business in the society since the twenty-first century has evolved from being merely about philanthropy to being about how a company constructs and positions itself in society. Hence the emergence of corporate responsibility and or corporate citizenship concepts.

These underlie the fact that business has a social role and responsibility to discharge in a society. Sastry (2011) captures the main arguments for the evolution of the role of business by indicating that the role of business ultimately is to intentionally create social value and thereby create a win-win situation for the business and society. Corporate social responsibility and or corporate citizenship represents how business intentionally create social value.

It has become increasingly clear that business has the responsibility to create both economic and social value without a trade-off between the two. At the same time, social value created under Corporate Social Responsibility (CSR) failed to make a meaningful contribution to social progress because CSR created secondary (social) goals which are subservient to the primary economic goals (Wilson & Post, 2013) and are not measured.

There are various methodologies to measure optional social value created by business. The relevance of the dominant methodologies such as Social Return on Investment (SROI), Social Accounting and Auditing methods, Social Impact Assessment, in the measurement of a positive social impact created by Impact Investing are arguable hence the need for the study to investigate the current practices before developing a theory.

### 2.1.3 Indivisible Value: Economic, Social and Environmental

***Business' responsibility of creating economic and social value is inseparable***

Contemporary scholars revisited the two polarising theories and questioned the segregation of economic and social values of a business in a society (Emerson, 2003; Porter & Kramer, 2002, 2006, 2011; and Sastry, 2011). Separation of value could run into the danger of serious mal-developments (Herrmann, 2012). Emerson questioned the divergent approach to the role of business in a society (Emerson, 2003; Porter and Kramer, 2011) identified areas that business can create social value through their business strategy while Sastry (2011) argued that shared value means that societal needs must define markets and not merely economic needs.

Thus the argument of this approach is that the business role is to intentionally create value that is inherently comprised of economic, social and environmental values. It is in this approach that Impact Investing is located because it seeks to bridge the gap and dichotomy between traditional investments looking to achieve financial return and philanthropy looking at the non-financial impact (Trovato, 2014).

Sustainability of pursuing financial value without reference to social value creation is increasingly becoming difficult (Emerson, 2000). According to (Acs, Boardman & McNelly, 2013) productive entrepreneurship inherently creates social and economic value, whilst unproductive and destructive entrepreneurship has a narrow and exclusive focus on the creation of economic value which often result in a negative net social value creation.

Economic wealth is inseparable from its social value, be it negative or positive (Acs, Boardman, & McNeely, 2013). It is important for any business to be able to demonstrate the value it creates by its very existence (Antonaras, Lacovidou, & Memtsa, 2011). Organisations that intend to create social and economic value intentionally do so and their social value is not a by-product (Wilson & Post, 2013).

The idea of merging social and economic value creation within one structure has moved beyond the issue of trade-offs or balancing acts between the two (Wilson & Post, 2013). Entrepreneurship processes produce multiple types of values, economic and non-economic values (social) and given its enactment within the social context, it produces social outcomes, hence entrepreneurs cannot be separated from their social outcomes (Korsgaard & Anderson, 2011).

The study therefore investigated how asset and sustainability managers measure social benefits created for the society.

Byerly (2013) highlighted that there are paradoxes that face business which required new perspectives because neither Friedmanite nor the CSR approach are able to address the new perspective. These paradoxes are as a result of a more pluralistic society, growing societal needs, shrinking resources and more societal awareness demanding more from the business (Byerly, 2013). These paradoxes require a new perspective on the role of business responsibilities in a society.

Consequently, (Enderle, 2009) proposed that it is necessary to calibrate the purpose of the corporation and adopt a multifaceted concept of wealth and genuine understanding of its creation. Concept of wealth based on value that covers economic, social and environment.

***Blended Value Proposition***

Emerson (2003) is the major theoretical contributor of the blended value concept. A blended value proposition analysis propose that any given investment inherently creates financial and social value (Nicholls, 2009) (Emerson, 2003). Ueda, Takenaka, Vancza & Monostori called this 'sustainable value' because it covers ecological, social and economic values (Ueda, Takenaka, Vancza, & Monostori, 2009). The blended value proposition argues that financial and social values are intrinsically connected rather being in opposition (Nicholls, 2009) or needing a trade-off between the two (Emerson, 2003).

The primary nature of looking at investment and returns is embedded in a value proposition composed of financial and social returns (Emerson, 2000). The Blended Value Proposition dictates continual change and innovation, always measuring one's progress against shifting measures of transformative, economic, environmental, and social valuation (Emerson, 2003).

Blended value is an attempt to measure the whole picture because the economic and social value is intertwined (Christensen, 2008) (Dahle, 2004).

Emerson argued against divisible ways of looking at the value, which tends to categorise value as economic and social, he called this 'bifurcated' value (Dahle, 2004; Christensen, 2008). He contended that economic, social and environmental value is all part of the 'whole' value (Dahle, 2004; Christensen, 2008). Emerson contends that blended value will gain acceptance if there is a fundamental shift in the understanding of the nature of value (Dahle, 2004). One of the building blocks of redefined capitalism 3.0 is to expand the definition of 'fiduciary responsibility' to include blended financial performance, economic, social and environmental (Christensen, 2008). Investment and return should not be viewed as a trade-off between social and financial interest but rather the pursuit of an embedded value proposition composed of both (Emerson, 2003).

A central premise of the blended value proposition is the creation of new metrics and frameworks as a result of the comprehensive assessment of total performance (Emerson, 2003). There seems to be limited studies that focus on comprehensive assessment of whole value consisting of economic, social and environmental. Impact Reporting and Investment Standards (IRIS) and Global Impact Investing Rating System (GIIRS) provide common language and rating but asset and sustainability managers still have to go through the process of measuring impact. Emerson (2003) advocates a move beyond the traditional belief that an organisation's economic value is separate and at odds with its social value. The blended value proposition requires a holistic accounting practice that captures full value creation (Nicholls, 2009).

The Blended Value Accounting (BVA) spectrum covers social impact reporting which can be located between financial and social accounting (Nicholls, 2009). BVA is used by social entrepreneurs to access resources and achieve organisational mission objectives with key stakeholders. The blended value proposition needs new metrics, ratios and conceptions that are not based on trade-offs between financial and social goals. It argues that there is no trade-off between financial returns and intended positive social impact.

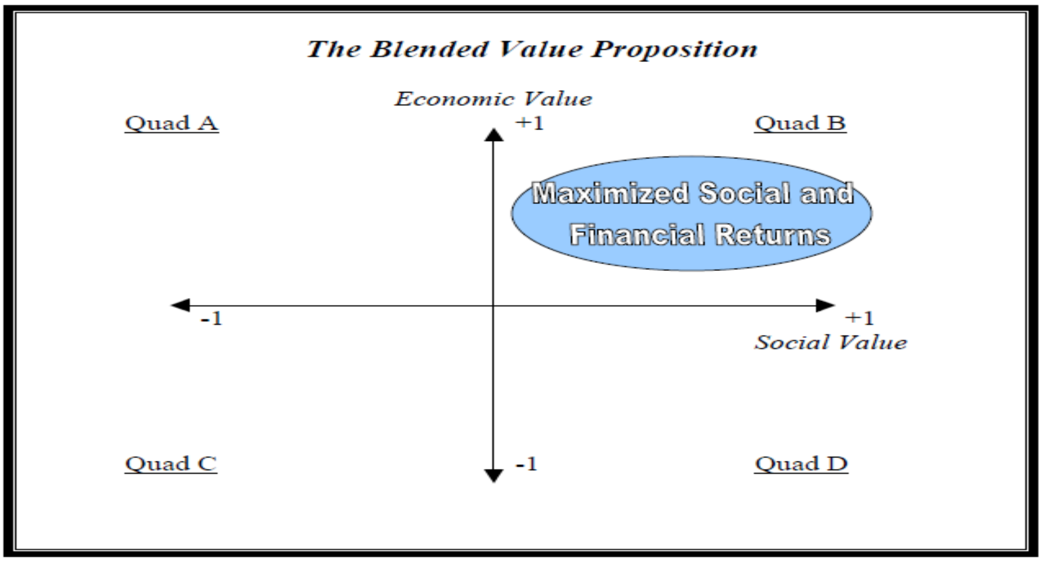


Figure 3 Blended Value Proposition **(Emerson, 2003)**

Figure 3 Blended Value Proposition Explained

According to Emerson (2000), the blended value proposition depicts the transition from Quadrants A, C and D to B.

*Quad A* *focused on exclusive economic value creation and locates Friedmanite theorists*

*Quad B* *which maximises financial and social returns and locates impacts investing*

*Quad C* *combines the primary economic and secondary social value creation and locates CSR proponents*

*Quad D* *focused dominant social value and locates traditional philanthropy which contends for exclusive social value creation*

Quad A is dominated by financial investments and financial returns.

Quad C is dominated financial returns and voluntary or optional non-financial returns through CSR that is hardly included in the company's financial returns.

Quad D is dominated by social capital investments and social returns through non-profit sector often known for lack of measurement of the return on investment.

Quad B proposes blended value proposition which maximises social and financial returns.

This study's focus was to explore how the asset and sustainability managers measure the social value created within Quad B from the impact creator's perspective?

Blended value is created when investments target social and financial returns in an integrated way (Bugg-Levine & Emerson, 2011).

In Quadrant B, there is no zero-sum game between economic and social value both are intended to be achieved.

***Creating Shared Value***

Porter & Kramer (2011) criticised the two dominant theoretical approaches as outdated and having a narrow focus of value creation. They argue that CSR is fragmented and disconnected from business strategy, thus lessening the opportunity for business to make a meaningful contribution to the society's progress whilst exclusive focus on economic value creation is unsustainable (Porter & Kramer, 2006). Porter and Kramer argue that Creating Shared Value (CSV) proposes a new approach which creates economic value through social solutions that address society's needs and challenges (Porter & Kramer, Creating Shared Value, 2011) (Leavy, 2012). According to Vaidyanathan and Scott (2012), creating shared value requires a new mind-set to view business and society as inextricably linked and to see social challenges as business opportunities. Business and society will grow stronger and become more vital for both corporate and social prosperity (Stephenson, 2008).

Porter and Kramer (2011) distinguish shared value from social responsibility, philanthropy, and sustainability and indicate that it is a new method to achieve economic success through the provision of social solutions. CSV concept urges the corporate world to reconnect company success with social progress (Leavy, 2012). Thus the CSV closely examine the linkages between economic and social progress (Vaidyanathan & Scott, 2012). According to Porter and Kramer (2011), social solutions under the guise of creating shared value should guide investments of companies in the communities rather than CSR.

CSV should be about providing sustainable social solutions rather than hand-outs. CSV advocates for business to provide social solutions as part of their business offerings however this concept has its critics.

***Shared value criticism***

Bugg-Levine and Emerson (2011) claimed that the concept of creating shared value is not new having been introduced as ‘blended value”. While Spitzeck and Chapman (2012) posit that the shared value approach is not new and builds on existing research on the bottom of the pyramid, sustainable value chain and industry clusters; and CSR (Crane, Palazzo, Spence, & Matten, 2014). Crane et al. (2014) claimed that CSV ignores the tensions between social and economic goals, is naïve about the challenges of business compliance and has a shallow conception of the corporation’s role in society.

Crane et al. (2014) argue that the trade-off between economic and social choice is inevitable. The counter argument however, is that there is no need for a trade-off between economic and social value (Brewer, 2009; Michelini & Fiorentino, 2012).

Porter and Kramer clarified the difference between CSV and blended value, arguing that blended value emphasises the need to blend the social, environmental, and economic value created by both for-profit and non-profit enterprises, so that enterprises and capital markets can maximise the sum of all forms of created value (Crane et al., 2014), whilst CSV is about solving societal problem in order to create economic value through social solution, not about blending or balancing different types of value that are different (Crane et al., 2014). Bugg-Levin and Emerson (2011) however, were not convinced by this argument because the blended value proposition directly and indirectly provides social solutions through the intentional positive social impact created. Shared value will fail because business has only one requirement - to make a profit (Stephenson, 2008). Leading companies view social and environmental responsiveness as an asset and an opportunity for growth rather than as a liability or cost to business (Epstein, 2008).

The only difference between CSV and BVP is that CSV accentuates the role of business in creating social value through their business offerings. Thus it shows how businesses can seize business opportunities to provide social solutions as an integral part of their business strategies and intentional create social value.

Furthermore, CSV shows how social solutions generate economic value. BVP on the other hand is focused on merging the bifurcated world which advocates for no trade-off between social and economic value. Blended value augurs for the aggregation of value, it advocates against the split of value into three distinct sub-values (economic, social and environmental). It sees the values as one therefore; these two concepts are not fundamentally different.

BVP states that in every organisation or company activity that creates value inherently creates economic, social and environmental value. Whilst CSV states that social solution is an intentional business offering that generate economic value.

Steyn (2012) who conducted a study in the prospects of Impact Investing in South Africa, located Impact Investing within the creating shared value framework. Bugg-Levine and Emerson (2011), on the other hand, locate Impact Investing under the blended value proposition. This study concurs with Bugg-Levine that Impact Investing is located within blended value proposition. Since this study deem the concepts as similar location of Impact Investment between the two is not a fundamental issue.

***Conscious Capitalism***

Another concept that urges business to be more socially just and responsible is conscious capitalism. Conscious capitalism advocates that business has a dual mandate of shareholder wealth maximisation and serving a higher purpose (Waddock & McIntosh, 2011). It represents a way of doing business and ensuring that social justice is interwoven into the thread of business and calls for business to look beyond profits (Simpson, Fischer, & Rohde, 2013). It advocates for free market, entrepreneurship, property rights, freedom to contract within the rule of law yet business has higher purpose (Simpson, Fischer, & Rohde, 2013). It maintains that business creates economic value and a higher purpose.

Higher ambition leadership argues that business leaders who create economic and social value in an authentic and integrated way tend to sustain high performance over time (Leavy, 2012). A higher ambition leadership concept therefore falls within the conscious capitalism ambit. It differs from both CSR and CSV. CSV looks at the business opportunities that lie within social spaces that business should seize, while CSR is often not connected with the corporation's values, mission or purpose (Simpson, Fischer, & Rohde, 2013). This concept seeks to ensure that CSR are implemented for the benefit of society, not only shareholders. It seeks integration of higher purposes into business strategy and about social conscience or morality of business.

### 2.1.4 Concluding Remarks

There has been a paradigm shift from the single objective of business that seeks to create economic value to a multi objective business approach which creates economic, social and environmental value. Business is no longer held accountable for the financial returns it creates rather it has to be measured and account for its social and environmental returns. Business objectives are multi-focused hence the emergence of innovative social finance to address business social and environmental objectives. This has culminated in a new form of investing that measures returns in a multi-focused manner for the investors and impact creator or financial intermediary.

Today's business and investment returns are measured according to the economic, social and environmental value they generate. Further research is needed to look beyond economic value and explore social value and measurable forms to aid a developing agenda for societal development and progress (Acs, Boardman, & McNeely, 2013). There seems to be a lack of appropriate metrics to measure social value creation resulting in the social investment remaining unknown and unaccounted for (Antonaras, Lacovidou, & Memtsa, 2011). The financial intermediaries, banking sector, as impact creators of impact investment value chain has a role in ensuring that social value is measured and accounted for as per the diagram below:


Figure 4 High-level impact investment value chain by (Author's own work)

Hence, this study's purpose was to investigate how social value generated by Impact Investing is measured to reflect its positive impact on society. Business intentionally creates economic and social value, what measurements are applicable for social value creation? According to (Reeder & Colantonio, 2014), established impact assessments are oriented towards assessment of the impact of policies, programs, plans and projects.

## 2.2 Impact Investment

*Impact Investment is underpinned by the blended value proposition which advocates that value is comprised of economic, social and environmental value (this refers to financial and non-financial returns [social and environmental] returns)*

The notion of investing to achieve social outcomes is not totally new per se (Hochstadter & Scheck, 2014), however, the origin of the use of the concept 'Impact Investing' could be traced to 2007 and 2008 Rockefeller Foundation meetings at its Bellagio Centre in Italy that looked at ways of building an industry of investment for intentional and measurable social and environmental impact Hochstadter and Scheck (2014) contend that although there is an absence of a uniform definition of Impact Investing, there are two essential ingredients of the definition, financial return and non-financial impact.

Harji, Reynolds, Best and Jeyaloganathan (2014) define Impact Investments as the practice of intentionally investing for financial returns and the creation of positive social impact. It is the placement of capital in a business that generates social and or environmental good and at least returns nominal principal to the investor (Darragh & Aman, 2012; Geobey, Westley & Weber, 2012).

This is supported by the (Global Impact Investing Network, 2016) that define it as investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. It has adaptive and reconfigured business model and structure that is dedicated to achieve both impact and financial returns (Saltuk, El Idrissi, Bouri, & Schiff, 2014). It intentional creates measurable social and environmental impact alongside the financial return (Barby, 2014.) (Hernandez & Hugger, 2016) thus social and environmental impact is not by the way nor optional.

A seminal book on Impact Investing is *Impact Investing: transforming how we make money while making a difference* by Bugg-Levine and Emerson (2011). The book advocates that Impact Investing is guided by a blended value proposition. Impact Investing distinguishes that its investments pursue financial returns and intentionally addresses social and environmental challenges (Bugg-Levine & Emerson, 2011; Fornaziere, 2012). It reintegrates the understanding of value as a non-divisible combination of economic, social and environmental elements (Bugg-Levine & Emerson, 2011).

Impact Investing combines the often opposed forces of capitalism and social justice to achieve two main goals to solve the major social problems and generate financial returns (Cordes, 2010). Any business' ignorance of its social responsibility is inexcusable since the charitable bond offers up a possibility that could transform the economic and social climate within which the business exists (Jones & Clark, 2011).

Charitable bond is an example of an impact investment tool. According to Hochstadter and Scheck (2014), practitioners define Impact Investing from different perspectives namely cultural, developmental, economic, governance and social (environmental). It is also seen as an emerging and impactful element of social venture finance (Clarkin & Cangioni, 2016). Impact Investment industry requires supportive environment to flourish and make meaningful positive social impact.

*Impact Investing ecosystem*

Impact Investing is broad and Jackson (2012, 2013) categorises it according to classes of actors whilst (Reeder & Colantonio, 2014) use roles. The categorisation according to classes of actors from owner to service providers:

| Asset Owners | Asset Managers | Demand-Side Actors | Service Providers |
|---|---|---|---|
| • High net-worth individuals/families<br>• Corporations<br>• Governments<br>• Employees<br>• Retail investors<br>• Foundations | • Investment advisors<br>• Fund managers<br>• Family offices<br>• Foundations<br>• Banks<br>• Corporations<br>• Venture funds<br>• Impact investment funds/ intermediaries<br>• Pension funds<br>• Sovereign wealth funds<br>• Development finance institutions<br>• Government investment programs | • Corporations<br>• Small and growing businesses<br>• Social enterprises<br>• Cooperatives<br>• Microfinance institutions<br>• Community development finance institutions | • Networks<br>• Standards-setting bodies<br>• Consulting firms<br>• Non-governmental organisations<br>• Universities<br>• Capacity development providers<br>• Government Programs |

Table 1 Actors of Impact Investment **(Source: Jackson, 2012)**

Table 1 highlights some of the Impact Investment actors in the ecosystem. It consists of asset owners (capital owners) who seek returns (financial and non-financial), asset managers (agents) who invest on behalf of owners, demand-side actors use the capital to bring the desired positive social change, and service providers assist the asset managers and demand-side actors to deliver on the expected outcome.

Reeder & Colantonio (2014) identified three main roles within Impact Investing namely, the Impact Investor who funds and interprets the impact created; the impact creator who creates impact from available resources and impact beneficiaries who gain better outcomes.

Compared to Jackson's classes of Impact Investing actors, impact investor refer to asset owners; impact creators to asset managers; and beneficiaries could be demand-side actors. Government enables impact investment ecosystem infrastructure through the implementation of policies and regulations (Saltuk, El Idrissi, Bouri Schiff, 2014; Barby, 2014) that improve risk and return profiles of investment either through credit enhancement or tax credits or subsidies. The actors are across the Impact Investment ecosystem and value chain continuum.

*Impact Investment spectrum*

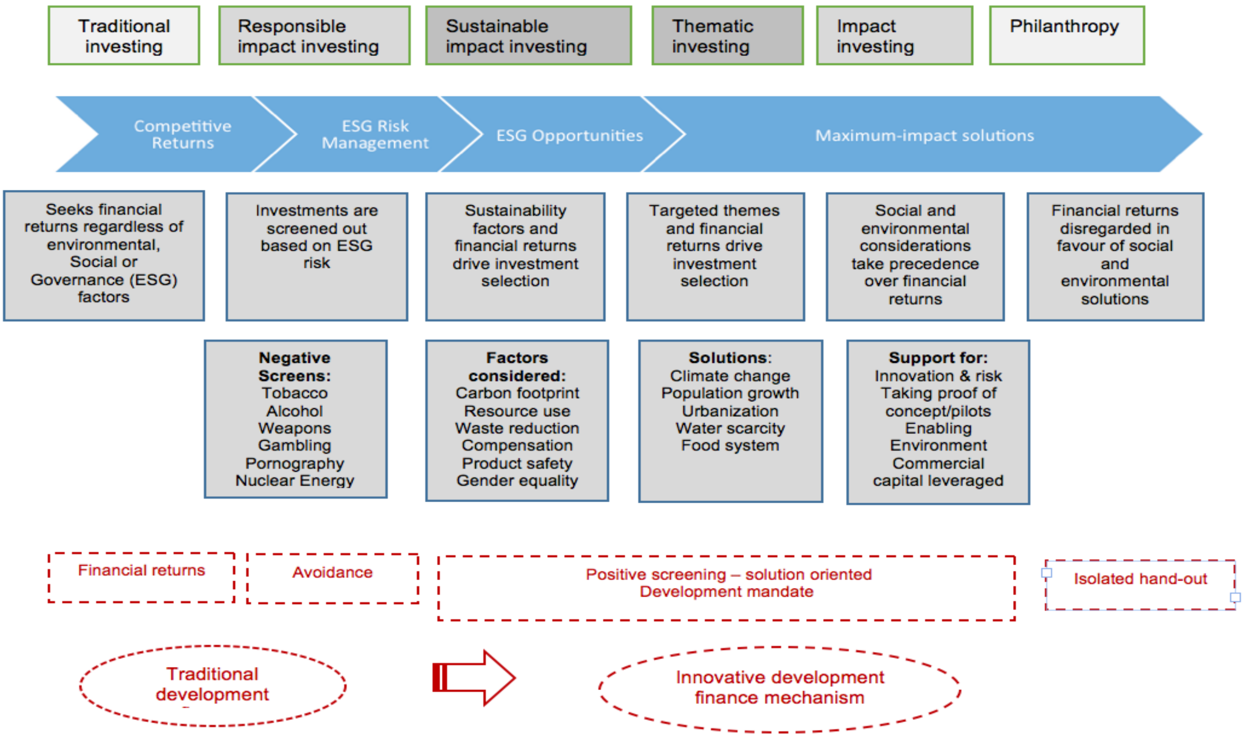


**Figure 5 Impact Investment spectrum** (adapted from Sonen Capital, 2015)

Impact Investment as a new concept and the field is evolving from disparate existing fields that has been straddling between two polarised paradigms of purity and mutual exclusion investment motives: traditional investment for pure financial profit and philanthropy for pure social returns. The Impact Investing spectrum[1] depicts the disciplines and investment spectrum within which to locate Impact Investing. According to Hernandez & Hugger (2016) investors have a choice from broad universe of investments that offer returns comparable to those of traditional investments.

The Figure 5 depiction of the Impact Investment spectrum captures the bifurcated view that juxtapose the traditional investing (that focus on pure profit-orientation) and the philanthropy (pure social value creation). Furthermore it depicts the blended value as captured by sustainable Impact Investing, thematic and Impact Investing and the next two levels below captures the activities of those investment approaches. This investment spectrum captures paradigm shift from pure and exclusive investment goals to the blended

[1] Spectrum that defines approaches of investment management based on level of impact that exists in an impact portfolio.

value proposition that argues that value is indivisible. It also highlights the different types of emerging investment that are inclusive of non-financial returns.

Cordes (2010) highlighted the differences between Impact Investing and other related terms such as social responsible investment (SRI), Environment Social and Governance (ESG), CSR and traditional investing as depicted in the above figure of the Impact Investment spectrum. SRI and ESG are more mature than Impact Investing (Smalling & Emerson, 2015). Narula (2012) refers to these other related terms as approaches to sustainable investing. According to Traditional SRI is a parent of Impact Investing (Hernandez & Hugger, 2016) and it includes five investment styles, ethical, responsible, social, sustainable and clean tech investing (Narula, 2012; Dam & Scholtens, 2015). Impact Investing differs from the traditional socially responsible investment which focuses on identifying and avoiding big companies with perceived negative business practices or products (negative screening) (Brest & Born, 2013; Cordes, 2010; Clarkin & Cangioni, 2016). Trovato (2014) however, argues that SRI screens out sectors to achieve financial return and avoid social harm. Others however contend that SRI is done by both negative and positive screening (Scholtens & Sievanen, 2013) (Hochstadter & Scheck, 2014). Impact Investing, on the other hand, looks at investments that intentional creates a positive social impact. Hochstadter and Scheck (2014) indicate that Impact Investing seeks to proactively solve social and/or environmental challenges whilst SRI seeks to improve corporate governance practices through ESG criteria. According to Van Durren, Plantina & Scholtens (2015) main ESG strategies are negative screening. Cianci (2008) associates prevention goals with avoidance strategy (negative screening) and promotion goals with an approach strategies (positive screening).

ESG is used in capital markets to identify and invest in large companies demonstrating strong environmental, social or corporate governance characteristics (Cordes, 2010; Scholtens Sievanen, 2013; Narula, 2012; Van Duuren, Plantina & Scholtens; 2015). Trovato (2014) argues that the ESG approach includes ESG risks as part of the investment analysis process. Other scholars, on the other hand, see Impact Investing as a sub-set of socially responsible investing (Stern, 2011; Combs, 2014).

Combs (2014) argued that ESG factors or criteria could be incorporated into Impact Investing when choosing investments. According to Reeder and Colantonia (2014) Impact Investing differs from corporate social responsibility based on areas that they address. The Impact Investing addresses financial investment practice and the measurement of non-financial returns, whilst CSR addresses corporate practice (Reeder & Colantonio, 2014; Hochstadter & Scheck, 2014).

Although CSR questions the exclusive economic value creation its social impact has been minimal and often done for marketing and reputation purposes. Blended value questions division and trade-off of composite parts of value and has much potential to ensure that business value addresses society's economic and social growth. Narula (2012) refers to Impact Investing as sustainable investing because it is driven by the long term economic, environmental and social risks and seizes opportunities facing the global economy. According to Hochstadter and Scheck (2014) Impact Investing is often viewed synonymously with social investment, hence others call it social Impact Investment.

Harji and Reynolds (2014) differentiated impact with traditional investing by looking at the intention of investor and investee and impact measurement. They posited that both investees and investors seek social and financial returns and are able to demonstrate intentions through measurable social impact. Thus impact investors and their investees seek to explicitly generate financial and extra-financial returns (social and environmental returns) which are made up of social and environmental returns (Olsen & Galimidi, 2008; Stern, 2011).

According to Guezennec and Malochet (2013) Impact Investing differentiates itself from traditional investing; philanthropy and socially responsible investment by seeking to intentionally create financial return and social impact. Impact Investing transcends from negative to positive screening, the selection is made based on the positive impact to be made. It is an industry emergent of work done in microfinance, community development, and environmental activities hence it is also known as social finance, social Impact Investing or blended value investing (Clarkin & Cangioni, 2016).

There are two key components of the definition of Impact Investing, firstly, the *intent* of the investor to achieve social and financial impacts, and, secondly, *tangible evidence* of the impacts themselves (Jackson, 2012; Rigaud, 2012). It seeks to give impetus to initiatives that address positive social challenge (Cordes, 2010). Impact Investing experienced growth which could be attributed to the frailty of capitalism, post the 2008/9 financial crisis, the growing societal gap and inequity as a result of finite resources, an emerging theoretical approach on business responsibility which brought in new business models and the need to align capital allocation of investors with their values (Jackson, 2013; Chleuh, 2013; Bozesan, 2013). Hence Bozesan (2013) called Impact Investors integral investors because they make an impactful contribution to 'integral' and 'holistic sustainability'. Impact Investing could be comprised of various options such as debt, equity, guarantees, deposits, venture capital and social impact bonds (Hochstadter & Scheck, 2014; Saltuk, El Idrissi, Bouri & Schiff, 2014). Chleuh (2013) cautioned that despite the potential of Impact Investing to solve the social challenges, practitioners should carefully measure the impact made on society and the environment triggered by the impact of the investments. Impact Investing as a new form of investing requires new ways of measuring its returns. According to Bugg-Levine and Emerson (2011), such measurement should track multiple returns of the investment. Hence, the question of how practitioners currently measure social impact is important.

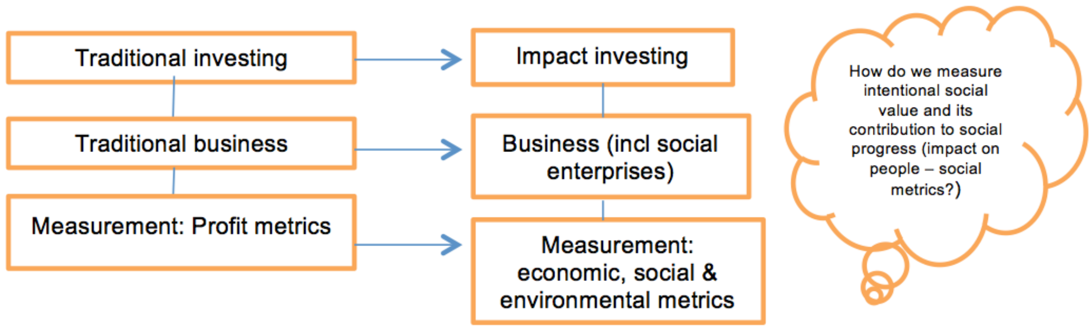


Figure 6 Emergence of impact investment and its measurement (Author's own work)

The above figure contrasts measurement of traditional investing with that of Impact Investing. The measurement focus under traditional investment was on financial returns through profit metrics whilst the focus under Impact Investing is on economic, social and environment. Some entities have introduced triple bottom reporting (profit - financial metrics, people - social responsibility metrics and planet – environmental metrics) however are such business held accountable for social and environmental value or lack thereof except doing this just for reporting purposes. The focus of this study will be on social value metrics to ensure that we measure non-financial value of Impact Investment.

### 2.2.1 Concluding Remarks

Although investment for social development or outcomes is not new the Impact Investment concept is new and it introduced accountability for social value creation. It featured measurement and accountability for social value at a pedestal. Impact Investment seeks financial returns and non-financial returns as explicitly captured by measurable and intended positive social impact.

The social value that delivers positive social impact is not superfluous but it is intentionally intended and measurable. Impact Investment falls with the broader concepts of social responsible investment where the investors assume responsibility beyond financial returns and other related family terms are sustainable investment, social finance and ESG. It merged as symbol of the paradigm shift from purity and exclusivity of value creation to inclusivity and indivisibility of value concept. This has been aptly captured by the impact investment spectrum.

The success of Impact Investment rely on the success of its ecosystem and measurement approach that can showcase it is not another fad by it is delivering the expected outcomes. Measurement of non-financial returns of the Impact Investment then becomes critical.

## 2.3 Measurement of social value

***Measurement of social value is at a nascent stage***

According to Bozesan (2013), a predominant belief in traditional disciplines of economics, business and finance is that one achieves what one can measure. One of the distinguishing features of Impact Investing is its focus on measuring the social and environmental returns that it generates (Reeder & Colantonio, 2014) because Impact

Investment must measure impacts and report progress toward defined goals (Hernandez & Hugger, 2016). Impact Investing leaders advocated for measurement of meaningful impacts from Impact Investments (Jackson, 2013) however measurement of social value is still faced with many more questions than answers.

According to Global Impact Investing Network (2009) a commitment to measuring social value or environmental performance is also considered a hall-mark of Impact Investing. Can Impact Investing creators use measurement methodologies and tools that were used for measuring corporate social responsibility or other social performance or Impact Investing related terms? The methodologies cannot be the same because Impact Investing is different in that its social value is intended to create measurable positive impact that is coupled with financial returns, hence the need for measurement of Impact Investment. But how will one determine the intended impact of the investment because intent is not impact (Bugg-Levine & Emerson, 2011).

According to Lehner & Nicholls (2014) social impact market is in its early phase and increases the reputational and financial risks for impact investors. Measurement of the social return of Impact Investing is one of the challenges of Impact Investing (Combs, 2014; Trovato, 2014) and it is not as precise a science as measuring financial returns (Avery, 2012). Other socially responsible investing approaches like ESG are based on negative screening and their measurements would be different from that of Impact Investing which is intentional and pre-determined (Reeder & Colantonio, 2014), and affirmative investments (Brest & Born, 2013).

There is little evidence to suggest that social enterprises as a type of Impact Investing actors were measuring their social impact beyond a reactive state of providing data that was sought by funders (Bull & Crompton, 2006). According to Nicholls (2009) financial metrics cannot capture the non-financial returns. According to (Monnickendam & Berman (2008), economic growth on its own cannot solve the social problems such as the unemployment problem. Traditional investing measurement focuses on economic growth using profit metrics however Impact Investing pairs economic growth with social progress (Bozesan, 2013) using financial and non-financial metrics as depicted in figure 2.4.

According to (Harji, Reynolds, Best, & Jeyaloganathan, 2014), Impact Investing seeks to channel capital to drive measurable social and financial returns. They however raised concern that measurement of Impact Investing outcome remains a challenge. The drive to create social value gave impetus to efforts to quantify and communicate the social impact of business (Bugg-Levine & Emerson, 2011). Darragh & Aman (2012) indicated that there was a lack of data to evaluate portfolio exits. This raises concern as to how potential investors will be attracted if there is a lack of data. There Global Impact Investing Network identified the barriers of Impact Investing as fragmentation, lack of compelling products, lack of experienced fund managers, lack of standards and due diligence (Global Impact Investing Network, 2009).

Impact Investment measurement lives in a three-dimensional framework or world of risk, return and impact whilst the traditional investment approach lives in a two-dimensional world of risk and return (Guezennec & Malochet, 2012; Bugg-Levin & Emerson, 2011; Emerson, 2012). According to Barby & Gan (2015) risk in Impact Investing refers to the probability that the performance of an investment will be different than expected and has five risks namely capital risk, transaction cost risk, unquantifiable risk, impact risk and exit risk. Two-dimensional world of risk and financial returns can be measured as is the custom with traditional investment.

Risk and return metrics are measurable and comparable (Geobey, Westley, & Weber, 2012).


**Figure 7 Traditional investment versus impact investment criteria (Author's own work)**

The two diagrams juxtapose traditional and impact investment dimensions. Traditional investing augurs for lowering of risk while increasing internal rate of return.

Internal rate of return becomes the ultimate goal (maximisation of profit or wealth for the shareholders). This is the two-dimensional approach of traditional investment. Impact Investing augurs for lowering of risk while increasing internal rate of return and measurable positive impact (social and environmental) hence impact risk becomes significant for Impact Investment.  Internal rate of return and measurable positive social impact become the ultimate goal (maximisation of profit and social wealth for the shareholders and the society).

One of the impediments of Impact Investing growth is the measurement of impact because social return can only be measured in the medium or long term and this would affect the measurement of returns.  The other impediment of Impact Investing related to social value is the difficulty of measuring tangible results and recognised tools for evaluating social performance (Guezennec & Malochet, 2012).

Although there are many methods used for evaluating the social impact of an investment such as  Impact Reporting and Investment Standards (IRIS),  Global Impact Investing Rating System (GIIRS), Social Return on Investment (SROI) and Environment Social Governance (ESG) indicators , these measurements are not standardised across the various sector (Guezennec & Malochet, 2012; Smalling & Emerson, 2015) .  IRIS offers specific definitions and universal language of impact indicators whilst GIIRS offers common set of standards by which the investor assesses the performance of investment funds and products (Smalling & Emerson, 2015; Clarkin & Cangioni, 2016).

According to Saltuk, El Idrissi, Bouri & Schiff (2014) and Saltuk & El Idrissi (2015) impact investor survey most respondents align with IRIS using a range of standardised and proprietary metrics and frameworks to measure the social and environmental performance of their investments and they put high performance on measuring outputs and outcomes instead of dollar figures on impact.

Reeder and Colantonio (2014) described two different forms of measurement practice, one is system builders which produce a system that is objective, robust, and quantifiable and two, case by case, which produces an assessment that informs stakeholders of the full social value. The two current measurement initiatives can be plotted in the quadrant that depicts characteristics of selected techniques for measuring impact. Reeder and Colantonio (2014) describe the characteristics of selected techniques in the following quadrant:

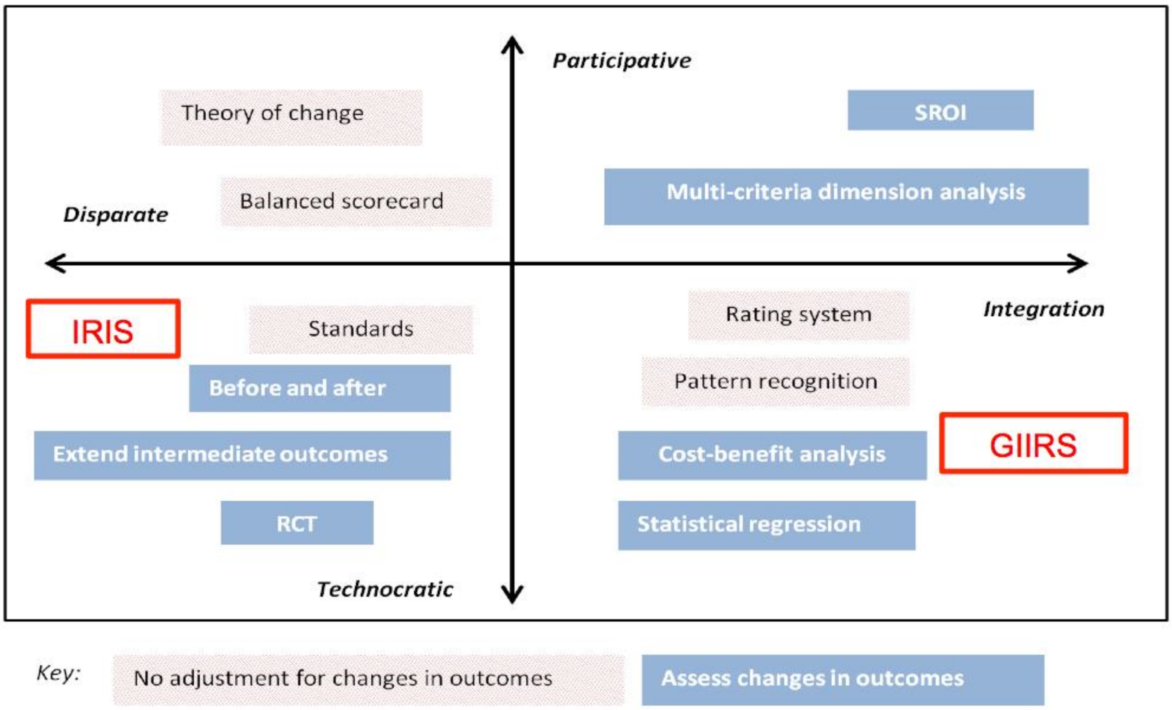


Figure 8 Characteristics of selected techniques for measuring impact **(Reeder & Colantonio, 2014)**

This diagram captures various techniques used to measure social value and the researcher plotted IRIS and GIIRS. IRIS can be plotted under disparate and technocratic quadrant because it provides a standard language and metrics whilst GIIRS can be plotted under rating system. Methodologies to assess non-financial returns (social and environmental) are not well established and the literature seems to be limited on shared understanding of impact and impact areas (Reeder & Colantonio, 2014).

According to Guezennec & Malochet (2013) traditional and well-established forms of impact assessment are concerned with the measurement of impact yielded by policies, programs, plans and projects. There is a gap in the literature and further research is needed to address practical ways for peers to share tools and techniques on how to assess impact; improve the level of independent audit in a way that is cost-effective for

Impact Investors and impact creators; and develop approaches that are meaningful to impact investors and impact creators (Reeder & Colantonio, 2014).

According to Bugg-Levine and Emerson (2011), there is a need to develop a measurement system that ensures that blended value creation matches the interest of capital providers, and Reeder & Colantonio (2014) contends that such a system should be meaningful to Impact Investors and impact creators (people who select Impact Investing funds).

Olsen and Galimidi (2008) developed a framework which is comprised of three types of measurement approaches: impact ratings which rate investment in terms of the quality and likelihood of achieving defined outcome; impact assessments which assess the characteristics, practices, and/or results of portfolio investments; and impact management systems that enable effective and efficient real time management of impact.

Brest and Born (2013) on the other hand, provided three parameters of measuring impact namely, enterprise impact which focuses on the product impact and operational impact on its stakeholders; investment impact in which investors consider what they prioritise between financial and non-financial returns and non-monetary impact which reflects contributions that investors, fund managers and others make beside financial returns.

Some studies have emerged on approaches to measure combined risks and returns, Brandstetter and Lehner, (2015) adopted the Black and Litterman (BL) Model to the specific needs of Impact Investing with hybrid goals and this model still requires real data to be validated. There are new institutions and actors exploring hybrid logics, mechanisms and rationales for investment that combine social, economic and environmental components of value despite the lack of suitable metrics and instruments for building portfolios of social investments (Lehner & Nicholls, 2014). These include pension funds and asset managers dealing with infrastructure investment hence the inclusion of two cases from asset management industry.

This study sought to understand the experiences of asset and sustainability managers in measuring non-monetary impact. According to Brest and Born (2013) estimating social returns is harder but achieving the Impact Investing value requires measurement of the three-fold impact, namely enterprise, investment and non-monetary impact.

### 2.3.1 Concluding Remarks

Measurement of social impact is a challenge acknowledged by both academics and practitioners. Although valuing of non-financial performance is a challenge supportive metrics are emerging to untangle the challenge and make valuation acceptable (Geobey, Westley, & Weber, 2012).

The current initiatives measuring non-financial returns (social value) of Impact Investing focus on developing common language and rating systems. Studies show that measurement of social impact is still a challenge to impact investors hence there is a gap in the literature to address measurement issues such as:

- *Who conducts the measurement and how can they be independently verified?*
- *What tools and techniques can be utilised?*
- *Who determines the positive impact: is it investors, intermediaries or beneficiaries?*
- *How does one know the extent of the contribution towards social progress?*
- *What is the nature of measurement approaches of non-financial returns?*
- *Does one focus on a single indicator (a calculation and evaluation system) or a framework for indicators?*
- *How does one match investors' expectations and investees' needs?*

According to Hochstadter and Scheck (2014), further analysis is required to investigate Impact Investing practices that include measurement of social impact. Measurement and evaluation of impact continues to confound practitioners with challenges of translating output into outcomes and academic research that improves insight and understanding of total value created, or cost avoided from each dollar invested to paint an accurate picture of investment proposition (Smalling & Emerson, 2015). The measurement approach of social value is still at a nascent stage and the above questions and many more still need to be studied empirically.

The measurement approaches seem to be dominated by approaches from social theories and this study provided an opportunity to understand how financial intermediaries with financial backgrounds measure social impact. The question of the relevance of the measurement methodologies and tools that were used for measuring corporate social responsibility or other social performance is still to be tested.

Bugg-Levine and Emerson (2011) argued that, despite new tools and approaches to measurement of social impact, the measurement practice was still in an inadequate state that threatens the Impact Investing industry growth. This is supported by Clarkin & Cangioni (2016) who stated that despite Impact Investing opportunities, adoption and use of standardised metrics using IRIS and GIIRS, quantifying and measuring social impact remains difficult.

This study contributed towards improvement of the state of measurement practice based on the experiences of the practitioners. Measurement of social impact must be understandable to all Impact Investing actors and they all have shared responsibility to incorporate the best practice and thinking from academic and practitioner worlds (Bugg-Levine & Emerson, 2011). There is an opportunity for scholars to test aspects of the validity and reliability of the metrics as part of refining impact measurement (Clarkin & Cangioni, 2016). This study sought to incorporate best practice and thinking from both academia and practical worlds by studying what the practitioners are using and by building a theoretical case for those practices.

## 2.4 Financial Intermediary – South African Banking Sector

*South African banking sector as the Impact Investing creators (intermediaries) in the South African Impact Investing ecosystem.*

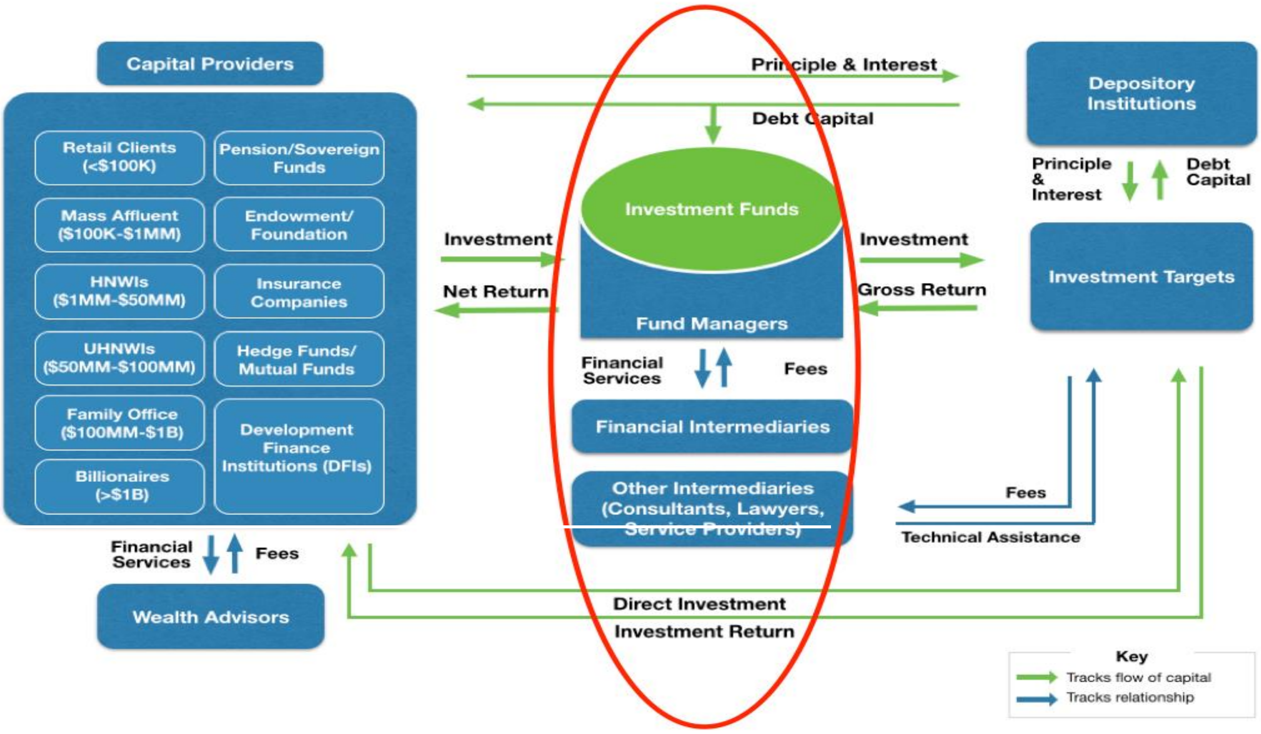


Figure 9 Impact Investing ecosystem (Source: Majmudar & Rana, 2013)

The diagram in 2.4 depicts and value chain of Impact Investing which portrays the actors and their roles in Impact Investing (Majmudar & Rana, 2013). This consists of the supply-side (investor); demand-side (recipient and beneficiaries) and intermediaries (impact creators) as alluded to under section 2.3 under ecosystem.

The intermediaries (fund managers) collect the capital from the supply-side (capital providers) and distribute it to the demand-side (investment targets) that utilise the capital to create a positive impact in the society. Intermediaries are expected to report on the financial and non-financial impact created as a result of the distribution. The returns from the investment targets have both financial and non-financial returns that are reported and given back to the capital providers.

The financial sector plays an intermediary role in the Impact Investing ecosystem; hence Reeder and Colantonia (2014) refer to the intermediaries as impact creators whilst the supply-side is referred to as impact investees. Intermediaries create a positive social impact to society by channelling capital between the supply- and demand-sides of capital markets (Harji, Reynolds, Best, & Jeyaloganathan, 2014). They drive the social investment market by connecting actors in the value chain and provide innovative new solutions to improve efficiencies in the market (Wilson, 2014).

Harji et al (2014) break down the intermediaries further into three sub-categories namely:

- supply-side intermediaries that provide advice to enable the efficient placement of capital (financial advisors and planners, and Impact Investing consultancies);
- financial intermediaries that serve a critical role of attracting capital and actual placement of capital into social ventures (capital matching and crowd-funding platforms, social venture capital funds, social lenders, venture philanthropist funds and investment brokers); and
- demand-side intermediaries that provide capacity building and advisory services (business advisory service providers, professional service provider, social venture incubators/accelerators and investment readiness providers).

Given the social challenges facing South Africa and the African continent at large, asset managers in the banking sector have a critical and catalytic role to play by facilitating Impact Investment in industry.

The intermediaries are faced with numerous challenges such as lack of accurate and reliable data about impact-oriented ventures, lack of plans to manage investment by social ventures, higher transaction costs associated with assessing and understanding social ventures, lack of capacity to meet expected financial and non-financial returns by impact-oriented ventures, lack of financial expertise to manage the investment and inability to communicate the value proposition (Harji, Reynolds, Best, & Jeyaloganathan, 2014).

Thus the financial service sector has a meaningful and essential role to play in the Impact Investing industry. The South African financial sector charter seeks to achieve an equitable society through broadening access and directing investment into targeted sectors of the economy (Financial Sector Charter, 2004) which can be targeted Impact Investment sectors with high impact. Impact Investing offers financial intermediaries the role to broaden access and direct investment into target sectors (in the demand-side).

The financial sector is the heart of the South African economy that affects every citizen's life (National Treasury, 2011) and its importance becomes known when it is disrupted or fails (Hawkins, 2004). Hence the financial sector is a vital and catalytic sector that provides finance and funding for businesses' existence (Hawkins, 2004). The financial sector of the South African economy consists of three major sub-sectors: capital markets, the banking sector and other non-bank financial institutions (Mpako, 2007). The financial sector in South Africa is however dominated by the subservient or secondary social value creation school of thought discussed in section 2.1.2. They are guided by the notion that business' responsibility is to create economic and social value with the latter seen as secondary to the former. The social value creation is not an integral part of the business strategy rather it is viewed as part of corporate citizenship initiatives under corporate social responsibility or investment. Machine (2015) states that CSR efforts in the South African banking sector cover altruistic, philanthropic and strategic CSR with motives driven by compliance and good ethical behaviour. The social responsibility is undertaken in isolation from the business strategy actions. Social value creation is not part of major business products and services rather they are seen as pet project of the Chief Executive Officer (CEO) or Board Chairperson. Business strategy articulated by either Board Chairperson or CEO in the annual reports also portray social value creation as an additional or subservient to the economic value creation. Although Henry & Rifer (2013) reported that 82.5% of survey respondents indicated that CR is part of business strategy majority of them indicated that their CSR's motives are to enhance reputation and brand, and comply with regulation.

Financial systems in African countries are dominated by banks which are highly concentrated (Okeahalam, 2007). The banks play a key role in the economy by influencing the rate of investment through financial provision (Hawkins, 2004). The South

African banking sector fulfils the intermediary role or impact creators' role in the Impact Investing in South Africa and can be involved in all three intermediaries' roles. According to the South African National Treasury (2011), at the macro-economy level, the financial sector enables the economic and social growth through job creation and infrastructure provision and sustainable development. The financial sector particularly the banking sector plays a critical catalytic role in the Impact Investing ecosystem.

There is a correlation between the financial sector development and economic growth (Ahmed & Ansari, 1998) because the banking industry is the backbone of most economies (Maredza & Ikhide, 2013). Banking's catalytic role as a financial intermediary in Impact Investing has a potential to spur economic growth. According to Levine (1992) the functions of a financial system are mainly to ensure that resources are collected and allocated, that risk is managed appropriately, and to facilitate the exchange of goods and services. As far as Impact Investment is concerned this will entail managing all five risks of impact investment identified by Barby & Gan in section 2.3*.*

Banking institutions are the most important institutions of a financial service sector (Maredza & Ikhide, 2013) and exist as intermediaries and transformers of funds who channel it towards more efficient uses that include social value creation (Nyoka, 2013). As intermediaries, they finance investments which capital markets would not be able to do efficiently (Nyoka, 2013).

Thus banks mobilise and allocate financial resources (Allen & Parwada, 2004), hence Nyoka (2013) indicates that they are the primary conduit between savers and borrowers for intermediation purposes and Maredza and Ikhide (2013[2]) state that a proper banking sector allocates resources and risk diversification. They are the catalyst and engine of economic growth (Bayraktar & Wang, 2008) (Maredza & Ikhide, 2013)[2] (Pati & Shome, 2006) for both the developing and developed economies (Maredza & Ikhide, 2013)[2]. The South African banking industry serves a wide range of customer types: from mass-market individual consumers to high net-worth individuals; and from small, local businesses to major corporates (MarketLine Industry Profiles, 2016).

Impact Investing affords an opportunity to financial planners to match the needs of the supply- and demand-side of the Impact Investing ecosystem (Steyn, 2012). Private banking which includes wealth portfolios, plays a vital role in creating the Impact Investment industry (Avery, 2012). Impact Investing is hailed as an emerging assets class just like venture capital and private equity (Mint, 2013). Rubin's (2009) conceptual framework focuses on developmental venture capital and distinguishes between corrective and additive objectives. Corrective objectives are meant to correct anomalies such as access to capital whilst additive objectives are meant to advance a certain social cause (Rubin, 2009).

Impact Investing allows banking to focus on both corrective and additive objectives and this would enable banking to reach the objectives of the financial sector charter. This however, calls for more responsibility by financial intermediaries in measurement of non-financial impact, the social value created generated by the investment.

***European Commission legislation: Programme for Employment and Social Innovation (EaSI) and European Social Entrepreneurship Fund (EuSEF)***

According to the proposed approaches to social impact measurement in European Commission legislation (European Commission, 2013), the financial intermediary should have the following responsibilities:

- *measurement of social impact generated through capital provision;*
- *to understand the reporting of social outcomes and analyse such impacts; and*
- *to set reporting requirements on social impact; evaluate proposals for funding and agree measurements proposed; monitor and report performance of the demand-side that was issued with the capital.*

The proposed changes from the European Commission amplify the need and importance of coupling financial and non-financial returns and the role of financial intermediaries in measuring non-financial return.

The South African banking sector's asset managers who manage Impact Investing funds are or would be expected to meet these and many more measurement requirements. The banking sector as financial intermediaries in the Impact Investing ecosystem has to meet these and other obligations. It is not 'business as usual' where the focus is on financial returns - but also on non-financial returns. Financial intermediaries and/or asset managers are expected to be actively involved in the measurement of social impact. Hence the focus of the study to explore the experiences of asset and sustainability managers to measure social value of Impact Investing.

In June 2010, the financial sector in South Africa comprised over ZAR 6 trillion in assets and of this, ZAR 3040 billion were banks' assets (National Treasury, 2011). The total banking assets to GDP reached 138.6% in 2008 up from 89.2% in 1999 (Mlambo & Ncube, 2011) and banking is a major contributor to employment and accounts for more than 20% of gross domestic product (GDP) (Ifeacho & Ngalawa, 2014). The banks and pension funds are the largest asset owners (Global Impact Investing Network, 2016). The South African banks industry had total assets of USD 332.2 billion in 2014, representing a compound annual growth rate (CAGR) of 7.8% between 2010 and 2014 corporates (MarketLine Industry Profiles, 2016).

South Africa's financial sector is seen as relatively well-developed and sophisticated compared to some of the BRICS countries (Mlambo & Ncube, 2011; Nyoka, 2013) and other African countries (Fosu, 2013), and its banking sector is ranked as the second safest globally (Wallace, 2012). According to Etudaiye-Muhtar and Ahmad (2014), the global ratings of South African Banks and broader financial sector in the WEF competitive survey has been consistently high. The South African banking sector is highly concentrated (Mlambo & Ncube, 2011; Okeahalam, 2001; Hawkins, 2004; Maredza & Ikhide, 2013)[2], liberalised and an oligopoly (Okeahalam, 2004; Coppock, et al., 2008). This high concentration is characterised by monopolistic competition (Mlambo & Ncube, 2011). Its domestic credit to the private sector increased between 2003 and 2012, thus it improved its financial intermediation role and reduced transaction costs thereby providing long term financing and transferring savings into investments (Etudaiye-Muhtar & Ahmad, 2014).

Hawkins (2004) contends that the dominance of the South African Banking industry by a few banks is in line with other middle-income emerging markets. This is supported by Mandelman (2010), who states that the financial markets in developing economies tend to be monopolistic because they are a primary source of funding in those areas and the concentration of that sector is spurred by liberalisations of financial markets worldwide. Nyoka (2013) argues that the high concentration consisted of cross-ownership with large insurance (termed 'bancassurance') and non-bank financial institutions (NFBIs), being either controlled by banks or NFBIs having controlling interests in banks. South Africa's established, well-regulated and sophisticated financial sector has interdependent institutions made up of banking, insurance and securities (Nyoka, 2013) (Wallace, 2012) (Maredza & Ikhide, 2013)[1].

There are four banks that dominate the South African banking sector in terms of asset share, owning over 80% of the total banking assets in the country (Bunn, Guthrie & Smit, 2013; Mlambo & Ncube, 2011; Hawkins, 2004; Nevin, 2009): ABSA, FirstRand, Nedbank and Standard Bank, and Wallace (2012) benchmarked their dominance of SA Banking at 85% whilst Maredza and Ikhide (2013[2]) indicate that they account for more than 90% of the retail banking market. Simatele (2015) states that the South African banking sector is highly concentrated with a $C^4$ratio of over 80%. Nyoka (2013) indicates that there are five major banks, by including the above four banks and also Investec. These control more than 90% of total banking assets and dominate the sector (Global Impact Investing Network, 2016). The South African banking industry has 35 banks: 10 locally controlled, 6 foreign controlled, 14 are branches of foreign banks and 3 are mutual banks (Simatele, 2015).

South African banks dominate the banking landscape in Africa accounting for 40.4% of total banking assets (Mlambo & Ncube, 2011); the SA banking sector is considered to be more developed than its African peers (Etudaiye-Muhtar & Ahmad, 2014) and the African banking sectors are generally viewed to be below the developed countries standards (Fosu, 2013). Despite South Africa's developed banking sector Wallace (2012), argues that the banking sector is dominated by retail banking and requires diversification.

The South African financial system is efficient in directing capital to meet investment needs (Mlambo & Ncube, 2011) and it is bank-oriented or dominated (Etudaiye-Muhtar & Ahmad, 2014; Ifeacho & Ngalawa, 2014) . The South African banking sector owes its origin to British and Dutch traditions (Singh, 2014; Singleton & Verhoef, 2010) and the dominant banks provide the following retails and investing offerings: savings, cheque accounts, transmission accounts, notice deposits, fixed deposits, long-term finance, credit cards, short-term insurance, medium-term investments, merchant banking, small and business banking (Singh, 2004). Consequently Impact Investing in South African banking will follow either the European or Anglo-Saxon model. With the European model, social impact is first followed by financial requirements whilst in the Anglo-Saxon model, Impact Investing is subjected to a social impact constraint (financial return first followed by social impact) (Guezennec & Malochet, 2012).

South African banks depend on technology, moving towards mobile and internet banking (Bunn, Guthrie, & Smit, 2013). Thus the banks are moving away from traditional banking that depends on physical infrastructure such as branches and ATMs into transformational banking which is dependent on technology (Lonie & Wagener, 2013). South Africa's duality of first and second economies also affects the banking sector: it has fairly sophisticated banking to the middle and upper class whilst the poor have limited banking services (Okeahalam, 2008; Wallace, 2012; Ifeacho & Ngalawa, 2014). Furthermore, the South African banking sector is vulnerable to weak economic performance and over-regulation (Wallace, 2012; Grosskopf, 2011). There is currently however a new space for the banking sector to grow unsecured lending and expansion to Africa.

Hawkins (2004) argued that the process of democratisation required the financial sector to extend service to the marginalised which excluded South Africans from formal financial provision, because the banking sector was geared to serve high-income earners and the business community (Jones, Jones, & Dallimore, 2009). This market generally referred to as the unsecured lending market or bottom of the pyramid is dominated by African Bank Investments (ABI) and Capitec, however the big four banks are also targeting this market (Wallace, 2012). Delivery to the unbankable is still a challenge (Ifeacho & Ngalawa, 2014).

Thus South African banking is contending with various issues such as banking the unbanked, a sluggish economy and opportunities in the rest of the continent, increasing regulation, and sustaining the financial performance in the face of this and technological innovations (Grosskopf, 2011).

South African banks can effectively play a financial intermediary role that positively impacts economic growth and development, thereby reducing the social challenges of unemployment and poverty levels in the economy (Nyoka, 2013). They can do this through their investment offerings. Social banks look for a blended value return that delivers both financial and non-financial returns (social and environmental) (Weber, 2014). They invest in a way that prioritises non-financial returns (social and environmental) over the financial returns. Social banking creates a positive sustainability impact and operates for financial sustainability.

The success of banks depends on how they identify and satisfactorily meet the financial needs of customers (Coetzee, 2014), and in this instance it will be matching Impact Investing supply- and demand-side financial needs.

Part of the financial intermediaries' role is to measure and report on whether demand-side created the positive social impact expected by the supply-side or to involve independent service providers to conduct independent impact assessment verification.

### 2.4.1 Concluding Remarks

South Africa is currently faced with massive social challenges such as high poverty, unemployment and gini-co-efficient levels, yet it has massive potential. The financial sector, particularly the banking industry, could play a catalytic developmental venture capital role with both corrective and additive objectives.

Impact Investing resonates with the notion of Africapitalism which advocates long-term investment that creates economic prosperity (a commercial objective), as well as social wealth (Elumelu, 2010). The banking sector as intermediary can match supply with demand. The Impact Investing ecosystem dictates to banks that are client-centric to consistently identify and address client needs of both impact investee and investor (Coetzee, 2014).

Asset and sustainability managers are in a vital position and able to influence growth of Impact Investing industry. They have a better understanding of the demand-side and can source supply from the local and international capital market. The asset and sustainability managers have a responsibility to measure and report positive social impacts realised to the investee. They are expected to monitor and report the progress of non-financial impacts.

The South African Banking sector's asset and sustainability managers' experience is crucial to understand how the positive social impact of Impact Investing could be measured. The asset and sustainability managers' social construct of measurement of positive social impact therefore is important to explore and understand. There are limited studies that focus on the experiences of intermediaries of Impact Investing, hence the experience of the four perspectives of South African Impact Investment Industry is a significant contribution to both academia and the financial sector in general. In the academia the four perspectives provided theoretical constructs that helped build a theory and in the financial sector practice the theory will assist to accelerate progress towards attaining financial sector objectives of directing empowerment financing and broadening access.

# Chapter 3  Research Methodology

## Introduction

The study investigated the measurement of the social value of Impact Investing by exploring the experiences of asset and sustainability managers.  The study focused on:

*‘How the financial intermediaries of Impact Investing, asset and sustainability managers in the South African banking industry measure social value created and its positive impact on social progress.*‘

This section therefore defines the procedures and methods used to gather, analyse and reach conclusions from the data.  It is comprised of research method, research instrument, sampling, data analysis, validity and reliability, bias, limitations of study, ethical issues and data collection procedure followed.

## 3.1 Research Method

The case study approach was used as a research method to investigate the measurement of the social value of Impact Investing in the South African banking sector.  Some scholars refer to the case study as a research strategy whilst others refer to it as a research method (Kohlbacher, 2006; Sharp, 1998; Aczel, 2015). In this study it will be referred to as a research method.

The case study method supports the construction of the phenomenon under investigation from the participants’ perspective (Baxter & Jack, 2008) which includes empirical research and uses contextual data from the bounded real-world settings to investigate a focused phenomenon (Barrat, Choi & Li, 2011; De Massis & Kotlar, 2014) .   Thus it provides an opportunity to study a contemporary phenomenon in a real-life setting with an in-depth, holistic study of a few cases or a single case (Stake, 2008; Yin, 2009; Houghton, Casey, Shaw & Murphy, 2013; Remenyi, 2012).  It contributes uniquely to the knowledge of individual, organisational, social and political phenomenon by amplifying a holistic view opposed to the general reductionist-fragmented approach (Patton & Appelbum, 2003).

As an empirical study the reality was constructed from the experiences of the asset and sustainability managers to measure social value generated through Impact Investing within the South African Banking Sector. The study initially focused on asset managers however, during the data collection and initial analysis it emerged that sustainability managers are intimately involved in the conceptualisation and measurement of social value of the Impact Investment transaction hence their inclusion in the study. Inductive case study is descriptive with a less explicit theoretical framework to guide empirical analysis therefore it assumes possibly a connection of variables to each other hence it aims to explain all aspects of a case and its interactions (Levy, 2008).

Consequently this study focused on the banking sector as a case study and its interactions across the Impact Investing value chain/ecosystem. It explored the holistic view across the Impact Investing value chain because of dependencies and inter-relations and assumed connections between variables as alluded to the inductive case study. Organisations as open systems are in a constant state of flux and in constant contact with their environment (Patton & Appebaum, 2003), hence the sample covered cases across the Impact Investing ecosystem.

This case study took shape as part of an inductive approach where the empirical details that constitute the object of the study are considered in light of the particular context (Patton & Appebaum, 2003). 'Impact Investing' as a concept was coined in 2007 and has a limited scholarly body of knowledge (Hochstadter & Scheck, 2014), particularly in the measurement of non-financial returns (Bugg-Levine & Emerson, 2011).

The existing theory does not adequately explain the measurement of social impact of Impact Investing transactions. The case study research method is a useful research method to develop a new theory in management (Kumar & Antony, 2009), to produce substantive contributions in the organisational and management discipline (Hoon, 2013) and it is increasingly being used in organisational studies and social sciences (Kohlbacher, 2006). Theory-building from the case study is appropriate in new areas of research with little extant literature because of its little reliance on previous literature or empirical evidence (Ravenswood, 2011) and this was appropriate in the measurement of impact investment as impact investment is a practitioner led field.

The use of a case study research method was aimed at gaining an in-depth understanding of this phenomenon and make a substantive contribution to the management discipline and the financial sector particularly from an emerging economy. Often when there is lack of theory or an existing theory fails to adequately explain a phenomenon, a qualitative study is undertaken (Barrat, Choi, & Li, 2011) (Merriam, 2009).

A qualitative case study aims to understand how individuals make sense and meaning of their social world (Hesse-Biber, 2010; Creswell & Clark, 2014; Alzghoul, 2014; Merriam, 2009). Thus qualitative researchers dissect and synthesise more meaningfully than before (Patton & Appelbum, 2003). Sense-making emphases include: focusing on participants' perceptions; framing what participants want; and interpreting what participants have done including how participants go about solving problems and the results of their enactments (Woodside & Wilson, 2003). In this study this entailed the reflection on the experiences, perspectives, concepts, models and schemes from the asset and sustainability managers' perspective, hence the choice of a qualitative approach which allows participants to construct and interpret their own reality.

A qualitative case study provides numerous concepts that practitioners adapt to their own settings and these generate rich descriptions of a particular context that can be useful to the existing theoretical constructs (Stall-Meadows & Hyle, 2010). It allows for an understanding of a phenomenon from the perspectives of those involved (Boblin, Irelans, Kirkpatrick, & Robertson, 2013). Accordingly, it is pluralistic in its viewpoints (Mukhopadhyay & Gupta, 2014 ), generally painting a world of complexity and plurality as opposed to a world of simplicity and uniformity (Patton & Appelbum, 2003). This study therefore employed inductive research logic that constructs a social reality which could be built from different theoretical perspectives (Imenda, 2014).

The selection of case study in this research allowed for holistic understanding of a phenomenon and was suited to research that asked '*how*' and '*why*' questions (Boblin, Irelans, Kirkpatrick & Robertson, 2013; Meyer, 2001). This case study method was used to answer the main research question:

'*How do the financial intermediaries of Impact Investing, through asset/fund managers in the South African banking industry, measure social value created and its positive impact to social progress*?'

The case in this study was at the individual and *micro* level, analysing the asset and sustainability managers' experiences of measuring business' social value and its positive impact in the society. At micro perspective there were three commercial dominant banks and one development bank cases.

At a *macro* level the case was Banking Association of South Africa (BASA)'s which represent banking sector perspective; and the *macro* level refers to the banking sector.

At *meso* level this was limited to value chain perspective (comprising of one supply-side and one demand-side cases) and the competitive landscape perspective (comprising of two asset companies). The *meso* and *macro* levels provide an Impact Investing chain context within which the cases are located, considered and influenced.

The choice of the unit of analysis can be revisited as a result of the discoveries during data collection (Yin, 2009) and these levels of analysis show that studying at all these levels is necessary to fully understand and build a theory of the '*how*' of the research question (Nijmeijer, Huijsman, & Fabbricotti, 2014). The study therefore investigated how the individuals within their individual institutions (cases) and in relation to their value chain hence the focus on four perspectives.

## 3.2 Research Instrument

Case studies are known for triangulation of data collection instruments (Gillham, 2000; Remenyi, 2012; Baxter & Jack, 2008; Paton & Appelbum, 2003; Aczel, 2015; Merriam, 2009). Triangulation is defined as the combination of methodologies in the study of the same phenomenon to confirm, cross-validate and/or corroborate the findings (Jonsen & Jehn, 2009).

This study triangulated the data by integrating semi-structured interviews, field notes and secondary documents. Triangulation provides for adoption of multi-method procedures, interviews of all parties, collection of documents and additional unobtrusive measures when long term participation proves to be impossible (Woodside & Wilson, 2003). The study used multiple sources of evidence comprised of secondary data and primary data collected through documentation and interviews respectively (Bitektine, 2008; Zhou, Li, Bosworth, Ehiri & Lou, 2013; Dumez, 2015; Almutairi, Garner & McCarthy, 2014).

The interviews are more than useful for collecting data on individuals' perspectives and experiences (Mack, Woodsong, MacQueen, Guest & Namey, 2005; Petty, Thompson & Graham, 2012) and met the researcher's goal to understand the meaning respondents make of their own experience (Seidman, 2006). Interviews were useful for collecting data on sustainability and asset managers' perspectives and experiences and for understanding the meaning they make out of their own experiences of measuring the social value returns they generate through their Impact Investing portfolio. The documents were used to capture contextual information and confirm or question information from other sources (Stake, 2006).

The semi-structured interviews with open-ended questions [Appendix B] covering a few pre-determined areas of interest were used to collect the data from the respondents (Petty, Thomson, & Graham, 2012). This allowed respondents to use their own words without being confined by fixed responses and this was appropriate for exploratory research (Mack, Woodsong, MacQueen, Guest, & Namey, 2005).

The pre-determined areas of interest covered the theoretical and practical nature of Impact Investing. These included conceptualisation of Impact Investment, characterisation of its ecosystem and measurement of social value.

## 3.3 Sampling

Although sampling has a bearing on the quality of research in a qualitative study, the sampling procedure is not rigidly prescribed (Coyne, 1997). Consequently there seems to be confusion between purposive and theoretical sampling (Charmaz, 2006; Coyne, 1997; Keen, 2013). Keen (2013) argues that purposive sampling is a method whilst theoretical sampling is a strategy hence this approach was adopted for this study.

This study used purposive sampling as a method, which grouped participants according to preselected criteria relevant to a particular research question (Mack, Woodsong, MacQueen, Guest & Namey, 2005; Keen, 2013). Consequently the initial pre-criteria that was used in this study was to include asset managers who have Impact Investing portfolios and who are responsible for wealth management (private banking) for high net-worth individuals from the five dominant banks in terms of market share and asset size. Two small banks were also targeted in order to ensure that the sample will enable comparison between measurement of social value practices between big and small players in terms of market share.

According the South African Reserve Bank registered banks are broken into the following categories:

- ❖ 15 registered banks (locally controlled) e.g. Capitec Bank Limited, Nedbank Limited
- ❖ 6 registered banks (foreign controlled) e.g. ABSA Bank Limited, HBZ Bank Limited
- ❖ 15 registered branches e.g. Bank of India, Citibank N.A
- ❖ 2 registered mutual banks e.g. VBS mutual bank, Finbond, GBS mutual bank
- ❖ 21 foreign banks – representative offices e.g. Doha Bank, Credit Suisse AG

(South African Reserve Bank, 2014)

The five dominant banks (ABSA, Standard Bank, FNB, Nedbank and Investec) and two small banks were approached but only three big banks responded positively to the request for participation in the study and two small banks indicated that they cannot participate in the study [Appendix A]. Eventually three commercial banks and one development bank were participated. These are the critical cases of the South African banking sector because they provided persuasive and in-depth insights into the role of banks as intermediaries of Impact Investing in South Africa.

The cases were chosen for theoretical and strategic reasons (Barrat, Choi & Li, 2011; Patton & Appelbum, 2003) as recommended for a multiple case study (Nijmeijer, Huijsman, & Fabbricotti, 2014) and in this instance, they were chosen to answer measurement of social value of Impact Investing. Within the four banks the unit of analysis is:

"*the experiences and knowledge of asset and sustainability managers in measuring business social value and its positive impact in the society*".

Sustainability and asset managers are catalytic Impact Investing creators within the Impact Investing ecosystem by linking the supply and demand-side of Impact Investing. During the data collection it had emerged that focus on financial intermediary without comparison to the other components of the Impact Investing value chain (ecosystem) will provide an incomplete picture as alluded that with inductive case study connections of variables and their interaction is crucial.

The choice of the unit of analysis can be revisited as a result of the discoveries during data collection (Yin, 2009), thus the overlap between data collection and analysis (Sato, 2016). Two cases were included covering the supply- and demand-side of the impact investment value chain. The financial intermediary is a catalytic Impact Investing creator within the Impact Investing ecosystem that links the supply- and demand-side of Impact Investing. It is in this context that the experiences of measuring social value of Impact Investing could be looked at within the banking sector but in unison with supply-side (principal) and demand-side (agent) of the Impact Investment.

It will be challenging to build a valid and substantive picture of measurement of social value generated through Impact Investing without considering the broader financial sector context of the Impact Investing ecosystem. The study then included two cases that have impact investment portfolios from the asset management industry.

This study was classed as a multiple case study consisting of four banking cases as financial intermediaries, the Banking Association of South Africa (BASA) case as macro perspective of the banking sector and four cases from the Impact Investment value chain (in this instance one institutional investor, one Non-Profit Organisation (NPO), and two asset management companies) because multiple case studies consist of four or more cases (Barrat, Choi & Li, 2011; Stake, 2006).

Multiple cases allow for breadth and depth of focus and comparison across cases (Barrat, Choi & Li, 2011; Rule & John, 2011; Baxter & Jack, 2008). Multiple cases allow for replication and extension among individual cases and stress the importance of methodological rigor in building a robust theory (Ravenswood, 2011). Stake (2006) uses the term collective case study for a multiple-case study (Baxter & Jack, 2008). The nine cases across the Impact Investment value chain allowed sufficient cross case comparison to build valid and robust findings. Rationale for multiple-case designs derives directly from understanding of literal and theoretical replications (Yin, 2009).

The cases from the banking sector were selected on the prior knowledge that South African banks were adopting Impact Investing and hoping for literal (or direct) replications of these conditions from case to case. A case study interview schedule was used to ensure consistency in data collection and analysis [Appendix B]. Multiple cases are similar to the multiple experiments with analytic generalisation in which a previously developed theory is used as a template with which to compare the empirical results of the case study (Yin, 2003). According to Tsang (2014) a multiple-case design provides a stronger basis for theoretical generalisation than a single-case design.

Research was collected as qualitative data from the nine cases in the following manner:

- *qualitative observation which includes the researcher's field notes on the behaviour and activities of individuals at the research site;*

- *qualitative interviews with the respondents; and*
- *qualitative and archival documents that include both public or private documents*.

## 3.4 Data Collection Procedure

Qualitative design urges the researcher most responsible for interpretation to be in the field, to make observation, exercise subjective judgement, analyse and synthesise whilst realising or checking their consciousness (Patton & Appelbum, 2003). The researcher of this study was the person responsible for interpretation and conducted all data collection in the field. The data collection procedure of this study therefore entailed setting the boundaries for the study, collecting information through semi-structured interviews, documents and field notes.

The research took place in the respondent's choice of location, in some instances both on and off-site. In this study the researcher was active in the field, exercised balanced judgement, analysed and synthesised the findings.

The researcher approached all the participants through standard communication channels i.e. telephone conversations, emails and personal meetings.

Follow-ups to the interviews were made via telephone and emails for clarification and further probes.

The researcher sent each participant a written email outlining the research request [Appendix C], and set meetings with gatekeepers explaining the research further.

The names of the potential interviewees were obtained after the meeting. Interview dates were set with the interviewees (excluding follow ups). Fourteen interviews were conducted across four perspectives:

| Case | Position | Location | Date of interview | Method of interview |
|---|---|---|---|---|
| 1 | Sustainability | Johannesburg | May 2015 | Face-to-face |
| 1 | Sustainability | Johannesburg | May 2015 | Face-to-face |
| 1 | Asset/Fund Management | Johannesburg | November 2015 | Face-to-face |
| 2 | Sustainability | Johannesburg | May 2015 | Face-to-face |
| 2 | Asset/Fund Management | Johannesburg | July 2015 | Face-to-face |
| 3 | Asset/Fund Management | Johannesburg | May 2015 | Face-to-face |
| 3 | Asset/Fund Management | Johannesburg | December 2015<br>January 2016 | Face-to-face & telephone |
| 4 | Asset/Fund Management | Johannesburg | November 2015 | Face-to-face |
| BASA<br>Case 5 | Management | Johannesburg | 15 May 2015 | Face-to-face |
| Supply side<br>Case 6 | Unlisted space<br>Listed space | Pretoria | 15 July 2015<br>18 November 2015 | Face-to-face<br>Face-to-face |
| Demand-side<br>Case 7 | Sustainability | Johannesburg | 29 May 2015 | Face-to-face |
| Asset Management Companies: 1 and 2<br>Case 8 and 9 | Asset/Fund Management | Johannesburg & Cape Town | 22 September 2015<br>30 November 2015 | Telephonic interviews |

Table 2 Data Collection Schedule

**Case Overview**

For the purpose of this study anonymous names were used as per the confidentiality agreement with the participating banks.

**Micro Perspective Four Banks in South Africa**

**Case 1:**

*This case involves a **corporate and investment bank** that offers clients innovative, value-added advisory, funding, trading, corporate banking and principal investing solutions. It has funded infrastructure and resource finance projects, mergers and acquisitions, and infrastructure developments in its portfolios.*

**Case 2:**

*Case 2 is one of **South Africa's largest banks** with an African footprint. Its strategic focus areas are client-centred innovation, to grow transactional banking franchise, optimise and invest, strategic portfolio tilt and the Pan-African banking network.*

**Case 3:**

*Case 3 offers a range of **retail, business, corporate and investment banking**, and wealth management products and services. Its goal is to build not only a sustainable, trustworthy business, but a business which customers and clients consider as the first choice for answers and solutions – their 'Go-To' bank.*

**Case 4:**

*Case 4 entails a **development bank** which is a state-owned entity with the purpose of accelerating sustainable socio-economic development and improving the quality of life of the people of the Southern African Development Community (SADC) by driving financial and non-financial investments in the social and economic infrastructure sectors. Its key focus areas are water, energy, transport and ICT.*

**Macro Perspective**

**Case 5:**

***Macro Perspective: Banking Association South Africa** (**BASA)** has a mandate to represent the banking sector and address industry issues through: lobbying and advocacy, policy influence, guiding transformation in the sector, acting as a catalyst for constructive and sustainable change in the sector and engagement with critical stakeholders.*

**Value Chain Perspective**

**Case 6:**

***Value Chain Perspective: Supply-side (Institutional investor)** included one of the largest and most successful investment managers on the continent. It delivers healthy returns for clients whilst contributing to broader Socio-Economic Development. It invests funds on behalf of public sector entities, based on investment mandates set by each of these clients and approved by the Financial Services Board (FSB).*

**Case 7:**

***Value Chain Perspective: Demand-Side (Non-Profit Organisation)** A Non-Profit Organisation (NPO) was chosen as part of the value chain (demand-side). The demand-side is given money to implement the programmes that create positive social impact in the communities.*

**Competitive Landscape Perspective**

**Case 8:**

***Asset Management Company 1** has a 20-year track record in the market and the development of the requisite skills set. It is dedicated to the development and empowerment of South Africa and its people, with many of its investment offerings geared towards making a meaningful difference to its world.*

**Case 9:**

> ***Asset Management Company 2** is led by a management team with vast experience of more than 15 years. It links asset owners with start-ups and other demand ventures that require funding*.

## 3.5 Data Analysis

According to Patton & Appelbaum (2003) case study seeks to uncover patterns, determine meanings, construct conclusions and build theory. This is done through data reduction, data display and conclusion drawing (de Weerd-Nederhof, 2001). According to Petty et al (2012), there are various methods to analyse qualitative data such as thematic analysis, content analysis, constant comparison methods of data analysis, discourse analysis, critical discourse analysis, conversation analysis and analysis of narratives.

The popular qualitative analysis however, is categorising strategies such as coding and thematic network analysis (Maxwell, 2005; Gizir, 2014). This study adopted Attride-Stirling's (2001) thematic networks as an analytical tool to analyse the data. Thematic networks works in the manner in which the main themes are summarised from the text and understanding of an issue or the signification of an idea is explored (Attride-Stirling, 2001). It organises a thematic analysis of qualitative data by unearthing the salient themes in a text at different levels aiming to facilitate the structuring and depiction of these themes (Attride-Stirling, 2001).

Thematic networks then are constructed, starting from coding to basic themes; it then moves to abstract principles - organising themes and ends up with super-ordinate themes (Attride-Stirling, 2001). This approach is similar to Saldana's data analysis that moves from raw data, categories and sub-categories, themes and theory (Saldana, 2003). Thematic network analysis consists of three stages and six steps as can be seen in the table below. These have been applied from *chapters 3 – 8* of this study.

The three stages are: the reduction or breakdown of the text; exploration of the text; and the integration of exploration (Attride-Stirling, 2001). Table 3 shows the stages together with the steps.

Thematic network analysis provides for rich description which is a crucial step before conclusions can be offered (Patton & Appebaum, 2003).

### Analytical steps of thematic networks

| | |
|---|---|
| **Analysis Stage A: reduction or breakdown of text**<br>**Step 1: Code Material**<br>a) devise a coding framework<br>b) dissect text into text segments using the coding framework | **Data Analysis Process:**<br>**Step 1**<br>**From codes** |
| **Step 2: Identify Themes**<br>a) Abstract themes from coded text segments<br>b) Refine themes | **Step 2**<br>**Abstract themes** |
| **Step 3: Construct Thematic Networks**<br>a) Arrange themes<br>b) Select Basic Themes<br>c) Rearrange into organizing Themes<br>d) Deduce Global Theme (s) | **Step 3**<br>**Organizing themes]** |
| e) Illustrate a thematic network (s)<br>f) Verify and refine the network (s) | **Step 4**<br>**Sub-ordinate themes** |
| **Analysis Stage B: Exploration of text**<br>**Step 4: Describe and Explore Thematic Networks**<br>a) Describe the network<br>b) Explore the network | **Step 5**<br>**Theoretical constructs** |
| **Step 5: Summarise Thematic Networks**<br>**Analysis Stage C: Integration of Exploration**<br>**Step 6: Interpret Patterns** | **Step 6**<br>**Theory** |

**Table 3 Thematic Network Analysis Steps** (Attride-Stirling, 2001)

Table 3 depicts how analysis moves from raw data, identification and construction of themes, description and linking of themes and integration of themes into patterns and theory. Thus the raw data collected through interviews and documents coded using open codes, identifying basic themes and construct thematic networks.

The researcher explored the text further by describing and exploring thematic networks and summarised the thematic networks through analysis of the data. Summary of thematic networks was important to condense information into usable logical conceptual model analysis.

As a multiple case study this required the use of cross-case synthesis and this entailed comparing and contrasting emerging patterns from the data (Barrat, Choi, & Li, 2011). The researcher integrated the exploration of thematic networks and interpreted patterns into theoretical constructs.

This study used Excel software (refer to Appendix D) to navigate from interview question, code, label, definition of codes, issues discussed, theme identification, organising and global theme deduction, description of network, triangulation of data (respondents' quotes, field notes and document text). This covered steps 1 to 4 of Attride-Stirling's analytical steps of thematic networks.

Excel is useful as a qualitative tool in that it can organise large amounts of data and use its logical functions to aid data analysis (Meyer & Avery , 2009). The use of qualitative data analysis (in this instance Excel) was useful to bring rigour to the data analysis phase because it supported the researcher in systematically coding and organising the data and in managing the analysis of developing categories, tracing linkages between concepts and understanding relationships among categories (De Massis & Kotlar, 2014; Baugh, Hallcom & Harris, 2010).

Excel was used to enable triangulation strategy by linking data from multiple sources (interview, field notes and secondary data).

**Step 1 Code Material**

The thematic network analysis is guided by the research and interview questions. Theoretical interests underpinning the research question and/or salient issues recurring in the text form the basis of the coding framework (Attride-Stirling, 2001). Both of these formed the basis of this study's coding framework.

The study used open and axial codes. The coding framework consists of open codes, definition, issues and basic themes; each case had its own coding framework. All nine cases had 255 open codes.

Key issues were identified from the coded text and these were refined into themes. Open coding label words and phrases found in the transcript or text. Codes were derived on the basis of:

*(a) Concepts or words from the interview questions of the study; and*
*(b) Recurring issues in the discussions or copy.*

The aforementioned basis were combined and by going through the transcripts, field notes and secondary documents, the most salient constructs in the discussions were identified and then shaped into a finite set of codes that were discrete enough to avoid redundancy, and global enough to be meaningful (Attride-Stirling, 2001).

Appendix D depicts an Excel spreadsheet that detailed coding framework which consisted of codes, labels, and definition.

INTERVIEWER: Okay, so what will be considered to be the ecosystem or the support system environment in which to operate based on the pension fund?
INTERVIEWEE: Yeah, I think you see the problem is that legislation, I mean I think a lot of it was ended on what legislation we had, and it is more on the pension fund institutional environment right? Because then we were waiting for prescription just kind of like even when you look in retail what pension, what the pension fund reformed for us to do, it's... We are waiting for prescription and that prescription then influences behaviour. So, I think a lot of it, the investor out there unless they are attached and have an have an inherent desire, they would rather I think they would rather, especially the most sophisticated investor would imagine, unless then you talk about the Bill Gates who are more [Inaudible 13:54] philanthropic whatever the word is, philon, philanthropic...

**Lufuno Raliphada Transnet Corporate JHB**
Quote 9

**Lufuno Raliphada Transnet Corporate JHB**
Code 17: ecosystem – legislation – prescription influences behaviour

A practical example of coded and quoted or cited data from transcribed interviewed script:

By focusing on a thorough preparation of the coding work, the researcher avoids the risk of getting lost in a meaningless mass of codes on qualitative software (de Casterle, Gastmans, Bryon, & Denier, 2012). Software cannot decide how to segment data or what codes to attach to these segments, nor what data means (Sandelowski, 1995). Coding framework detailed the research question, code from text, label and definition of what the code included.

Table 4 is an example depicting step one of establishing a coding framework.

| Interview Question | Code | Label | Definition |
|---|---|---|---|
| How would you define Impact Investing? | 1 | Infrastructure investment | Refers to how Impact Investing is referred in the bank |

Table 4 Coding framework - Step 1

Code refers to the number of code, label refers to the text taken out of the interview transcript to represent the code and definition explains what the label means.

In Table 4 Code 1 was infrastructure investment which is defined as the concept used within the bank to refer to Impact Investment. This was in response to question one on how the bank defines Impact Investing. A full coding framework is in the Appendix D spreadsheet.

## Step 2 Identify themes

The codes were applied to the textual data to separate the text into basic themes. Thus the interview transcripts were separated, classified and organised according to the codes and identified themes.

Table 5 is an example depicting transition from steps 1 – 2 moving from defining codes, identifying discussed issues and basic themes. Detailed information of the nine cases can be found in Appendices D. From the analysis of the issues from the text 157 basic themes were identified.

| **Interview Question** | **Code** | **Label** | **Definition** | **Issues discussed** | **Themes identified** |
|---|---|---|---|---|---|
| Step 1 | | | | Step 2 | |
| How would you define Impact Investing? | 1 | Infrastructure investment | Refers to how Impact Investing is referred in the bank | Infrastructure investment for economic and social development<br>Impact Investing term not used in development bank context<br>it will not be difficult to start calling what we do Impact Investing | Infrastructure investment objectives - economic and social development |
| | 2 | Objective | Refers to the objective of infrastructure investment | Two pronged objectives: have impact on social and economic development | |

Table 5 Identify themes - Step 2

## Step 3 Construction of thematic networks

This step involved taking basic themes, rearranging themes and deducing global themes. The 157 basic themes were arranged into 64 organising themes and deduced to 36 global themes. These were captured under Excel file in Appendices D. These form the basis of the global networks that will be described and explored in step 4 and organised according to the research questions and case starting from chapters 4 – 6. Table 6 is an example depicting transition from steps 1 – 3 moving from coding framework, identifying themes to construction of the network.

| Interview Question | Code | Label | Definition | Issues discussed | Themes identified | Organising themes | Global Themes |
|---|---|---|---|---|---|---|---|
| Step 1 | | | | Step 2 | | Step 3 | Step 4 |
| How would you define Impact Investing ? | 1 | Infrastructure investment | Refers to how Impact Investing is referred to in the bank | Infrastructure investment for economic and social development<br>Impact Investing term not used in development bank context<br>it will not be difficult to start calling what we do Impact Investing | Infrastructure investment objectives - economic and social development | Infrastructure investment and its objectives<br><br>Social returns is made up of development indicators | Impact Investing is what is called infrastructure development in the development space |
| | 2 | Objective | Refers to the objective of infrastructure investment | Two pronged objectives: have impact on social and economic development | | | |
| | 3 | Impact Investing driver | Refers to the driver of Impact Investing | Impact Investing is relatively new<br>It is driven by private sector | Impact investment concept is driven by private sector | | |
| | 4 | Development results matrix | Refers to the bank's development measurement metrics | Monitoring and evaluation framework for the bank<br>Calculates social variables (social, gender, economic, youth, jobs) from investments made by the bank<br>What impact is our money bringing into those contexts<br>South African government's priority areas: health, education and human settlements | Development indicators that represent social returns/benefits /value | | |

Table 6 Construct thematic networks - Step 3

## 3.6 Validity and Reliability of the findings

The use of validity and reliability are reconsidered in the qualitative research paradigm to fit a constructivism-interpretivism stance (Golafshani, 2003). In qualitative paradigms the terms such as credibility, neutrality or confirmability, consistency or dependability and applicability or transferability are essential criteria for quality (Golafshani, 2003; Petty, Thompson & Graham, 2012; US General Accounting Office, 1990). Qualitative validity means that the researcher checks for the accuracy of the findings by employing certain procedures to ensure quality (Creswell & Clark, 2014).

This study used the following strategies to validate the qualitative findings:

- *Triangulated different sources of information by examining evidence from field notes, interviews and documents to build a case for themes* (Yin, 1994) (Creswell & Clark, 2014);
- *Transcriptions were done by an external consulting company to increase objectivity and reduce contamination of data with field notes;*
- *Asked the participants to determine whether the interview transcriptions were accurate or represented their input* (Creswell & Clark, 2014)*; and*
- *The researcher presented discrepant information that runs counter to the theme where it is found* (Maxwell, 2005; Creswell & Clark, 2014)*.*

The validation of findings cannot be totally separated from reliability. According to Creswell & Clark (2014), qualitative reliability indicates that the researcher's approach is consistent across different types of research and different projects. According to Golafshani (2003), reliability in qualitative research refers to 'dependability', which emphasises 'inquiry audit' as one of the measures that might enhance the dependability of qualitative research. The researcher employed the following strategies from Creswell & Clark (2014) which concur with the notion of 'inquiry audit' to ensure reliability, thus the researcher will:

- *Intensely check transcripts to avoid obvious mistakes made during transcription; and*
- *Ensure strict adherence to the definition of codes to avoid shifting of the meaning of the codes during the process of coding.*

In addition to the above Yin's validity and reliability was used to buttress how the study ensured the validity and reliability test.

This study tested the validity and reliability using Yin's (2009) framework:

| **Tests** | **Case study tactic** | **Status of whether the tactic was used or not** | **Phase of research in which tactic occurred** |
|---|---|---|---|
| Construct validity | ❖ Use multiple sources of evidence<br>❖ Establish chain of evidence (data analysis steps)<br>❖ Key informants and respondents reviewed the interview transcript | √<br>√<br>√ | Data collection<br>Data analysis<br>Data analysis |
| Internal validity | ❖ Do pattern matching (cross case analysis)<br>❖ Do explanation building<br>❖ Use logic models | √<br>√<br>√ | Data analysis |
| External validity | ❖ Use replication logic in multiple case studies | √ | Research design |
| Reliability | ❖ Use case study protocol<br>❖ Developed case study database (Excel) | √<br>√ | Data collection |

**Table 7 Yin's test validity and reliability** (Yin, 2009)

The abovementioned validity and reliability tactics were used to ensure that the study's findings are valid and reliable.

## 3.7 Elimination of Bias

In qualitative constructivist interpretative research, the researcher was involved in a sustained and intensive experience with the participants that could pose a number of issues of concern (Creswell & Clark, 2014).

The researcher employed the following strategy to minimise and eliminate bias:

- *The researcher is working in the space of Sustainability responsible for social and relational capital at his place of employment. Part of the responsibility of social capital includes measurement and reporting on social impact.*
- *The experience helped the researcher to make sense of the collected data because the researcher already works in the space of managing social and relational capital within the company.*
- *The exposure in the management of social and relational capital became handy during the analysis of measurement approaches of social value and did not influence interpretation of data during the analysis.*
- *The researcher has no connections with the participants because he is not working in the banking sector and its ecosystem in which the potential selected assets managers operate.*
- *The researcher obtained the necessary permission from selected banks, value chain and competitive landscape and the potential participants. The researcher undertook not to share information from competing companies by using anonymous pseudo names and concealing the authentic names.*

## 3.9 Ethical Issues

Researchers anticipated the ethical issues that may arise during their studies (Creswell & Clark, 2014), especially in qualitative research where ethical issues are subtle (Boydell, 2007) and where the phenomenon was studied in its natural setting (Drew, Hardman, & Hosp, 2008).

There were five areas in the research process where ethical issues occur, namely prior to conducting study; beginning the study; collecting data; analysing data; and reporting, sharing and storing data (Creswell & Clark, 2014).

**Mitigations of ethical issues**

| Areas | How to address the issue, the researcher: |
|---|---|
| **Prior to conducting the study** | Consulted the code of ethics of bankers<br>Submitted a proposal for approval to University Ethics Committee – **Appendix E**<br>Identified and obtained approvals of potential participants prior to the interviews |
| **Beginning the study** | Contacted the participants and informed them of general purpose of the study<br>Obtained appropriate consent (informed consent form – **Appendix F**) |
| **Collecting data** | Build trust, and convey extent of anticipated disruption in gaining access<br>Discussed purpose of the study and how data will be used<br>Withheld sharing personal impressions<br>Avoided disclosing sensitive information<br>Involved participants as collaborators<br>Stuck to the questions or prompts stated in an interview protocol |
| **Analysing data** | Reported multiple perspective<br>Avoided rushing to develop themes or taking sides by focusing on within-case analysis before developing generalisable themes<br>Report contrary findings from different cases<br>Used neutral labels such as respondent 1 or 2 and nameless cases to ensure privacy of participants and the institutions |
| **Reporting, sharing, and storing** | Reported honestly as per the interview transcript hence use of interview except to support assertions<br>Used unbiased language appropriate for audiences of the research<br>Provide copies of interview transcripts to the participants<br>Will store data and material for the number of years that are defined in the university ethical codes<br>Provided credit for ownership to researcher, participants and supervisor |

Table 8 Mitigations of ethical issues

The abovementioned mitigations of ethical issues covered three different dimensions of ethics in qualitative research, procedural ethics; ethics in practice and relational ethics (Boydell, 2007).

The next chapters 4 – 6 will depict the results of the study according to the research questions and perspectives of the contexts of the cases.

The chapters will describe and explore the global networks in detail (step 4):

*Chapter 4*

*will focus on research question 1: conceptualisation of the Impact Investment across the various perspectives,*

*Chapter 5*

*will focus on research question 2: Impact Investing ecosystem across the various perspectives, and*

*Chapter 6*

*will focus on research question 3: measurement of social value across the various perspectives.*

# Chapter 4  Impact Investment Conceptualisation

## Introduction

*Chapters 4 to 6* presents the findings of the study using step 4 (constructing the networks) of Attride-Stirling's analytical thematic network data analysis as discussed in *Chapter 3*. The thematic network analysis explores the understanding of an issue (Attride-Stirling, 2001) and the analysis in step 3 resulted in 36 global themes that need to be described and explored through further analysis. *Chapters 4 to 6* therefore will:

a) describe and explore the networks as the first part of the analysis stage where a further level of abstraction is reached in the analytical process (Attride-Stirling, 2001). At this stage the researcher returns to the original text and interprets it with the aid of the networks. Describe the network - by taking each network and describing its contents supporting the description with the text segments, key issues from the field notes and text from the secondary document; and

b) explore the network – as a description is being woven, begin to explore and note underlying patterns that begin to appear (Attride-Stirling, 2001).

Data analysis has two components: within-case analysis level and cross-case analysis (Ravenswood, 2011). Step 4 of constructing networks will use within-case analysis level whilst step 5 of summarising thematic networks will use the cross-case synthesis. De Casterle, Gastmans, Bryon & Denier (2012) argue for the prioritisation of individual sampling unit to make sense of the data before cross-synthesis groups.

*Chapters 4 to 6* will focus on within-case analysis level that enables the researcher to gain a deeper understanding with each case which will aid during cross-case analysis (Ravenswood, 2011; Nijmeijer, Huijsman & Fabbrocotti, 2014; Sato, 2016). In this study the within-case analysis covers micro and macro perspectives within the banking sector as well as the Impact Investing value chain perspective and competition landscape perspective as depicted in the table below. *Chapters 4 to 6* therefore cover all nine cases per research question. Thematic analysis provide a rich, detailed and complex account of data (Braun & Clarke, 2006) as is the case with these chapters.

*Chapter 4* covers research sub-question one that focuses on conceptualisation of Impact Investment within the banking sector, across its value chain and competition landscape[2].

*Chapter 5* covers research sub-question two that focuses on Impact Investing ecosystem of the banking sector, across its value chain and competition landscape.

*Chapter 6* covers research sub-question three that focuses on measurement of social value within banking sector, across its value chain and competition landscape.

Both *chapter 5* and *chapter 6* include the nine cases as depicted in Table 9.

| **Micro Perspective** | **Macro Perspective** | **Value chain Perspective** | **Competitive Landscape Perspective** |
|---|---|---|---|
| Commercial bank **Case 1** | BASA **Case 5** | Supply-side **Case 6** | Asset Management Company 1 **Case 8** |
| | | Demand-side **Case 7** | |
| Commercial bank **Case 2** | | | Asset Management Company 2 **Case 9** |
| Commercial bank **Case 3** | | | |
| Development bank **Case 4** | | | |

Table 9 Data Analysis Approach

2 Competition landscape refers to the asset management companies that compete with the fund managers within the banking sectors

Table 9 depicts how data will be analysed per case and perspectives. There were nine cases and four perspectives. Cases 1-4 represent micro perspectives of the banks, Case 5 represents macro-perspective of the banking sectors, Cases 6-7 represent the value chain perspective of an Impact Investment transaction; and Cases 8-9 represent the competitive landscape.

Each question is analysed according to this approach in order to delve deeper into within-case analysis and explore the 36 global themes.

The second component of data analysis that involves cross-case analysis which includes looking for similarities and differences between cases, in selected categories or dimensions (Ravenswood, 2011) is covered in chapter 7 using step 5 of the thematic network analysis. The combination of within-case and across-case analysis techniques lead to context-rooted findings that place the interviews within their context and taking into account the context of other interviews (de Casterle, Gastmans, Bryon, & Denier, 2012).

As indicated in chapter 3 data collection revealed that focus on banking cases without looking at the broader context (ecosystem) within which each case interacts (involvement of broader context allowed analysis of Impact Investment transaction from cradle to grave lifecycle), thus the data focusing exclusively on the banks without the value chain and competition landscape perspectives will paint an incomplete picture henceforth the inclusion of cases representing the supply-side, demand-side and asset management companies.

Furthermore two cases from asset management industry were included in order to understand the measurement of social value from that industry's perspective as the leader in the space. Asset management industry has been involved in the space earlier than the commercial banking sector. The inclusion of asset management companies was for comparative purposes to strengthen the analytical generalisation.

## 4.1 Micro-Perspective of the Banking Sector Within-Case Analysis

The micro-perspective provides data analysis of the four banking cases. The data analysis is categorised according to the case and research questions. It describes basic themes which refer to the most basic or lowest-order theme that is derived from the textual data, organising themes that refer to a middle-order theme that organises the basic themes into clusters of similar issues and global themes which refer to super-ordinate themes that encompass the principal metaphors in the data as a whole in a graphical representation (Attride-Stirling, 2001). These themes cover steps 2-6 of the thematic network analysis. The themes were derived from open codes of interviews, field notes[3] and secondary documents[4] and verbatim excerpts are used to support the basic themes as a triangulation strategy indicated in chapter 3.

### 4.1.1 Case 1 Commercial Bank

Case 1 has two global themes, four organising themes and ten basic themes as depicted in figures 10-14 below. The global themes focus on Impact Investing as a discipline and the social value perspective of an Impact Investment.

**Global theme 1 (Case 1: RQ[5] 1):**

The first global theme is that Impact Investment is an emerging and evolving discipline in the South African Banking Sector. This global theme has two organising themes and six basic themes.

[3] Field notes refers to the notes of the researcher during data collection

[4] Secondary documents refers to technical reports and documents belonging to the participating cases

[5] RQ is an acronym for Research Question


Figure 10 Case 1 Organising theme 1 Global theme 1

Figure 10 depicts the organising theme 1 of global theme 1 (Case 1: RQ1) that focus on Impact Investment as an emergent discipline with traces or roots to the discipline of social impact and social science as reflected in the Impact Investment spectrum in chapter 2. The supporting basic themes are that social impact as a discipline has formal discipline structures; social impact as a field is dominated by foreign theoretical influences whilst Impact Investing is an emerging inter-discipline (cut across finance, management and social science) that is evolving into formal discipline.

Social impact discipline is established and organised in comparison with Impact Investing that is emerging and still fluid and in a forming stage. As an inter-discipline it is curving out its own landscape.

Basic themes – Respondent excerpt and field notes

Respondent 1:

> "*My feeling on this is, based on my little knowledge of social impact as a formalised sector; your research comes at a time where you are quite right. Anything that I read about social impact this and social impact that has been introduced from outside of South Africa. It is other countries and companies from beyond the borders that are thinking of this sort of broader way in a formalised structure*. *So, now when I say your studies come at an interesting time, because I think it's an*

*opportunity to formalise some of what is going on in an emergent or organic fashion*."

Key issue from the field notes:

*"The bank use their loans as investment vehicle.*
*Loans are fertile to support social impact."*

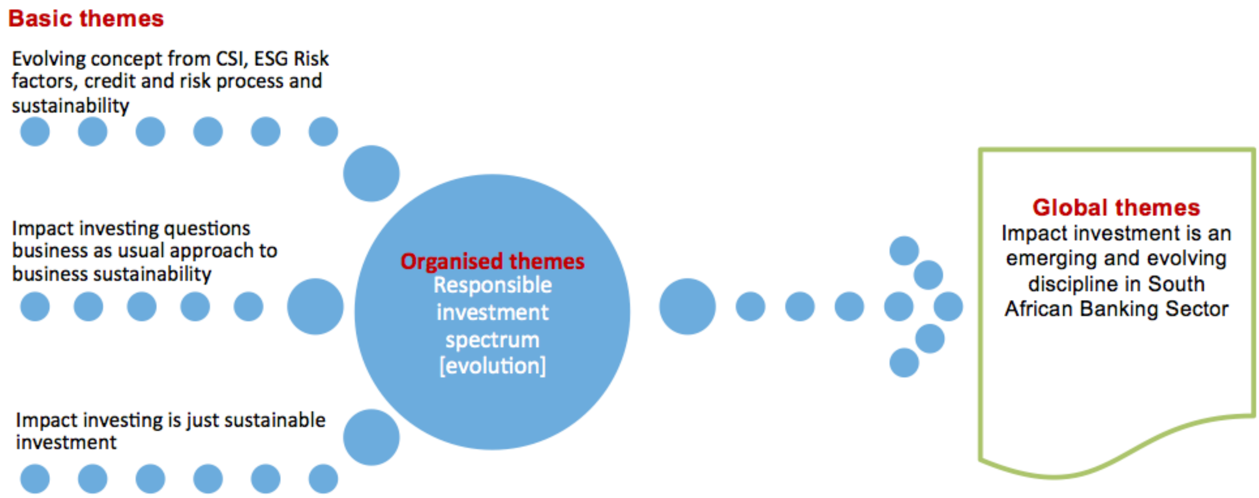


Figure 11 Case 1 Organising theme 2 Global theme 1

Organising theme 2 of global theme 1 (Case 1: RQ1) is that Impact Investment is an evolving industry from the paradigm of the responsible investing spectrum as argued in the conceptual framework in chapter two. The responsible investing spectrum is broad and includes various fields as per the Impact Investment spectrum in chapter two and Impact Investing as a field or discipline is evolving as reflected by the supporting basic themes. The supporting basic themes are that the Impact Investing is evolving from Corporate Social Responsibility/Investment (CSR/CSI), Environmental Social Governance (ESG) Risk factors, Credit and Risk process and Sustainability.

These fields are the building blocks of Impact Investment as an emerging inter-discipline in the South African banking sector.

Basic themes – respondents excerpt and secondary documents

Respondent 1:

> *"So, we're integrating corporate social investment; sustainability; environment social governance risk; and business units."*

*Respondent 2:*

> *"So, we're gonna comply with Equator and therefore we're going to apply these social and environmental metrics and assessments to big transactions and organically it filtered into the smaller transactions. And that for me was a sign that the operating environment is very fertile for more social metrics being applied in the business of lending particularly."*

Respondent 3:

> *"So if I need to define Impact Investing it's just sustainable investment. It yields both financial and social benefits."*

Key issue from secondary document:

*"Our vision is to create sustainable value and superior economic returns for our clients and shareholders beyond our borders."*

Focus from this bank is from a risk management perspective e.g. a products and services focus or driven from Basel III and Equator principles perspective.

**Global theme 2 (Case 1: RQ1):**

Social value of Impact Investment is responsive to the social issues in the South African business environment.

The bank creates measurable social value that addresses the social challenges faced by the business and society. Productive entrepreneurship as argued in conceptual framework inherently creates economic, social and environmental value.

Global theme two has two organising themes firstly the social value is embedded in the business product and service, and secondly the societal issues are intricately located in the business environment of operations such as retail and investment banking.

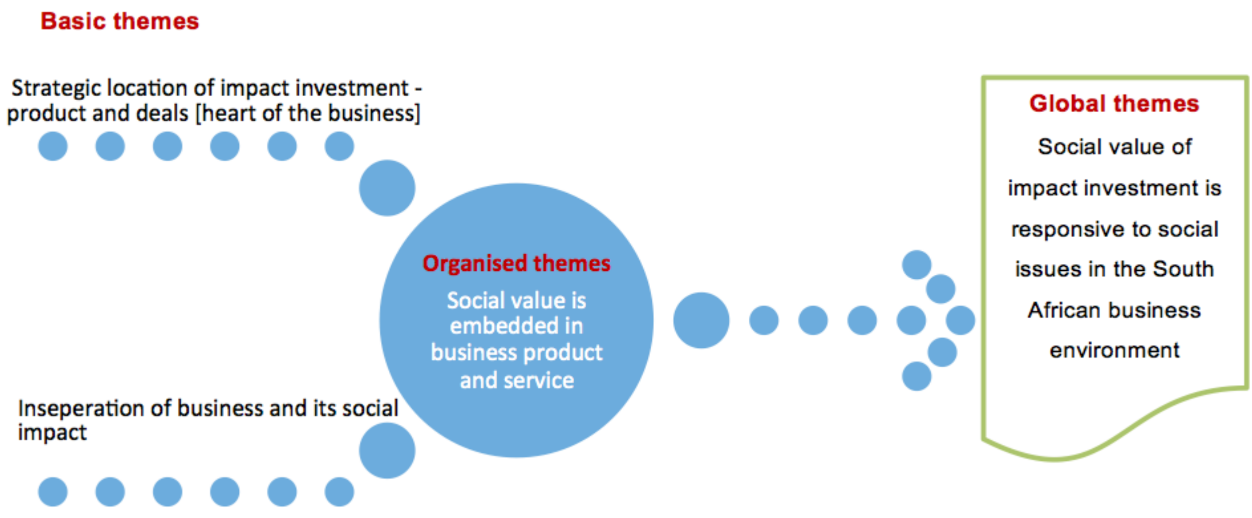


Figure 12 Case 1 Organising theme 3 Global theme 2

Organising theme 3 of global theme 2 (Case 1: RQ1) is that the social value is embedded in business product and service as it is inherent in any value creation as posited in blended value proposition. It is not optional or voluntary CSR that is often isolated from organisational strategy however it is part of business offering, hence some scholars locate Impact Investing within the creating shared value concept which argues for economic value creation through provision of social solutions that addressed social needs and challenges as argued in the conceptual framework.

The supporting basic themes are the strategic location of Impact Investment is in the heart of business (products and services) and that business is inseparable from its social impact. Social value of Impact Investment is embedded in the business products and service hence the argument of hybrid returns which combine financial and non-financial returns (social value) to be discussed in detail in *Chapter 6*.

Basic themes – respondent excerpt and secondary document

Respondent 1:

> *"for me the definition of social Impact Investing or social impact focus in the business is that it's at the heart of the business. Saying in our products and in our deals and in our, in what we do, were driving economic change and development and we are... We cannot do that in separate to the social impact we make at the same time. So, what is happening to society as a result of those products? That's my general understanding of it."*

Key issue from secondary document:

"*We believe that good business creates a better world. While business is a fundamental part of society, it also has the responsibility to have an interest in the success of society. Good business = better world.*"

Business success is inseparable from the success of the society.


Figure 13 Case 1 Organising theme Global theme 2

Organising theme 4 global theme 2 (Case 1: RQ1) is that the social issues (social needs and challenges) are located in the business environment of operations. The supporting basic themes are that the loans as channel of Impact Investing should have hybrid returns that includes measurable social value. The social value should address the social issues facing SA business and society.

The use of loan to create economic, social and environmental value changes the banking paradigm from focusing on CSI that is not measurable into measurable social value creation through impact investment. Impact Investing pose the question about intentional and measurable creation of economic, social and environmental value through the use of business products and service.

Basic themes – respondent excerpt and secondary document

Respondent 1:

> *"I think we're at an introspective time where we are examining who we are, the business that we're in, the completely unapologetic merits of that business, but the impact on society that we have in doing that business."*

Respondent 2:

> *"So for us as a bank, we see our loans as investments because, you know, we're not an investment house in the traditional sense but we do make or we've got almost a trillion Rand invested out there in the economy. I think a lot of good things have come out of the new South Africa from a local perspective in the sense that we have been forced to be more aware of a lot of the social issues than our counterparts in other parts of the world and I do believe that we are ahead in that in terms of the level of engagements and to some extent the level of investment in practical tools."*

Secondary Document:

*"By placing our clients at the centre of our innovation, we unlock possibilities and opportunities for them to grow their investments and businesses. We nurture mutually rewarding relationships and constantly challenge the norm, question existing models and develop innovative and custom-built products to grow our clients' businesses."*

Social value is inseparable from business products and services and business operations are also inseparable from its social context. Business is a social organism that exists within a social context. Its value is intricately linked to societal value. Social value is not an optional but strategically located in the heart of business products.

| | |
|---|---|
| Impact Investing drivers | Economic driver: reduce costs by managing social and environmental risks |
| | Social drivers: increasing expectation for the business to address social challenges in business environment |
| | Legal driver: Global and national business responsibility framework (Basel III, Equator, ISO Social Responsibility |

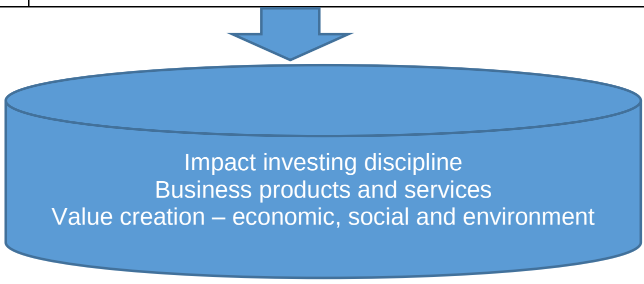


Figure 14 Case 1 Overview

### 4.1.2 Case 2 Commercial Bank

Case 2 has two global themes, three organising themes and nine basic themes as depicted in figures 15-17. The two global themes focus on Impact Investing as a discipline and its drivers.

**Global theme 3 Case 2: RQ1:**

Impact Investment is a less formalised emerging field that focuses on hybrid returns of investments (financial and non-financial returns) in SA Bank. It has two organising themes and six supporting basic themes.

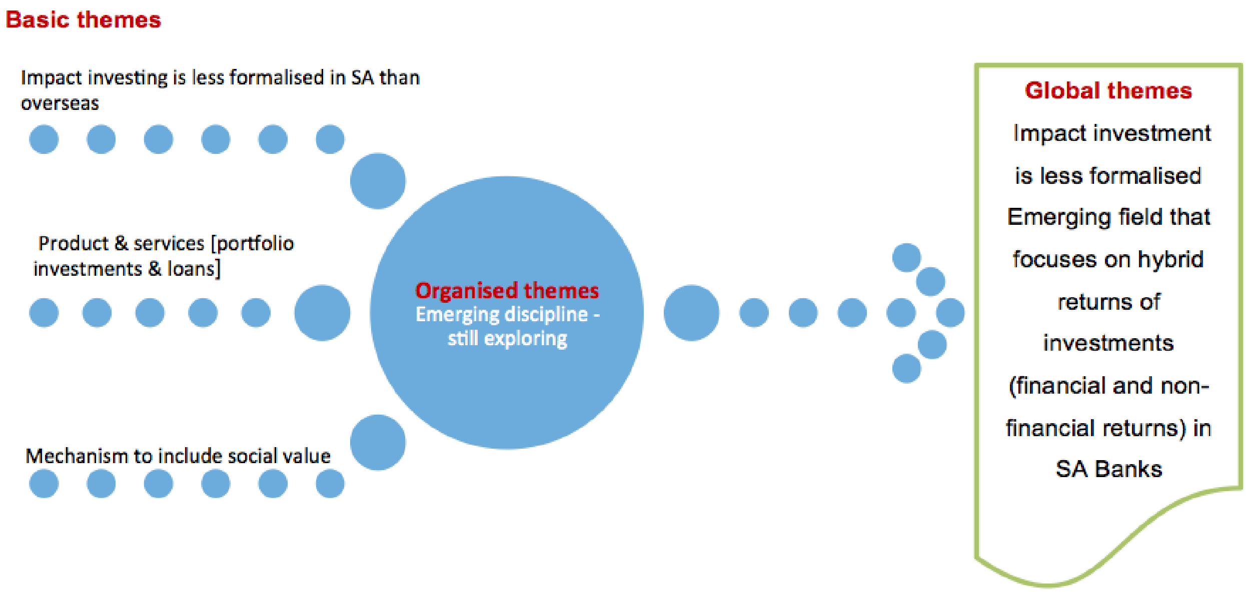


Figure 15 Case 2 Organising theme Global theme 3

Organising theme 5 of global theme 3 (Case 2: RQ1) focuses on Impact Investment as an emerging discipline in exploratory stage/phase. Impact Investment in this bank is at an exploratory stage (early stage of development). The supporting basic themes are that Impact Investment is less formalised in SA compared to the developed market; it is embedded in products and services (e.g. investments and loans) – channels of impact investment transactions; and seeks mechanism to intentionally create measurable social value in the business offerings. Social value of Impact Investment is seen as part of the business products and offerings rather than voluntary initiative like CSI which is often disconnected from the business strategy.

Basic themes – respondents excerpt and secondary document

Respondent 1:

> *"It is a space that we are still exploring."*

Respondent 2:

> *"Because obviously – well you would know better than I would – but my understanding of it it's less formalised, particularly in South Africa. I know overseas it's more formalised, in South Africa it's less formalised."*

Key secondary document: *"X[6]'s Private Wealth received top honours for its exceptional philanthropy and social-impact investing offering in South Africa in the global 2015 Euromoney Private Banking and Wealth Management Survey."*

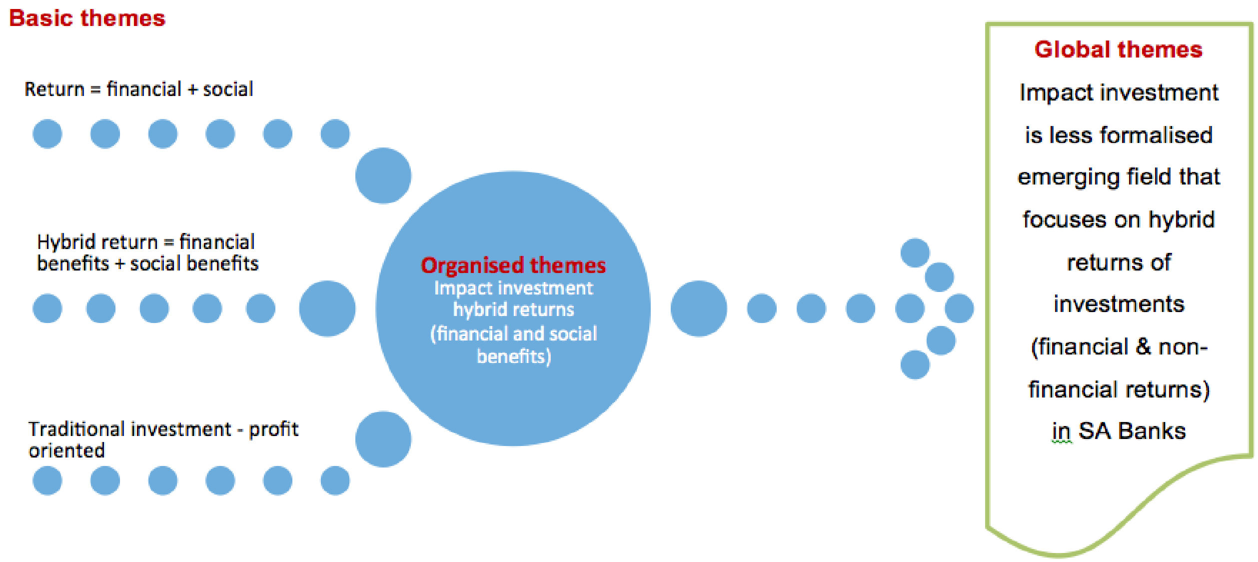


Figure 16 Case Organising theme Global theme 3

Organising theme 6 of global theme 3 (Case 2: RQ1) is that Impact Investment has hybrid returns, financial and non-financial returns (social and/or environmental returns).

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[6] X represented the bank's name

The supporting basic themes are that Impact Investment returns has financial and social returns supporting the blended value proposition; returns have measurable financial and social benefits; and the hybrid returns challenges traditional investment which exclusively focus on financial profit/return or economic value creation.

Basic themes – respondents' excerpts

Respondent 1:

> *"So, I think that my view or my understanding of it when you talk about Impact Investing, social impact investing is not just investing for a financial return. But there is a social component to it, that yields social returns, so it's directing, or I suppose that there is two components to it, it's as an investor, we could, for an example, as a financial institution, could, sorry, they could invest in instruments, for example, or in funds or manage funds that have the social cause."*

Respondent 2:

> "I *would probably define it as investment that is not purely for financial benefit but aimed at generating some sort of social consequence, positive social impact at the same time."*

Key issue from the field notes:

*"Impact Investment has dual objectives of making financial returns whilst solving social challenges, e.g. taxi financing gives good financial returns but also address social challenge of transport to the poor so that they can access employment and earn a living for their families. Addressing social needs with your own products"*

**Global theme 4 (Case 2: RQ1):**

Impact Investments in SA banks are grassroots driven [client driven] connected to social causes. They are driven or guided by the investors who seek to create financial and positive social impact. It has one organising theme and three supporting basic themes.

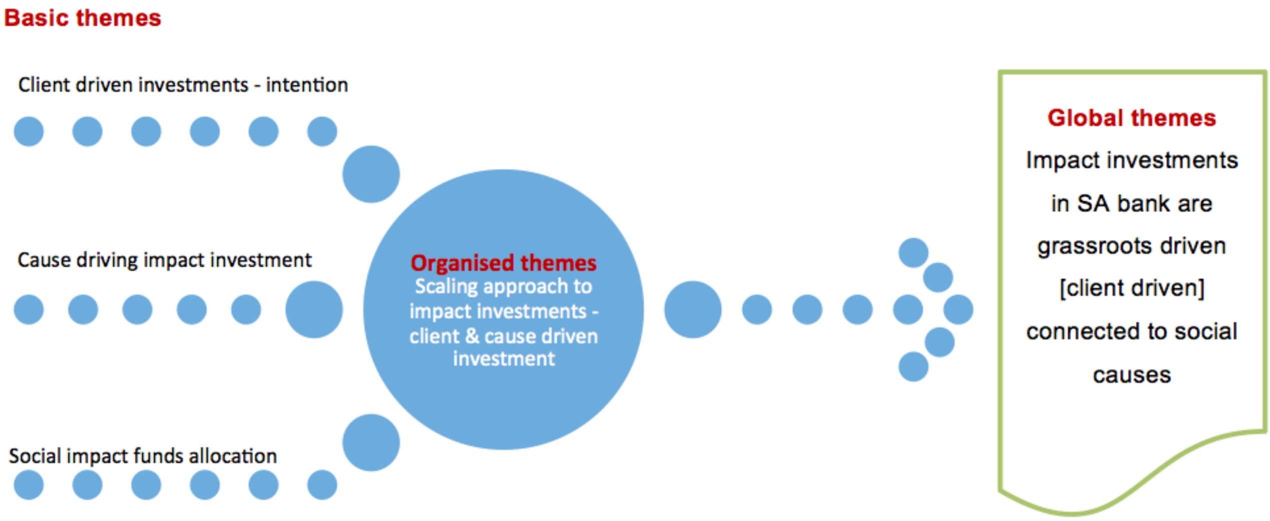


Figure 17 Case 2 Organising theme 7 Global theme 4

The organising theme 7 of global theme 4 (Case 2: RQ1) is the scaling approach to Impact Investments, i.e. client and social cause driven investment. At the time of data collection Impact Investment transactions were predominantly driven by the clients who have social causes. The supporting basic themes are client driven investments where the investors intentionally seek to create measurable positive social impact; social cause driven Impact Investment; and social impact funds allocation.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> *"I know in Cape Town, there were a few asset managers that have Social Impact Funds and what they do is they would take the risk and invest in viable profitable businesses but that are perceived to be high risk, but they believe in the social cause."*

Respondent 2:

> *"So, it's being driven from the client's side. I think where it will become a more measurable and defined aspect of investing is when there's enough individual demand that financial institutions say 'Okay this is a priority selling point to pass onto individuals and it's how we can differentiate ourselves from our position'."*

Key issue from the field notes:

*"Scaling approach is client driven and guided. The Impact Investment target areas are identified by the clients. The bank will build portfolios and products once a certain threshold is surpassed."*

**Case 2 Overview of Impact Investing**

<table>
<tr><td colspan="6">Impact Investing – experimental or exploring stage/phase</td><td rowspan="2">Grass roots driven: client and cause</td></tr>
<tr><td>Impact Investing</td><td colspan="4">Emerging – less formalised<br>Embedded in business products<br>Social value creation intent</td><td rowspan="3">Blended value proposition</td></tr>
<tr><td rowspan="3">Value creation</td><td>Hybrid returns</td><td>Financial returns</td><td>Finance</td><td>Economic value</td><td></td></tr>
<tr><td></td><td>Social returns</td><td></td><td>Social value</td><td></td></tr>
<tr><td>Financial returns</td><td>Financial return</td><td colspan="2">Exclusively create economic value</td><td>Traditional bifurcated view of value</td><td>Business product driven</td></tr>
</table>

Table 10 Case 2 Overview of impact investment

Impact Investing is part of a business offering and embedded in the product and service thus it is not an optional social responsibility that is isolated from the business operations. It has measurable hybrid returns comprised of financial and non-financial returns. This clearly depicts blended value proposition in action because Impact Investing captures economic, social and environmental value. Impact Investing symbolises paradigm shift from the bifurcated view of value which exclusively separate economic and social value. It is built upon a blended value approach which inherently incorporates economic, social and environmental impact.

### 4.1.3 Case 3 Commercial Bank

Case 3 has two global themes, three organising themes and nine basic themes as depicted in figures 18-22 below. The two global themes focus Impact Investing as an emerging discipline underpinned by ESG and create sustainable financial and social consequences.

**Global theme 5 (Case 3: RQ1):**

Impact Investment is loosely interpreted and an emerging field underpinned by ESG.

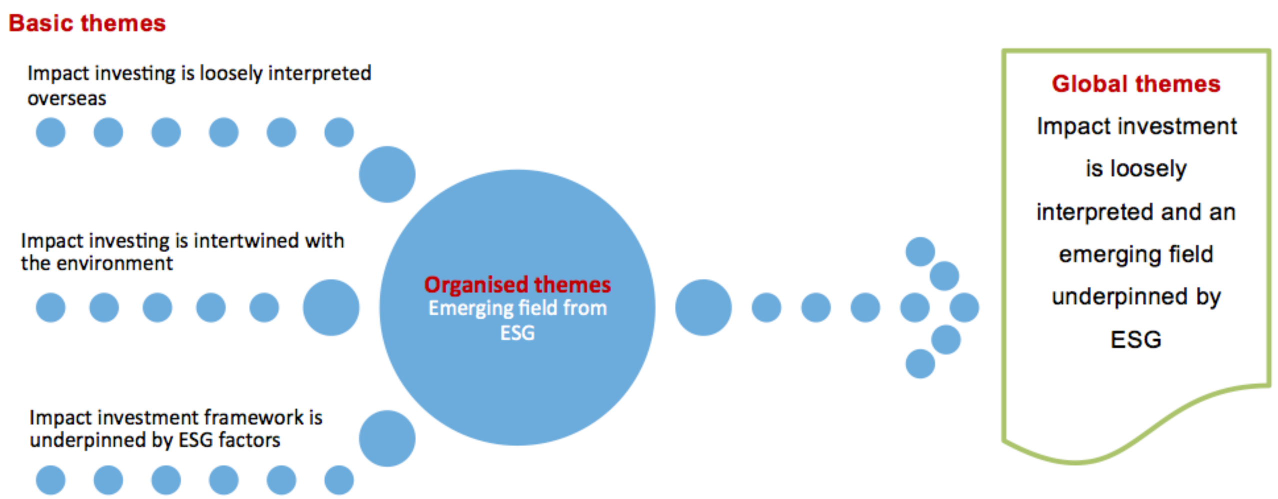


Figure 18 Case Organising theme 8 Global theme 5

The organising theme 8 of global theme 5 (Case 3: RQ1) is that Impact Investment is loosely interpreted and an emerging field underpinned by an ESG which falls within the broader concept of responsible investment as argued in the Impact Investment spectrum in the conceptual framework however, in this case ESG factors are viewed as Impact Investment.

The supporting basic themes are that Impact Investment is loosely interpreted overseas (in developed markets); Impact Investing is intertwined with the business environment; and the Impact Investment framework is underpinned by ESG factors. The Impact Investing is a new field emerging from ESG and as such its definition is still exposed for influences by other disciplines and further refinement informed by context.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> "*So, if you look at it I think one from… So, the industry is kind of, and it's quite loosely interpreted, because you then have the outlook investor who has an objective, which is first and foremost an investment return. And then secondly is obviously the impact of that return right?"*

Respondent 2:

> *"Look, as we discussed, I mean in our view, Impact Investing is very closely related to ESG. Environmental, social and governance. I mean you can't you can't talk about Impact Investing without a framework"*

Key issue from the field notes:

*"ESG was the trigger for Impact Investment approach.*
*The social metrics are guided by the ESG factors."*

**Global theme 6 (Case 3: RQ1):**

Sustainable Impact Investment has financial and social consequences that addresses individual and societal rights. It has two organising themes and six basic themes.


Figure 19 Case 3 Organising theme Global theme 6

The organising theme 9 of global theme 6 (Case 3: Q1) is that sustainable Impact Investment has financial and social consequences that balance individual and societal rights.

The supporting basic themes are financial return first impact later, narrow definition of Impact Investing that focus on meeting clients expectations (meeting shareholder expectation without due regard for other broader societal expectations), and unsustainable investing guided by myopic lens that focus on financial return at the expense of social returns. Impact Investing portrays a double paradigm shift from financial return to hybrid returns [financial and social returns] and from individual (shareholder) to societal (stakeholder) rights balance.

Argument has always been about what comes first between impact and financial returns and these depend on investor's intent. Impact Investing concept has hybrid of financial and social objectives that seek to create financial and social consequences.

Basic themes – respondent excerpt and field notes

Respondent 1:

*"More than likely in most cases, unless it's specific mandate to, for social impact. It is more than likely that the investment return definitely precedes the social impact element of that. And I think that one is definitely, is an industry practice you know."*

Respondent 2:

"*It is about basically making sure that we have a balance between what is ultimately the rights of individuals to have what they want vs. what is the greater good of society. I think Impact Investing in a narrow sense is about the clients and their expectations and mandates and delivering on it. But the reality is, if you do that in a narrow sense, as an asset manager without regard to the sustainability of the social fabric of society, of social cohesion, of in-equality, of access, then you do it with a myopic lens.*"

Key issue from the field notes:

*"the balance between individual and societal rights from Impact Investments is important. It pushes the boundary of the definition of Impact Investment between narrow and inclusive one. Narrow definition focus on clients' benefits whilst inclusive focus on returns that benefit broader stakeholders".*


Figure 20 Case Organising theme 10 Global theme 6

The organising theme 10 of global theme 6 (Case 3: RQ1) is that social return is driven by a social conscious mind-set[7]. In this instance it refers to a mind-set that seeks to create social value through Impact Investment transactions.

The supporting basic themes are that sustainable Impact Investment has social conscious mind-set, inherent tension between financial and social objectives and Impact Investment perspective. Social return requires a social conscious mind-set which will balance financial and social objectives. Inherent tension between objectives does not mean or support the argument of trade-off between the two objectives which was espoused by Friedmanite as discussed in the conceptual framework. Blended value proposition argues that value is inherently financial, social and environmental and therefore objectives cannot be seen as totally independent of each other and requires no trade-off.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> *"because you then have the outlook investor who has an objective, which is first and foremost an investment return. And then secondly is obviously the impact of that return right?"*
>
> *"So, that is my view, we need to look at key sectors if we, especially from a high impact perspective and saying that how do we then, what are the opportunities that we can unlock value and those are the opportunities and then saying let us see if we can monetise them but the social impact is more, is the core of what we are trying to achieve there you see what I am saying?"*

Respondent 2:

> *"In the framing of Environment, Social & Governance issues, let's just take the issue of; let's call it: social. To invest with a socially conscious mind-set a lot of… Having followed this concept, with various stakeholders over the last 15-plus years, people do want the best possible return at the lowest accepted level of risk. They*

[7] Social conscious mind-set refers to a mind-set that seeks to produce sustainable and environmental focused products or services or products/services that support social causes which address social challenges

*do want, what we call, technically very high, sharp* ratios and all those technically good things that they want. So, I think this whole notion of Impact Investing with a social conscience, I think more and more is going to be given into mandates. I don't think we see enough of it. I think we see a lot of lip-service being paid, and as asset managers."

Key issue from the field notes:

*"the social conscious mindset is driven by financial and social return that addresses social need. It focuses on addressing broader social challenges such as cultivating social fabric, building cohesion and redress inequality."*

**Overview of Impact Investing Case 3: RQ1**

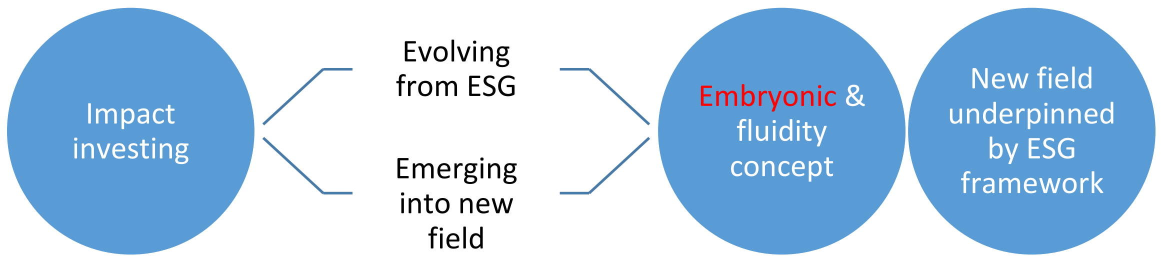


Figure 21 Case 3 Evolving concept of impact investment

As far as Case 3 is concerned ESG framework is the foundation and driver upon which the Impact Investing is evolving from. Impact Investing as a new field is still fluid as it is evolving from different disciplines and at nascent stage.

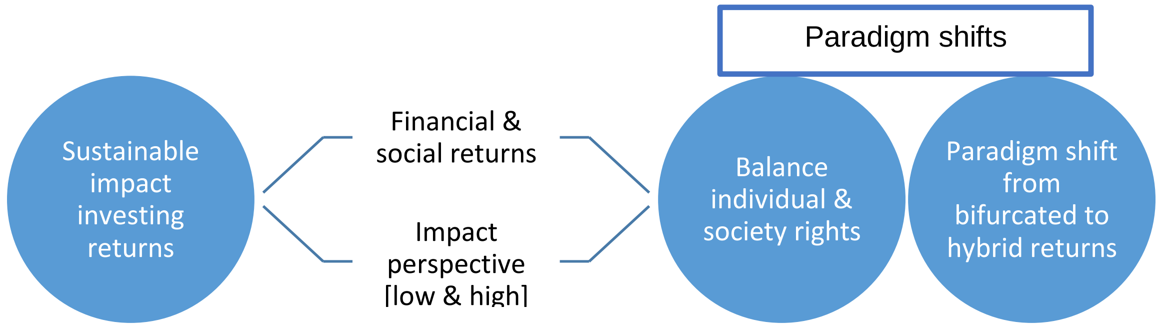


Figure 22 Case 3 Sustainable impact investment returns

Impact Investing has hybrid returns of both financial and social returns thus making sustainable investment which creates sustainable value.

The social returns have low and high impact (infrastructure investment) perspective. Sustainable Impact Investing has two paradigm shifts: firstly, balance between the individual (shareholder) and societal (stakeholder) expectations and secondly shift from narrow to hybrid returns. Sometimes there maybe incongruence between shareholder and stakeholder expectations.

### 4.1.4 Case 4 Development Bank

Case 4 has one global theme, two organising themes and three basic themes as depicted below in figures 23 – 24. The global theme focuses on what the development bank calls Impact Investing which is the infrastructure development investment.

**Global theme 7 Case 4: RQ1:**

Impact Investing is called infrastructure development investment in the development space.

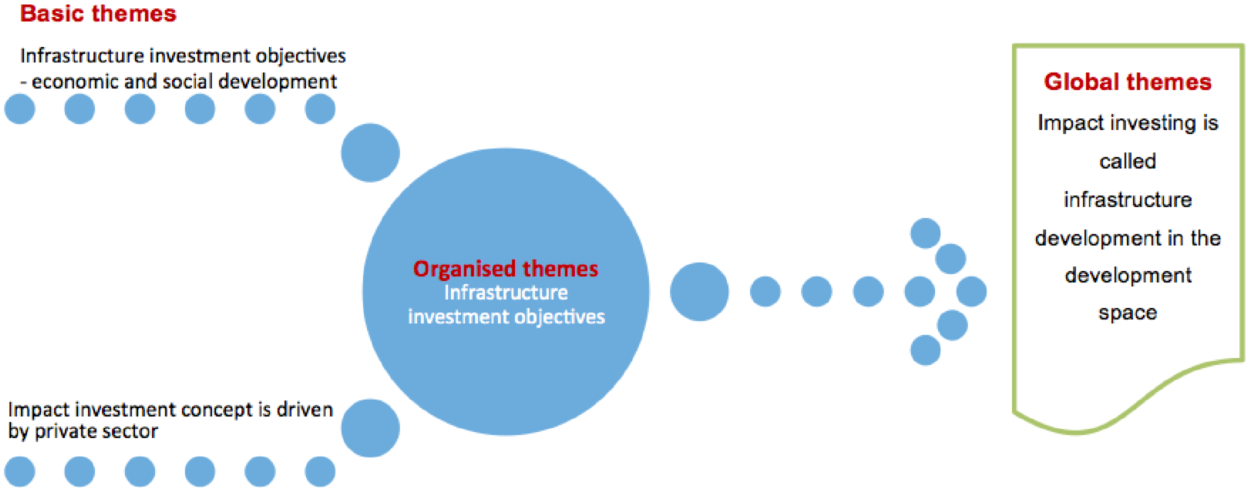


Figure 23 Case 4 Organising theme 11 global theme 7

The organising theme 11 of global theme 7 (Case 4: RQ1) is infrastructure investment objectives that set it apart from other types of investment.

The supporting basic themes are infrastructure investment objectives consisting of the economic and social development which create economic and social value. Impact Investment as a concept is driven by the private sector whilst in the development field this is referred to as infrastructure development investment.

Infrastructure development and investment has coupled objective of economic (financial returns/economic value) and social development or development impact (social value/returns) e.g. social infrastructure in education, health and sanitation.

Basic themes – respondents' excerpt and field notes

Respondent 1:

*"Okay in the bank we don't call it impact investment, we call it infrastructure investment for social development and for economic development, so our objective through infrastructure investment is to have an impact on social and economic development, but we haven't used the term in the bank context that we are now doing Impact Investment, but I think all along our understanding is that we are investing in infrastructure for impact. I mean impact investment is relatively new now and is mostly driven by private sectors, so we haven't been involved in the debate."*

Key issues from secondary document:

*"the X bank continue to review its strategy and operating model to ensure that its infrastructure development activities are geared towards maximising developmental impact and making meaningful contribution to the development of infrastructure to support the improvement of the quality of life of people, economic growth and regional integration."*

*"provision of social infrastructure in education, health, sanitation bring short term relief and strengthen the social fabric, promote resilient and productive communities."*


Figure 24 Case 4 Organising theme 12 Global theme 7

The organising theme 12 of global theme 7 (Case 4: RQ1) is social returns is made of development indicators. The supporting basic theme is that development indicators represent social returns/benefits/value. Infrastructure development has social development objectives or development returns which are represented by the development indicators.

Basic themes – respondent excerpt and field notes

Respondent 1:

> *"we have a Development Results Matrix in the bank that I can put you in touch with the people who do that, it's basically monitoring and evaluation but we have a framework that looks at all our investments and tries to calculate what the social, gender, economic, youth, the jobs all those variables, what impact our money is bringing into those contexts*."

Key issue from secondary document:

> *"the X bank as a multi-cultural development financial institution, faces a unique challenge in maintaining a sustainable balance between maximising development returns and minimising financial loss in its lending and other investment operations."*

## 4.2 Macro Perspective of the Banking Sector Within-Case Analysis

The macro-perspective provides data analysis of the Banking Association of South Africa which advocates for the banking sector as argued in *chapter 3*. The data analysis is categorised according to the case and research questions.

### 4.2.1 Case 5 Banking Association of South Africa (BASA)

BASA depicts the macro perspective of the SA Banking Sector, it has one global theme, two organising themes and five basic themes emerged as depicted in figures 25 - 26. Question one's intent was to understand the macro view of how BASA defines or conceptualises Impact Investment within the South African context.

**Global theme 8 Case 5: RQ1:**

The impact investment environment evolves from social and environmental risk assessment. It has two organising themes and five supporting basic themes.


Figure 25 Case 5 Organising theme 13 Global theme 8

The organising theme 13 of global theme 8 (Case 5: RQ1) is that the sustainability approach to business breeds the context for impact investment's new products and markets which will improve economic and social progress. For the banking sector's macro-view Impact Investing is all about ensuring sustainability of business.

The supporting basic themes are context of impact investment (socio-economic transformation); stakeholders affected by impact investment; and business structures that drive sustainable development of business. Impact Investing is viewed as evolving from risk assessment and sustainability perspectives thereby support Sonen's impact investment spectrum as per the conceptual framework in section 2.2.

Basic themes – respondent excerpt & field notes

Respondent 1:

> "*Okay I think impact investment would in my view begin to be seen within the context of what we beginning to consider to be sustainability in business. Okay and so you looking at things like the triple bottom line, you're looking at integrated reports, you looking at a move to get businesses in the corporate sector to appreciate that there are a range of stakeholders that need to be touched in the way they do their business, in the business that they do, in the way they invest."*

Key issue from the field notes*:*

*"the need for business sustainability provides a conducive environment to conceive and support the paradigm shift from traditional into impact investment. Impact investment is about sustaining business and society."*

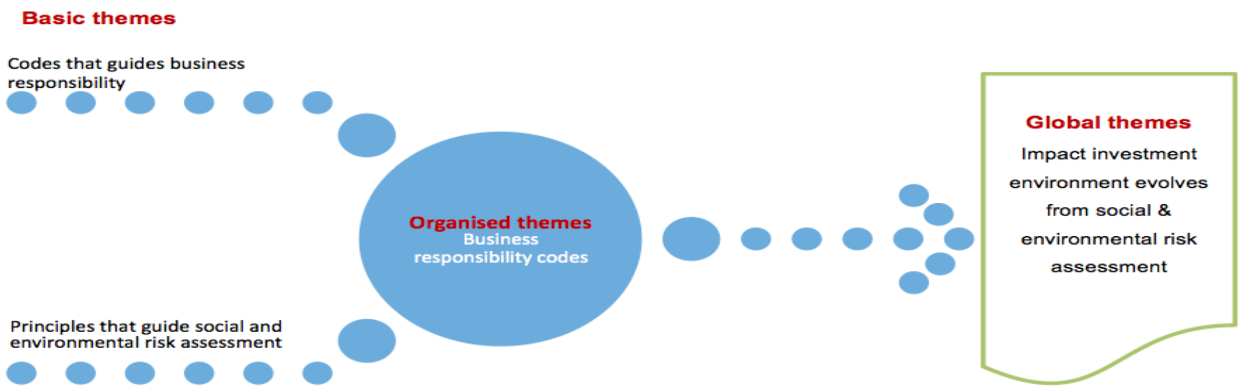


Figure 26 Case 5 Organising theme 14 Global theme 8

The organising theme 14 of global theme 8 (Case 5: RQ1) is business responsibility codes that direct and guide how business discharges its social responsibilities.  The supporting basic themes are codes that guide business responsibility and principles that guide social and environmental risk management.  Impact Investing as a field is guided by business responsibility codes and principles that guide social and environmental risk assessment. Social and environmental risk assessment are the drivers for impact investment.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> *"So, you know already there are global codes in South Africa.  You have King and others…  You have the Equator Principles to which certainly the major banks have signed up here."*
>
> *"You have an organisation like the National Business Initiative that is a local chapter of the World Business Council and Sustainable Development and done a lot of work on sustainable development issues…  So, there are a whole range of instruments that are beginning to come into play to create the platform, if you like, to interact with business and other stakeholders to see how investment and activities by business actually creates more of a social and economic impact.*

Key issue from the field notes:

*"Social responsibility of business is informed and guided by business codes that seek to ensure businesses are responsive to the social needs of their stakeholders."*

**BASA's overview of Impact Investing**

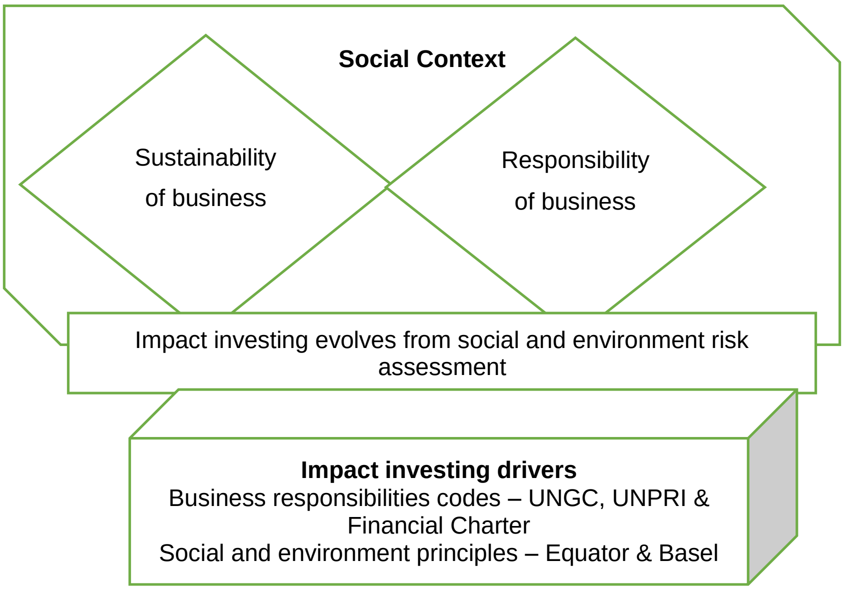


Figure 27 Case 5 Q1 Overview of impact investment in South Africa

Impact Investing is underpinned by the need for sustainability in terms of the new products and markets and being responsible for economic and social transformation of the country. From the macro-perspective social and environmental risks are the major driver of Impact Investing.

Impact investment is used to create value that mitigates social and environmental risks such as social instability. Social responsibility codes like UNGC, UNPRI, Financial Charter and risk frameworks like Basel III and Equator Principles are dominant instruments used to guide impact investment capital**.**

The banking sector macro perspective co-exists with the value chain of its product and service life-cycle.

## 4.3 Value Chain Perspective: Within-Case Analysis

The value chain perspective provides data analysis of the supply-side and demand-side of the banking sector herein represented by one case each respectively as argued in *Chapter 3.* The data analysis is categorised in the same manner as in the micro- and macro-perspectives according to the case and research questions. The value chain supply the impact capital required to create social value.

The demand-side use the capital provided through the impact investment transaction to address the social challenge that meet the supply-side's expectation.

### 4.3.1 Case 6 Supply-Side: Institutional Investor

Question one's intent was to understand how the supply-side defines or conceptualises impact investment within the South African context. From the supply-side perspective there are two global themes, three organising themes and eight supporting basic themes as depicted below in figures 28-30 to be discussed.

The global themes demonstrate how Impact Investing is an evolving discipline focusing on the creation of measurable economic and social value and achievement of developmental agenda.

**Global theme 9 Case 6: RQ1:**

Impact investment is an evolving field that is still in an exploratory phase (early stage of development).

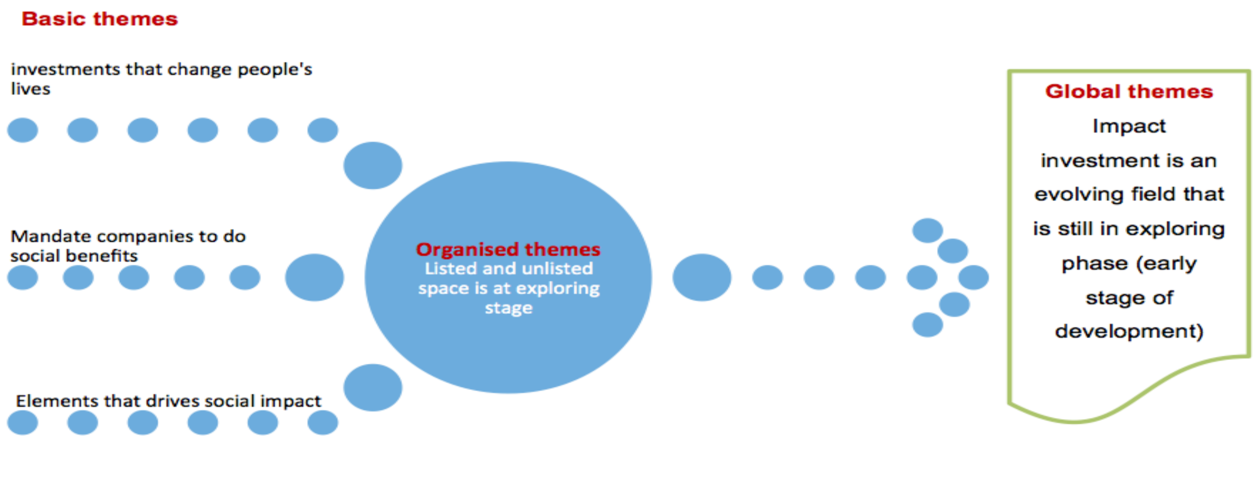


Figure 28 Case 6 Organising theme 15 Global theme 9

The organising theme 15 of global theme 9 is that impact investment is in early stage of development (exploring stage) in both listed and unlisted space.

The supporting basic themes are investments are ultimately about changing people's lives, mandate companies to do social benefits (as an investor supply-side mandate the companies that they invest in to create measurable social value) and elements that drive social impact (identify social issues that falls under ambit of social impact).

The supply-side is still in an exploring phase (early development stage) about impact investment because of the paradigm shift from investing exclusively for financial profit (traditional investment) to impact investment that focuses on creation on measurable financial and non-financial returns. The supply-side (investors) prudently mandate the financial intermediaries to invest their capital in such a manner that it intentionally creates expected financial return and measurable social benefits often guided by the ESG framework.

The supply-side understand that invested capital creates a value that is indivisible guided by blended value proposition and this is aptly represented by hybrid returns (which combines financial and non-financial returns).

Basic themes – respondents' excerpts and field notes

*Respondent 1:*

> *"And the other thing that we drive strongly, like I said, it's transformation where not only ownership, management control, as well where we really want black people, local people to be integrated into management control of the project. I think those elements kind of like ... that's one area where, if we really have to monitor some of our intervention, you will be able to say, okay, in terms of social, we have looked at stakeholder engagement; we have looked at training and development. We have also looked at the employment conditions. Are you paying them well? Are they working in a good environment? All those element depending on the sector – we look at them and we monitor them constantly to say are they really happening.*

*When there are changes you have to see if they are really implementing those changes and that's for us – that's where we'll be able to see."*

*Respondent 2:*

*"I think impact investment from my perspective is an investment that can change people's lives, and how you do that, from our perspective where we sit as the Supply-side X, is to invest in trying to grow the economy."*

Key issue from the field notes*:*

*"impact investments are viewed from bigger context of growing the economy which has positive correlation with social progress however, the measurements of social value are at exploratory state."*

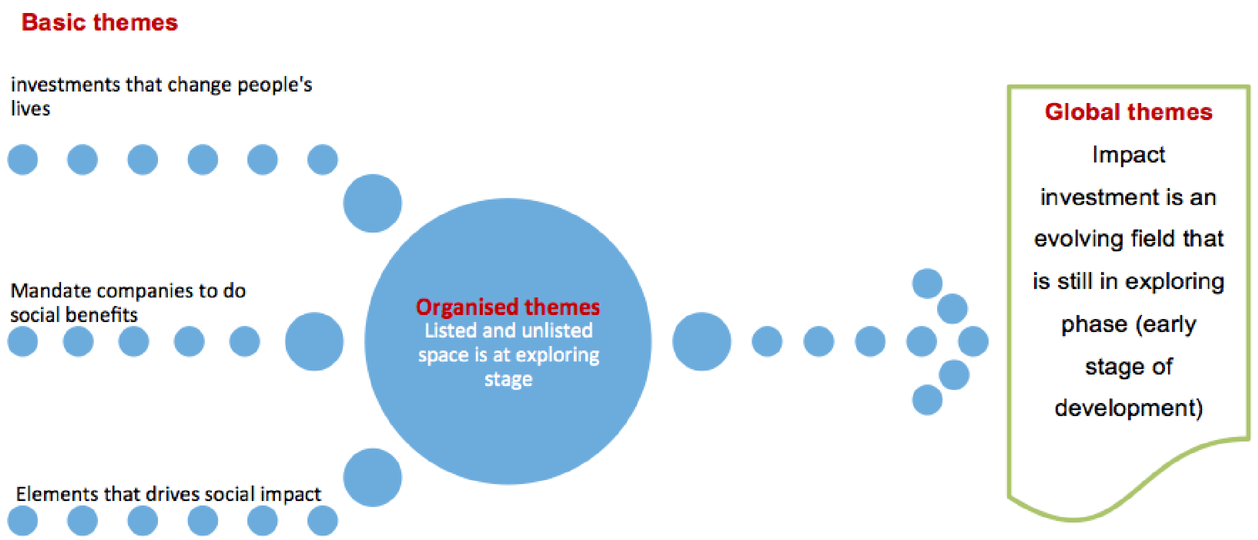


Figure 29 Case 6 Organising theme 16 Global theme 9

The organising theme 16 of global theme 9 (Case 6: RQ1) focuses on drivers of impact investment for the supply-side as represented by the evolving concepts from various existing fields such as ESG and CSI and the global social responsibility agreements.

The supporting basic themes are ESG which is predominated by governance factors, CSI as a precursor to the emergence of Impact Investing and the obligatory global social responsibility agreements such as UNGC, King III, and United Nation Principle of Responsible Investing (UNPRI). Impact Investing as a field is emergent from changes in the business and society relationships were role of business in creating measurable social value has increased. The supply-side understand the responsibility and expectations of their impact capital has gone beyond exclusive creating financial returns into socio-economic development.

Basic themes – respondent exception and field notes

*Respondent 1:*

> *"Okay, I started with them (ESG) last year and historically, the whole issue of ESG integration has been only brought in after the investment has been approved. Where, now, people will say, okay now... and it was more looking at the developmental indicators – job creation, CSI – you know, that soft issues that at least one can be able to count, but now, we are going deeper to say, you know what - ESG integration should be a process that goes with every step of the investment. That's the only way we will be able to measure the impact."*
>
> *"We need to be responsible and that kind of like was sealed with them being signatories for the Principles of Responsible Investment and also the global – UN Global Impact, which kind of drive those issues to say let's be responsible with your investment."*

**Global Theme 10 Case 6: RQ1:**

Impact investment is about achieving development agenda.

The second global theme is the centric core of Impact Investing which is about meeting development goals through positive social impact. Impact Investing provides opportunity for investors to meet the Sustainable Development Goals (SDG) through their investments. It has one organising theme and two supporting basic themes.


Figure 30 Case 6 Organising theme 17 Global theme 10

The organising theme 17 of global theme 10 is the developmental investment that balances financial return and developmental goals. Developmental investment seeks to achieve financial returns and social returns.

The supporting basic themes are developmental mandate that underpins Impact Investing and a balancing act between financial return and developmental goals. The balancing act is often misconstrued as a trade-off however it is about identifying financial and non-financial return that needs to be achieved as per the three pillars of financial returns, risk management and ESG.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> *"I think we came up with key priorities in terms of developmental investment, but what it really means is how we create a balance – you're doing social return and financial return. We can get our money, but at the end of the day we need to do good to the community. "*

Respondent 2:

> *"Obviously there will be a financial return but we will also say listen, we are going to preserve so many jobs, we are going to create so many new jobs. This is the BEE impact on this investment et cetera. Yes, we call it our developmental mandate."*

Key issue from the secondary document:

*"The X's main objectives are to achieve strong long-term capital returns above clients' benchmarks, supported by robust risk management, while contributing to the broader social and economic development of South Africa and the rest of Africa.*

*Investment philosophy is predicated upon three pillars, "the FREGs" Philosophy premised in financial returns, risk management and ESG."*

**Supply-side overview of Impact Investing**

| | | | | | |
|---|---|---|---|---|---|
| **Impact Investing in listed and unlisted space: exploratory stage/phase** | | | | | |
| **Emerging and evolving field** | | | | | |
| **ESG** | CSI | Global Social Responsibility agreement | | | |
| | | King III | UNGC | UNPRI | ISO 2600 |
| **Developmental investment**<br>**Balanced returns**<br>❖ **Financial returns**<br>❖ **Development goals (social metrics)** | | | | | |
| **Investments that change people's lives** | | | | | |
| **Power of combined resources** | | | | | |

Table 11 Case 6 Overview of impact investment

Table 11 highlights the supply-side's perspective of an overview of impact investment. Impact investment is an evolving field that features in both listed and unlisted space of the supply-side.

Impact investment returns are expected by capital providers from both businesses that are both listed and unlisted. In both the listed and unlisted space impact investment is an emerging field that is still at an exploratory stage (or early stage of development). It

evolves from established fields such as ESG, CSI and the global social responsibility agreements and/or frameworks that have become impact investment drivers.
These investments have balanced or developmental returns comprising of financial and development goals (represented by social metrics). Institutional investors like pension funds often have developmental mandates or social objectives.

### 4.3.2 Case 7 Demand-Side: Not for Profit Organisation (NPO) Perspective

Case 7 has one global theme, one organising theme and two basic themes as depicted in figure 31. The global theme focuses on impact investment programme that should be within budget. The demand-side is the recipient of the investment channelled through financial intermediaries. It is an implementation arm of the social programmes that delivers social metrics.

The financial intermediaries can invest impact capital directly to a non-profit organisation or social enterprise that delivers social value or it can invest indirectly to a special purpose vehicle that will deliver the social value for instance in social impact bonds the special purpose vehicle becomes primarily responsible for social value creation.

**Global theme 11 Case 7:RQ1:**

Impact investment within budget. It has one organising theme and two supporting basic themes.


Figure 31 Case 8 Organising theme 18 Global theme 11

The organising theme 18 of global theme 11 (Case 7: RQ1) is Impact Investing within the organisation. The supporting basic themes are social investing that affect every department or section within the organisation thus people within the organisations become the source of societal needs that require impact capital. As the demand-side, NPOs are more familiar and close to the societal needs in their environment of operations.

The NPOs and philanthropy were traditionally responsible for exclusive creation of social value as argued in *chapter 2* and this gives them a greater advantage as far as implementation of social programmes is concerned. The social enterprise have emerged as critical component of the demand-side of impact investment. They are competitors of NPO as far as capital funding is concerned.

Basic themes – respondent excerpt and field notes

Respondent 1:

> *"You know I personally feel that every single business should be looking at social Impact Investing. Every single business not just corporate social investment. But even in their own departments in an organisation, each department should be doing some sort of social investing because departments are made up of individuals who know of a situation in society that needs fixing and that individual can then make a difference within the company."*

Key issue from the field notes:

*"Impact is about taking people out of poverty and telling story from the beneficiaries' perspective. The positive social impact is about change in people's lives."*

**Demand-side overview of Impact Investing**

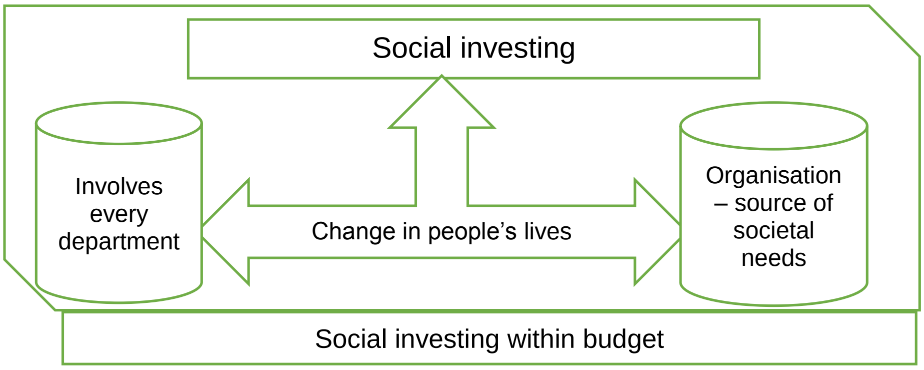


Figure 32 Case 7 Q1 Overview of impact investment

From the demand-side of the value chain Impact Investing is about social investing that seeks to change people's lives. Impact investment requires active participation of everyone within the organisation and the recipient of the investment is familiar with the social needs and challenges. From demand-side the social programme should be run within the budget because they are dependent on the financing.

## 4.4 Competition Landscape Perspective: Within-Case Analysis

The competition landscape perspective provides data analysis of the two asset companies (as indicated in *chapter 3*) that are active players in the space of impact investment. The data analysis is categorised into two asset management companies and this represents competitive landscape perspective.

Question one's intent was to understand how the asset management industry represented by the two asset companies understand and define impact investment (insider view perspective – what does impact investment mean to these particular companies).

### 4.4.1 Case 8 Other Financial Intermediary: Competitor/Asset Management's Perspective (Company 1)

From Asset Management Company one, there is one global theme, two organising themes and five basic themes that emerged as depicted below in figures 33 – 34. The global theme focused on hybrid returns that include financial and social returns with the latter being referred to as social development.

**Global theme 12 Case 8: RQ1:**

Impact Investing provides financial returns and delivers social development.

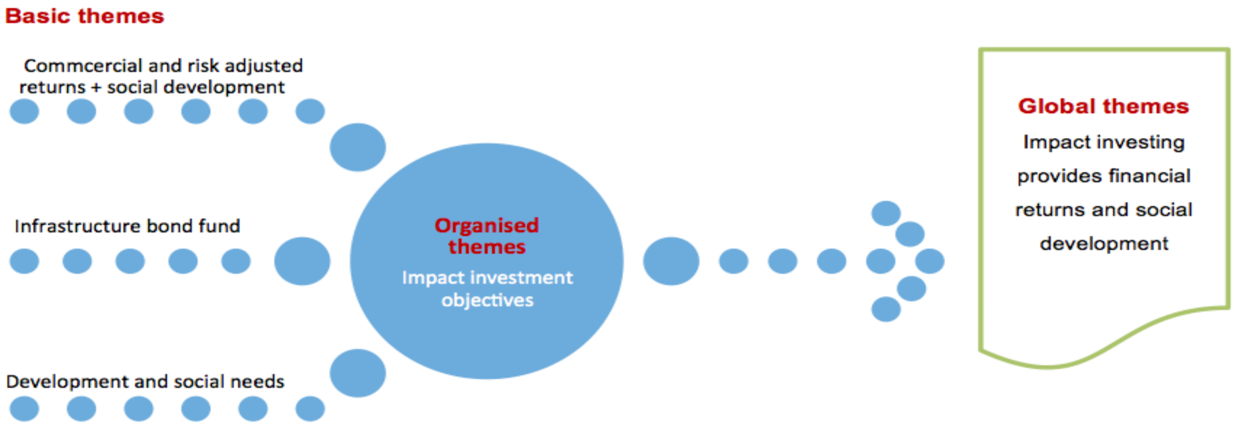


Figure 33 Case 8 Organising theme 19 Global theme 12

The organising theme 19 of global theme 12 (Case 8: RQ1) is Impact Investing hybrid objectives.

The supporting basic themes are commercial and risk adjusted returns and social development (hybrid returns with: financial and social returns), infrastructure bond fund (an example of impact investment fund that provide financial return and basic social infrastructure like housing, schools, sanitary etc.) and the development and social needs as trigger of social development objectives. Impact investment has hybrid returns with financial and social consequences.

Basic themes – respondent excerpts and field notes

Respondent 1:

> *"So for us as an investment manager Impact Investing as an investor provides a commercial and risk adjusted returns for our clients in addition to a social developmental impact on the community or society."*
>
> *"Yeah there are focus and specific sectors that we have identified quite a long time ago when we… initially when we launched the funds so these sectors we favour because they mirror the developmental and social needs of the country as an emerging market country."*

Key issue from the field notes:

*"positive social impact is pre-defined with measurable outcomes and indicators. It is not something that is hoped for but something planned upfront."*

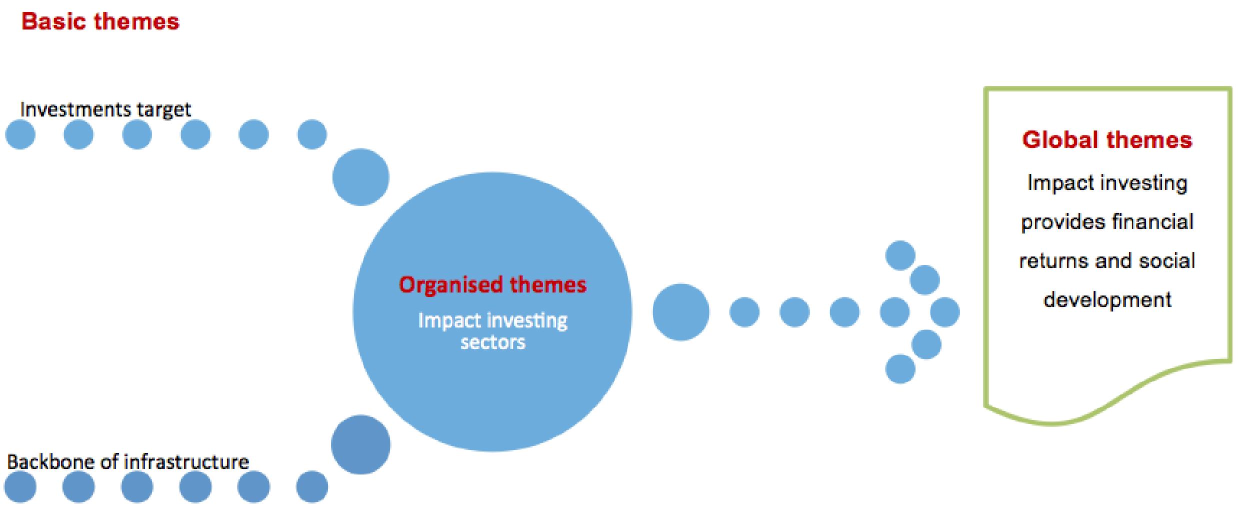


Figure 34 Case 8 Organising theme 20 Global theme 12

The organising theme 20 of global theme 12 (Case 8: RQ1) is Impact Investing sectors which refer to the areas that impact investment funds targets.

The supporting basic themes are sectors targeted for impact investment and rationale for choosing the sectors. The chosen sectors are the backbone of the economic and social infrastructure such as agriculture, health, education, housing etc. These are the sectors with high impact directly on society.

The impact capital in the targeted areas create positive social impact that greatly improved or contributed towards better social progress. Asset Management companies have pre-defined sectors per infrastructure bond and have its targeted area where impact capital will be invested. The supply-side will choose the infrastructure bond based on their investors' expectations. The asset management company will execute the mandate as directed by the supply-side.

Basic themes – respondent' excerpt and field notes

Respondents 1:

> *"In addition these are areas… some of these areas government has outlined and part… in its national growth plan and these sectors are areas that create jobs like [inaudible] 4:13 development, agriculture, energy, specifically renewable energy, we like very much, affordable housing, we know that housing is a big requirement in terms of South Africa, transport infrastructure, healthcare, education. So all of these sectors that make the backbone of infrastructure requirements in terms of an emerging market economy."*

Field notes:

> *"Social development objective is met through provision of social infrastructure in health, housing and transport. Social development objective is coupled with financial return."*

**Asset Management Company One's overview of Impact Investing Case 8: RQ1**

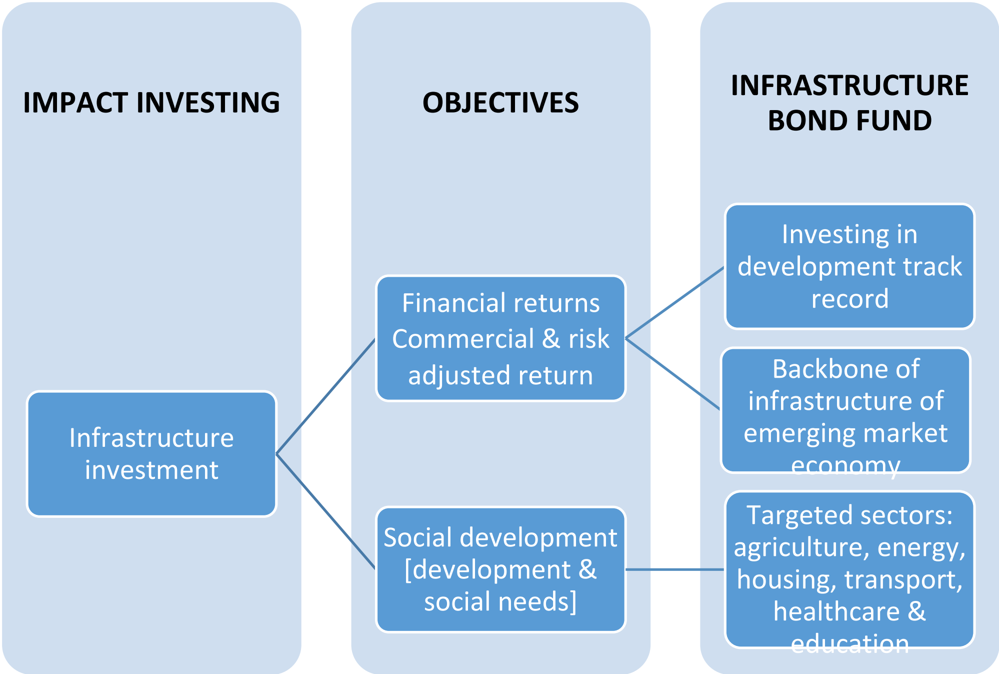


Figure 35 Case 8 Q1 Overview of Impact Investment

Figure 35 indicates that Impact Investing is an infrastructure investment with financial returns and social development objectives. It has hybrid returns: commercial returns and social development. An example of impact investment fund is the infrastructure bond that targets investment in high impact or social infrastructure sectors as indicated in Figure 35 above.

Figure 35 provides an overview of impact investment concept by Case 8, and Case 9 will show another view on impact investment.

### 4.4.2 Case 9 Other Financial Intermediary: Competitor/Asset Management's Perspective Company 2

From Asset Management Company 2 one global theme, two organising themes and six basic themes emerged as depicted in figures 36 - 37 below. The global theme focuses on confirmation that Impact Investing falls under social responsible spectrum as argued in the conceptual framework.

## Global theme 13 Case 9: Q1:

Impact Investing belongs to socially responsible investment

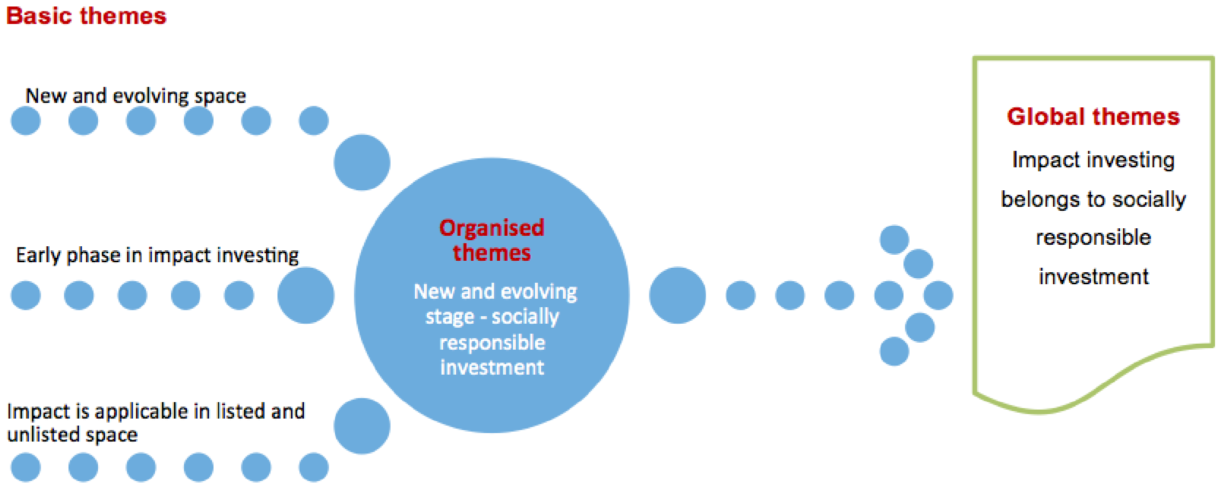


Figure 36 Case 9 Organising theme 21 Global theme 13

The organising theme 21 of global theme 13 (Case 9: Q1) is that Impact Investing is a new and evolving industry which is still at a nascent stage. Although Asset Management companies have been involved in impact investment far earlier than the banking sector this case confirms that impact investment is still in its early phase of development.
The supporting basic themes are that impact investment is a new and evolving field, Impact Investing is still in an early phase and Impact Investing is applicable in both listed and unlisted space.

Basic themes – respondent excerpt and field notes

Respondent 1:

> *"I mean I think it's quite broad in many ways but it's also still, it's quite a new and evolving space. So I've always thought that across the spectrum starting at listed equity, all the way through to unlisted equity and credit that there's different levels of impact that you can achieve across different asset classes, as long as you know what it is that you're trying to sort out. I think that we're… still quite an early stage partly because there's not a lot of capital for let's say the unlisted sector in the*

*sense of where you try and start a pure impact fund. At the same time I think we are maturing slowly as there are some good examples of high impact investments that are out there that are recently matured."*

Key issue from the field notes:

*"Impact Investing is a new field in both listed and unlisted space as a result of the need to address social challenges."*

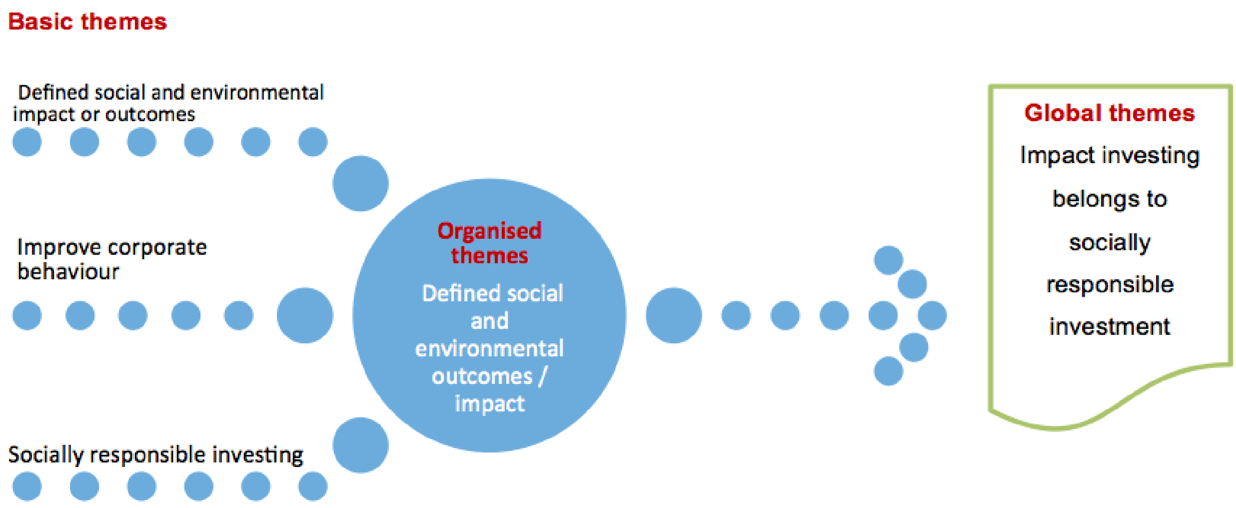


Figure 37 Case 9 Organising theme 22 Global theme 13

The organising theme 22 of global theme 13 (Case 9: Q1) is defined as social and environmental outcomes which is the measurable positive social impact. The outcome refers to social and environmental externalities (costs and benefits).

The supporting basic themes are defined as social and environmental impact, improved corporate behaviour (by focusing on how a business contributes positively through its behaviour and practices that lead to the reduction of business' social and environmental cost externalities whilst increasing its social benefits externalities) and socially responsible investing.

Basic themes – respondent excerpt and field notes

Respondent 1:

> *"The way I've always thought of Impact Investing is investments that seem to have a defined social or environmental impact.*
>
> *And it isn't always just simply in the sort of traditional sort of sense of it being something like a, you know, a given impact that for example a potential say environmental impact – so sometimes you can have both environmental and social. So for example you know you could be; you could still be a legitimate impact investor if you went out to try and improve the behaviour of a corporate in an activist way, to engage with and try to change the way a corporate behaves in the listed space. Equally you could be a high impact investor by investing in… an unlisted sector or an unlisted investment which has a defined social impact of providing employment opportunities for women in the townships. Both are impact and both can be very high impact depending on… but you need to make sure that you can baseline and measure your impact over time. So I would say that Impact Investing is a, is one aspect of socially responsible investing. In the early years it was very much more about engagement than governance."*

Key issue from the field notes:

*"impact investment is about owning positive and negative externalities in order to be responsible business."*

**Case 9: Q1 Asset Management Company 2's overview of impact investment**

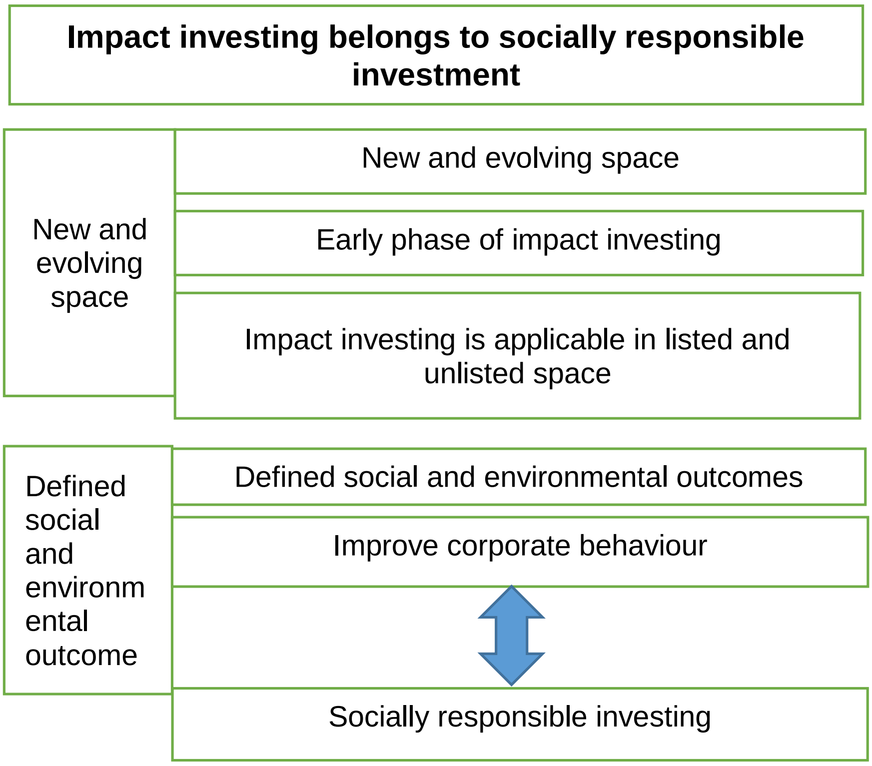


Figure 38 Case 9 Q1: Overview of Impact Investment

Impact investment is a new and evolving field that is applicable in both listed and unlisted space. It has defined and measurable social and environmental outcomes that create positive social impact. It falls within social responsible investing space and still at early stage of development. Impact investment in this asset management company is dominated by the infrastructure development investments. Asset management companies are using impact investments in the financial investment deals that focus on infrastructure development.

## 4.6 Concluding Remarks

This chapter described and explored 22 organising themes and 13 global themes and the emerging patterns within each case. Summary of global networks and emerging patterns across the cases will be done in *Chapter 7*.

| Perspective | Case | Global networks | Emerging patterns |
|---|---|---|---|
| Micro Perspective | Commercial Bank: Case 1 | 1. Impact investment is an emerging and evolving discipline in SA Banking<br>2. Social value of impact investment is responsive to the social issues in the SA business environment | 1. Impact investment is an merging inter-discipline that is formed by multifaceted field (drivers of impact investment)<br>2. Social value is derived from social needs and challenges |
| | Commercial Bank: Case 2 | 3. Impact investment is less fomalised emerging field with hybrid returns (financial and social return)<br>4. Impact investment in SA is client-driven | 3. Impact investment has hybrid returns (financial and non-financial [social & environment] [<br>4. Impact investment driven by client social causes (drivers) |
| | Commercial Bank: Case 3 | 5. Impact investment is loosely interpreted and an emerging filed underpinned by ESG<br>6. Sustainable impact investment has financial and social consequences that address individual and societal rights | 5. Impact investment is an emerging inter-discipline with fluid and evolving interpretations<br>6. Impact investment has hybrid returns that balance individual and society's rights |
| | Development Bank: Case 4 | 7. Impact investment is referred to as infrastructure development investment in the development space | 7. Impact investment has hybrid returns: financial and social development |
| Macro Perspective | BASA: Case 5 | 8. Impact investment evolves from social and environmental risk assessment | 8. Impact investment is driven by social and environmental risk assessment |
| Value Chain Perspective | Supply Chain | 9. Impact investment is about meeting development needs | 9. Impact investment hybrid returns: financial and development goals |
| | Demand-side | 10. Impact investment is run within budget | 10. Social investment meet social needs |
| Competition landscape | Asset Management Company 1 | 11. Impact investment provides financial returns and social development | 11. Impact investment has hybrid returns: financial and social development |
| | Asset Management Company 2 | 12. Impact investment belong to SRI field | 12. Impact investment is an emerging discipline that belong to SRI – exploratory |

**Table 12 Emerging patterns of Impact Investment concept**

The key emerging patterns of what an impact investment within the banking sector and across its value chain and competitive landscape is as reflected in the above table are: hybrid returns; drivers of impact investment, and impact investment as an emerging inter-disciplinary field. *Chapter 4* provided the within-case analysis of the nine cases with regard to the conceptualisation of Impact Investing.

Impact Investing is an emerging inter-discipline that borrows from different fields and is still evolving. The commercial banks are still at the very beginning whilst the development bank and asset management companies have been involved in the space with their infrastructure development investment. This chapter has established that Impact Investing within the banking sector across its value chain and in its competition landscape refers to investment that has dual objectives of achieving financial and social returns thereby supporting the blended value proposition that argues that value is inherently economic, social and environmental. Consequently Impact Investing has hybrid returns in line with its dual objectives.

This chapter has also established that the Impact Investing spectrum discussed in *chapter 2* is applicable to the South African context with regards to the drivers of impact investment and the families of socially responsible investment. Further analysis on the Impact Investing concept will be discussed with the second order analysis of cross-case synthesis of the nine cases under *chapter 7* section 7.2 where the focus will be on emerging patterns.

# Chapter 5  Impact Investing ecosystem

## Introduction

The emerging interdisciplinary field of impact investment (straddles finance, management and social fields) led to an emerging industry that requires a mutual ecosystem between supply-side, intermediary and demand-side for its existence.  Business ecosystems refers to the dynamic and co-evolving communities of diverse actors who create and capture new value through increasingly sophisticated models of both collaboration and competition (Kelly, et al., 2015).  The nature of impact investment transactions is such that the financial intermediary heavily rely on its value chain where it sources and deploys the impact capital.  The financial intermediary cannot measure social value without understanding the ecosystem within which it is created and exists.  Question two's intent was therefore to understand the nature of the South African Impact Investing ecosystem from micro and macro perspectives of the banking sector, value chain perspective and impact investment landscape perspective.  This chapter therefore focuses on the analysis of nine cases on the nature of the South African Impact Investing ecosystem whilst in *Chapter 4* the study focused on impact investment concept.

## 5.1 Micro Perspective of the Banking Sector: Within-Case Analysis

### 5.1.1 Case 1 Commercial Bank

It has two global themes, three organising themes and eight basic themes as depicted below in figures 39 - 41. The two global themes focus on the integral role of the Impact Investing value chain in the measurement of social value and the prerequisite for a successful Impact Investing ecosystem.

**Global themes 14 (Case 1: RQ2):**

Impact investment value chain is integral in the measurement of returns in SA Banks.


Figure 39 Case 1 Organising theme 23 Global theme 14

The global theme 14 (Case 1: RQ2) is that impact investment value chain is integral in the measurement of returns in SA banks as argued in *chapter 3* that measurement of social value by financial intermediary is intrinsically linked to its value chain henceforth inclusion of cases from value chain perspective.

The nature of the Impact Investing ecosystem is that it is value chain driven. An intimate relationship/interface between actors across the value chain is crucial for the success of Impact Investing transaction through collaboration and competition.

The organising theme 23 of global theme 14 focuses on the fact that actors of the impact investment ecosystem in the value chain encompasses the internal (fund managers, risk and sustainability managers) and external actors (investors, private and not for profit sectors).

The supporting basic themes are the actors of investing run across the value chain; mind-set of actors [there is contestation between dealmakers that are accustomed to financial-return-driven deals as opposed to the sustainability managers whose assessment of long-term impact focus on creating economic, social and environmental value whilst dealmakers are focusing on economic value only] and Impact Investing involves everyone across the banking business beyond the normal core team that structure traditional investment transaction – diverse teams to structure the impact investment transactions within the banks are required. The diversity of the team for dealmakers increase complexity in decision-making because the deal is assessed from holistic view of value creation instead of pure financial returns.

Basic themes – respondent excerpt and field notes

Respondent 1:

> *"But my role, I never see things in isolation; I always straight away connect the dots. So, since I got involved with* ***the X***[8] *fund, the first thing I did was recruit a diverse committee to that fund. I'm the one person that runs it but I have a committee from the business. Different people, different backgrounds, different skill sets. Part of it is role players. It's a little bit like in sustainability you'd look at value chains. Who are your actors in the value chain and what is their role? How do they interact better together? So, the first thing we did was, I said hang on cause the dealmaker comes from one mind-set which is push the deal, evaluate it against credit risk, cool. The dealmaker does not want to hear that there's a feeling of you can't do this on our ground because the greenie beanies are upset. Okay."*

Key issue from the field notes:

*"need to involve broader transaction team that transcend the original team where sustainability team players were included for limited role of negative screening.*
*With positive screening the role of risk and sustainability managers increased because results are part of the measurable returns thus they need to be involved from the conceptualisation stage of the transaction."*

[8] X Name of the fund removed for confidentiality purposes

## Global theme 15 Case 1: RQ2:

Prerequisite for a successful impact investment ecosystem.

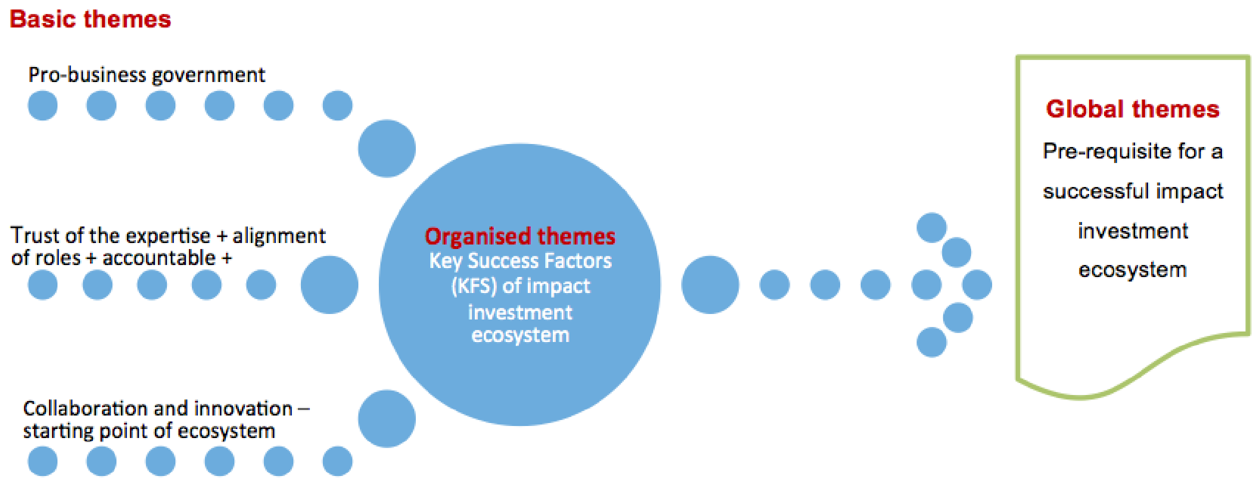


Figure 40 Case 1 Organising theme 24 Global theme 15

The global theme 15 (Case 1: RQ2) is the prerequisite for a successful impact investment ecosystem because success of impact investment depends on the symbiotic relationship of its ecosystem.

The organising theme 24 of global theme 15 focuses on the key success factors of the impact investment ecosystem.

The key success factors are captured in the supporting basic themes such as the pro-business government; trust of the expertise, alignment of roles and accountability; and collaboration and innovation of role players as the starting point of a successful ecosystem. For a successful Impact Investing ecosystem within the SA banking Sector, government has to adopt a pro-business posture which will build and cultivate trust and foster collaboration and innovation amongst role players that enable significant attraction of investments from domestic and foreign investors.

Impact Investing products and services challenge traditional business models and they require intense innovation and the vertical and horizontal collaboration of the actors.

Basic themes – respondent excerpt and field notes

Respondent 2:

"*So, a pro-business government. Which leads me to an answer which is the ecosystem that has to be fostered is something we haven't necessarily achieved yet, which is one of a trust of the expertise that each party carries and an alignment of the roles attached to the expertise but in agreement of collaboration in the middle. For me that's the only way to get it right. It's like you're trusted because of the expertise that you bring from your sector because we're now talking multi-sectoral issues. You are accountable to bringing those skills to the conversation but to achieve social value and achieve social impact, collaboration in the middle has to happen. That's the starting point for me of how the ecosystem could be set."*

Key issue from the field notes:

*"it is about an holistic approach of systems thinking looking at the issue from various perspective and integrate into one whole. Ensuring that sub-systems work together to achieve the goals of the whole system. Everyone's contribution is important for the ultimate success of impact investment transaction."*

*"Collaboration and competition in a business ecosystem is crucial to building trust on impact investment and to gain traction in the market from both domestic and foreign investors."*

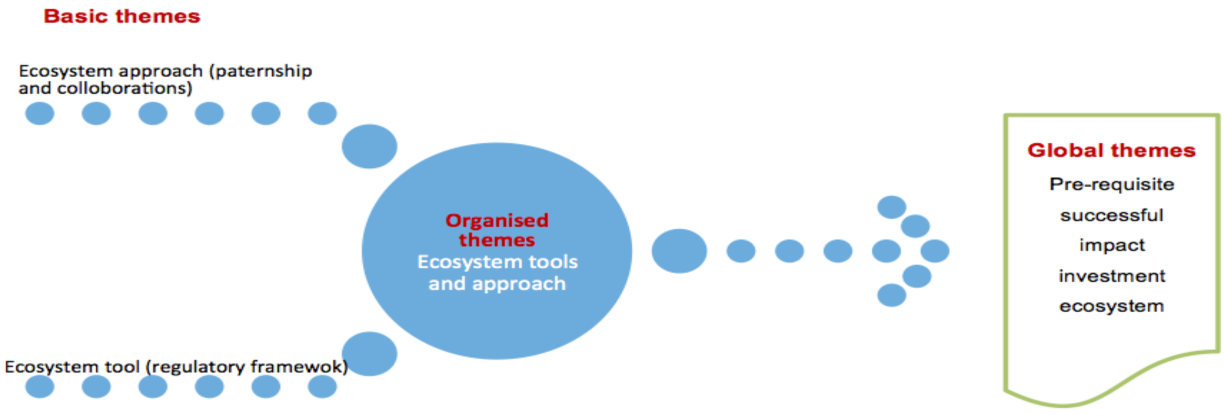


Figure 41 Case 1 Organising theme 25 Global theme 15

The organising theme 25 of global theme 15 (Case1: RQ2) is the ecosystem tools and approach required for a successful Impact Investing ecosystem.

These are the approaches and tools required to be successful. The supporting basic themes are the ecosystem approach which entails partnership and collaboration of role-players and tools which entails regulatory framework to drive the industry.

Policy and regulatory framework are the building blocks of a successful Impact Investing infrastructure.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> "*We've sort of been approached for a sort of a further financial facility for the company. Okay. So we're not... But how do we control part of the outcome of this deal simply because we're involved? So, instead of having an antagonistic approach to or view of environment NGOs, we said hang on, let's chat to them, see what their concerns are. How do we bring some of those concerns into the clauses in the document of a loan agreement that will basically down the line enforce a much more responsible outcome? So, rehabilitation will be achieved in certain ways through consultation with the very environment NGOs that live and work in the area. So to be done in partnership with them as opposed to in isolation because of fear."*

Respondent 2:

> "*So, I think regulation is a brilliant starting point, you know, my career has largely been promoted by the fact that King III came along at a good time and I would have, if I'd started working 5 years earlier I would have had to wait for King III, for the traction to be honest, you know."*

Respondent 3:

> *"I think the usual suspects are very important, like your regulators, government, in terms of promoting the entire ecosystem. They have to make laws in place which are attractive for people to get actually get involved in Impact Investing. So you could have a tax amendments that promotes rebates."*

Key issue from the field notes:

*"collaboration and regulatory framework become the foundational base of building an impact investment industry."*

### Case 1 Overview of Impact Investing ecosystem

Table 13 below summarises the above global themes 14 and 15. It highlights the conceptual constructs of the Impact Investing ecosystem constituents: supply, intermediary, demand-side and beneficiaries undergird by two levels[9] of principal-agent relationship - principal$^{1}$ (supply-side) and agent$^{1}$ (intermediary) whilst principal $^{2}$ is intermediary and agent $^{2}$ is demand-side. Thus Impact investment is driven by actors in the ecosystem that adopt business ecosystem approach and tools to foster collaboration and innovation of products that reach new markets whilst building relational capital that reduce trust deficit in the ecosystem and cultivate pro-business government.

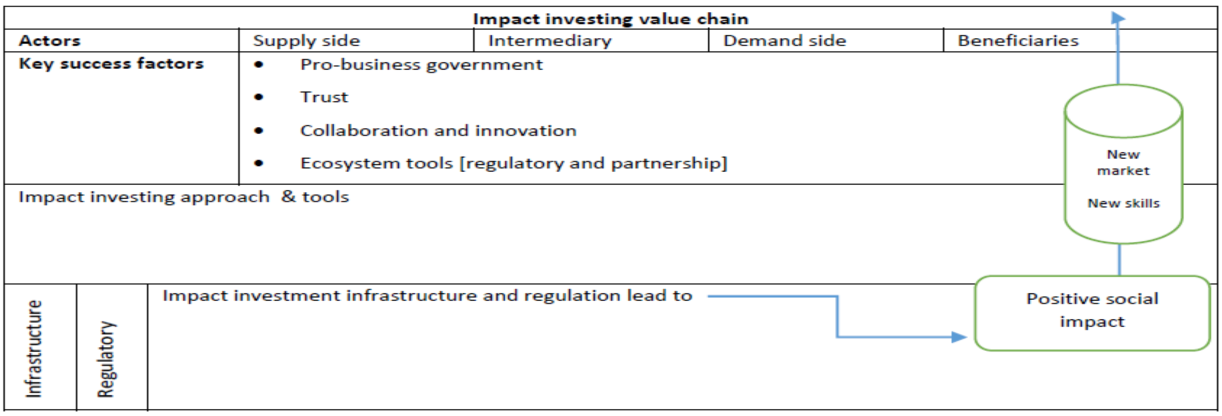


Table 13 Case 1 Overview of impact investment ecosystem

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[9] Level 1 = Principal 1 refers to capital providers (asset owners); Agent$^{1}$ refers to financial intermediaries that manages and invest as per the mandate of principal$^{1}$
Level 2 = Principal$^{2}$ refers to financial intermediaries that channel the investment; Agent$^{2}$ refers to the private sector or NPO that uses the investment to create hybrid value

The South African impact investment ecosystem requires robust infrastructure in the form of policy and regulatory framework as well as infrastructure financing that will attract new investors.

### 5.1.2 Case 2 Commercial Bank

Case 2 has one global theme, two organising themes and two basic themes as depicted below in figures 42 - 44. The global theme focuses on the prerequisite for a successful Impact Investing ecosystem.

**Global theme 16 Case 2: RQ2:**

Prerequisites for a successful Impact Investing ecosystem. It has two organising themes and two supporting basic themes.

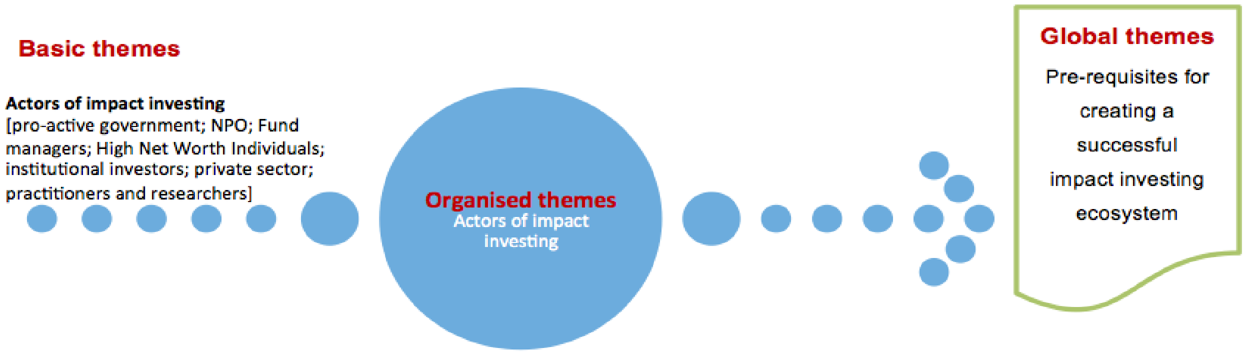



Figure 42 Case 2 Organising theme 26 Global theme 16

The organising theme 26 of global theme 16 (Case 2: RQ2) focuses on the actors of the impact investment ecosystem.

The supporting basic theme focuses on the several identified actors of Impact Investing [pro-active government; NPO; Fund managers; High Net-Worth Individuals; institutional investors; private sector; practitioners and researchers]. It has both internal (within the bank), and external (outside the bank but in the Impact Investing value chain) actors.

High net-worth Individuals and investors are part of the supply-side. Fund managers, practitioners and researchers are part of the intermediary. Private sector and NPOs are part of the demand-side. Government has a dual role of investor and regulator.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> "*What else, I think that that is what is important but unfortunately, at this stage I think that because it is still so new government is still trying to put a handle on it as well. I am not sure how much attention they are paying to the space and unfortunately we are always very reactive, in that something goes wrong first before they can get the attention of regulators and government etc, so it would be nice and it would appreciated if there were to be proactive in engaging because I often say that it's a prototype affair for us, so it sort of trial and error, to make sure that they are part of that conduit of defining because with the prototype phase, you are not part of the conversation you are not part of the defining a phase to define the path and way forward really and that is supposed to come in later with rules and regulations."*

Respondent 2:

> *"So it's I think it's going to be more a case of when you're dealing with your either very high net worth individuals who have surplus income and they want that altruistic motive you know. So, I think a lot of it is driven by private sector."*

Key issue from the field notes:

> *"Socially conscious customers like high-net worth individuals and institutional investors are asking questions about their money in terms of its impact. Green bond was over-subscribed because of its appeal of financial and environmental returns."*


Figure 43 Case 2 Organising theme 27 Global theme 16

The organising theme 27 of global theme 16 (Case 2: RQ2) is that Impact Investing requires an ecosystem tool that is legislative driven.

The impact investment industry on its own failed to muster momentum of impact investment required given the potential of impact capital to address social needs and challenges and drive socio-economic transformation that the Financial Sector Charter advocates.

The supporting basic theme is ecosystem tools such as the legislation.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> *"I think a framework, in terms of a legislative framework because I think these things can lend themselves to abuse when they are still new.  I think, having a vigorous legislative framework, to not to prescribe but to put guidelines in place, because it is not only investors that can get abused but I think communities can get abused in the process and you know at times, if you think you are doing good, but you are actually doing more harm than good."*

Respondent 2:

*"But there has to be some sort of underlying demand for it.  I mean maybe that's where government gets involved.  Maybe that's where you know your private champions step in."*

Key issue from the field notes:

*"Without the legislation the industry will continue to be driven by the socially conscious customers with altruistic motives however this is insufficient given the social needs and challenges."*

### Case 2 Overview of Impact Investing ecosystem

| Exploratory phase – actors | Supply-side | Intermediaries | Demand-side | Beneficiaries | |
|---|---|---|---|---|---|
| | High Net Worth Individuals<br>Institutional investors | Fund managers<br>Researchers<br>Practitioners (risk and sustainability) | Private sector<br>Non Profit Organisation | Individuals | Currently grassroots driven: client customers |
| | Government<br>Private sector<br>Academic | | | | |
| **Ecosystem tools** | Legislative driven infrastructure to support the industry | | | | |

Table 14 Case 2: Overview of impact investment ecosystem

Table 14 depicts an overview of the Impact Investing ecosystem from Case 2. It has actors and ecosystem tools as the key ingredients of the impact investment ecosystem. The actors have the supply-side, intermediaries, demand-side and beneficiaries at two levels as indicated under organising theme one.

The value chain is driven by principal-agent relationship. The ecosystem is at an exploratory phase and mainly driven by the clients (principal). It reflects a "pull" market approach where the bank is pulled by its clients to enter the space instead of the bank pushing products to its clients.

To move from pull market approach financial intermediary should develop portfolios that appeal to a broad spectrum of investors. The ecosystem requires legislation to build the required infrastructure and gain big impetus and foster mutual symbiotic relationship amongst the players.

Impact investment provides an opportunity for the banks to deliver on their Financial Sector Charter commitments on socio-economic transformation.

In future impact investment portfolios will be used to support National Development Plan and Sustainable Development Goals. The obligations and responsibilities of the Millennium Development Goals (MDG) were beholden to the respective governments however, SDG emphasises multi-stakeholder partnerships with clear delineation of the obligations of business. The Impact Investments with measurable social value creation that addresses the 17 SDG will be the highlight of business contribution. The NDG is linked to the 17 SDG and any Impact Investments contribution to the NDG can be easily attributed to the business' contribution to SDG.

### 5.1.3 Case 3 Commercial Bank

Case 3 has one global theme, two organising themes and six basic themes as depicted in figures 44 - 45. The global theme focuses on the prerequisite of a successful impact investment ecosystem.

**Global theme 17 Case 3: RQ2:**

Prerequisite of a successful impact investment ecosystem – is legislative, regulation and ethical codes.


Figure 44 Case 3 Organising theme 28 Global theme 17

The organising theme 28 of global theme 17 (Case 3: RQ2) is the ecosystem tools that are necessary for a successful impact investment.

The supporting basic themes identify ecosystem tools as legislation and industry ethical codes. It also identifies the dilemma between self-regulation and prescriptive legislation, should the bank adopt industry ethical codes or agitate for the prescriptive legislation.

The key success factors of the ecosystem include creation of awareness across the value chain particularly within government.  Although legislation is viewed as critical for the uptake of the industry a cautious approach is required to balance self-regulation (industry codes) with the introduction of any new prescriptive legislation that can become a barrier into the impact investment industry or see flight of potential investors who seek to fund social objectives.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> *"Yeah, I think you see the problem is that legislation, I mean I think a lot of it was ended on what legislation we had, and it is more on the pension fund institutional environment right?  Because then we were waiting for  prescription just kind of like even when you look in retail what pension, what the pension fund reformed for us to do, it's… We are waiting for prescription and that prescription then influences behaviour."*

Respondent 2:

> "*And the question is whether if you leave things on their own for people to self-regulate, or whether you need some sort of government interference, that has been under debate for 250 years.  Is where do you find that balance?*
>
> *Where is the right balance for that so and that is actually at the heart of this Impact Investing question because if you leave ESG principle for example just to the investment community to take care of without the "push" of the clients I am quiet sceptical as to whether it will happen in the right way."*

Key issue from the field notes:

*"Impact Investing industry uptake is slow because of negative perception that hinges on a trade-off between financial return and positive social impact. The perception of Impact Investment as inferior because financial returns is low as a result of prioritising positive social impact."*

*The myth of zero-sum argument was dispelled by blended value proposition that challenges the notion that one cannot have economic and social value at the same time without giving up one. Awareness is needed across the value chain to show how productive entrepreneurship inherently creates blended value."*

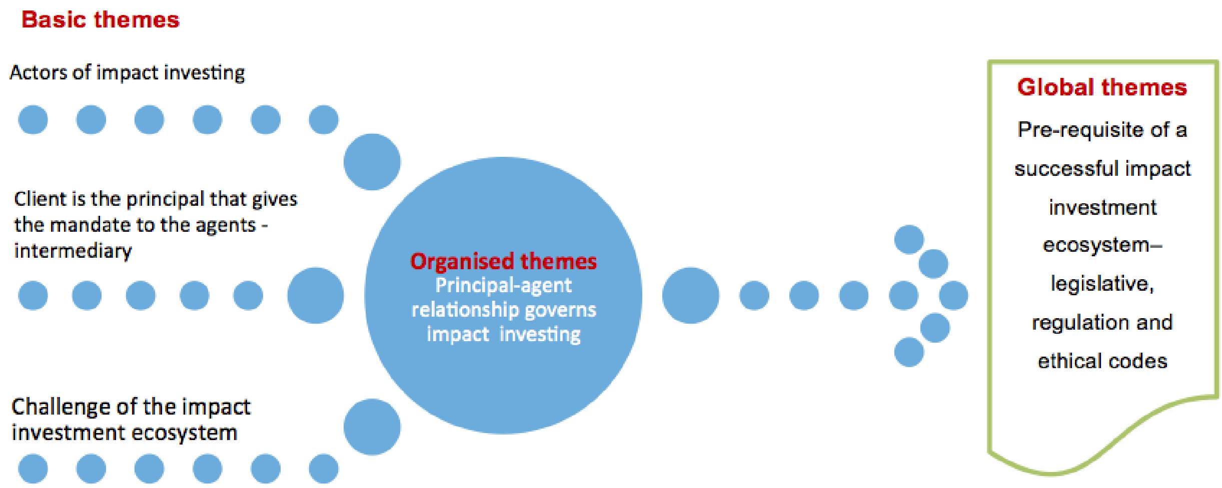



Figure 45 Case 3 Organising theme 29 Global theme 17

The organising theme 29 of global theme 17 (Case 3: Q2) is that the principal-agent relationship governs the impact investment ecosystem as argued in conceptual framework about the value chain analysis (from supply-side to the demand-side). The nature and relationship is based on contractual obligation between the supply-side who gives mandate to the financial intermediaries.

The supporting basic themes are actors of impact investment that are internal and external. The client is the principal that gives mandate while the agent acts on behalf of the client. The challenges of the impact investment ecosystem such as 'passing the buck' and blaming government instead of the banks taking the initiative and leading the way. An effective principal-agent relationship is the key ingredient for a successful ecosystem. The principal should issue the mandate to fund managers. Fund managers or the banking sector cannot drive the Impact Investing objectives without the mandate of the client.

Basic themes – respondents' excerpts and notes

Respondent 2:

> *"There is a whole variety of actors in the market, from retail investors, man on the street to wealthy family offices to corporates looking to tie over their cash holdings before they find the economy, sort of investments and then ultimately pension funds."*
>
> *"So, the first important element in the proper ecosystem for Impact Investing, is that the principal for whom we manage money, whether direct principal in the form of let's say individual clients, or whether pension funds with specific boards, they must understand what they are doing and they must be doing it for the right reasons in the right way. It is that balance and I don't think you can get away from that Principal Agent relationship, and whose money it is and how do you manage it."*

Key issue from the field notes:

*"Principal has key role to play to drive impact investment particularly the institutional investors."*

**Summary of Impact Investing ecosystem Case 3: Q2**

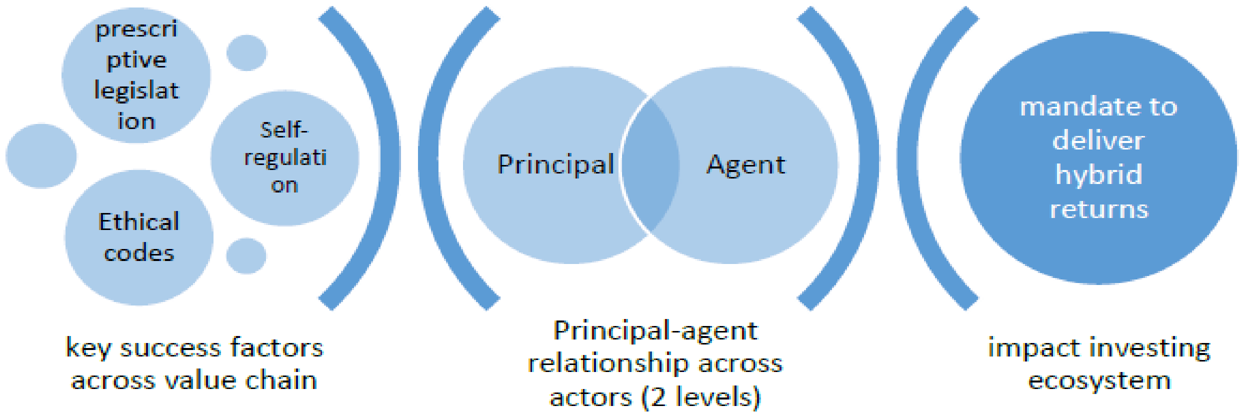



Figure 46 Case 3 Overview of impact investment ecosystem

Figure 46 summarises the overview of impact investment of Case 3. There are two levels of the principal-agent relationship that underpins a successful ecosystem of Impact Investing. The key success factors of the ecosystem are the balance between prescriptive and self-regulation and ethical codes.

The respondents argue for a pragmatic approach that combines prescriptive regulation and self-regulation through ethical or industry codes and standards. Case 3 posits that without legislation the industry would drag its feet whilst the legislation could be a trigger that accelerates the momentum. The mandate of principal and agent relationship is to deliver hybrid returns that are drafted in the mandate/contractual obligations.

### 5.1.4 Case 4 Development Bank

Case 4 has two global themes, two organising themes and eight basic themes as depicted in figures 47 - 48. The global themes revolve around the principal-agent relationship and the challenges in the ecosystem.

**Global theme 18 Case 4: RQ2:**

The principal-agent relationships govern the Impact Investing ecosystem.

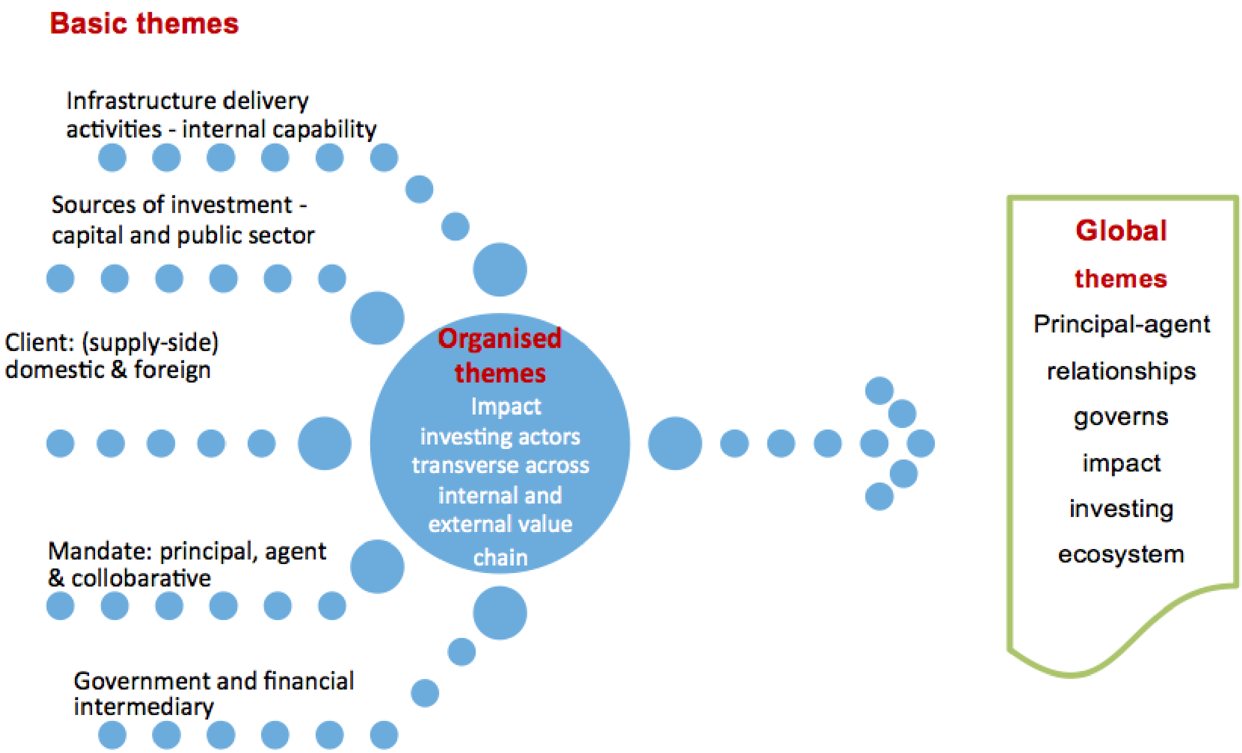



Figure 47 Case 4 Organising theme 30 Global theme 18

The organising theme 30 of global theme 18 (Case 4: RQ2) is that Impact Investing actors' transverse across the internal and external value chain as indicated in cases 2 and 3.

The supporting basic themes are infrastructure delivery activities – internal capabilities (internal players from project conception to the delivery), sources of investment – public and private, clients – domestic and foreign, mandate by principal – execution by agent and collaborative mandate to meet economic and social development objectives, and government and financial intermediaries as actors.

Principal-agent relationship is a key ingredient that underpins the Impact Investing ecosystem as it is positively portrayed in infrastructure development investment. It however operates at three levels: at level one government is the principal 1 and the development bank is agent 1; at level two the bank is principal 2 and the asset management company is agent 2; and at level three the asset management company is principal 3 and the private sector delivering (demand-side) is agent 3.

Basic themes – respondent excerpt and field notes

Respondent 1:

> *"and because we work closely with the South African government on the infrastructure delivery side we have a whole division that deals with that, so the government gives us money for health education and human settlements, so their budget comes to us. We manage the budget, we manage the contractors and we make sure that houses, schools and clinics are built. And we do some of them and we do maintenance management as well to oversee the contractors that is I think our South African based impact investment but it's not our money, we are the fund managers for government on that."*
>
> *"Yes, a lot of our work is intermediation because we get money from the capital markets or from other large development finance partners like the EIB, the European Investment Bank or the French AFD or KFW.*
>
> *They give us credit lines and then we lend on and often they specify what those credit lines should cover like the French want theirs to cover green economy so all the renewables can be covered under the French. The European money cannot be used for coal, so they specify what, but then the development impact is sort of done collaboratively with those DFI's and us, because we are both contributing. There are some co-financing arrangements that the DBSA puts 50/50 with the French on a project prep fund to prepare projects that will have social impact, social and economic impact."*

Key issue from the field notes:

*"Government has multi roles with particular reference to the infrastructure development investment. It can be supply-side, agent and demand-side depending on the type of impact investment instrument for instance with development impact bond it can play all these roles as argued in the conceptual framework."*

## Global theme 19 Case 4: RQ2:

Challenges in the Impact Investing ecosystem.


Figure 48 Case 4 Organising theme 31 Global theme 19

The organising theme 31 of global theme 19 focuses on the binding constraints of the impact investment ecosystem. From the development bank perspective there are a number of challenges that put constraints on the impact investment ecosystem.

The supporting basic themes of binding constraints are insufficient engagement forums, trust deficit and too many business groups to engage. These binding constraints are highlighted by a development bank that has been dominant in the infrastructure development space and the bank argues that these constraints are barriers that also apply to impact investment in the commercial space. Stakeholder engagement would help alleviate barriers to impact investment.

Basic themes – respondents' excerpt and secondary document

Respondent 1:

> *"So there are things that government need to put into place but there is also one place but there is a big missing gap in South Africa is that we don't have enough forums where the private sector and government come together. So we are doing*

*well on some PPP's, we are getting into some PPP's quiet well but you find that the big problem that the private always identifies is that they think the Government takes too long to make decisions and the Government doesn't trust the private sector to have the interests of the country at heart. They always think the private sectors are self-interested, so if we find a way that, and we have tried this numerous times where we try find a forum for government or platform for government and the private sector to meet on a regular basis, but the complication is that there are so many private sector groupings, so you get the black management forum.*

*You get the Black Business Council, you get the NEPAD Business Foundation, there are just so many entities and you don't know who is the best representative of business and then if you deal with infrastructure, most of it is very large infrastructure which means SME's don't have a way to get into those deals."*

Key issue from the field notes:

*"Stakeholder engagement is crucial for a development bank that has a dual role of being principal and agent at two levels. It requires good relationships with its principal and agent as well as other players in the ecosystem."*

**Case 4 Overview of Impact Investing ecosystem**

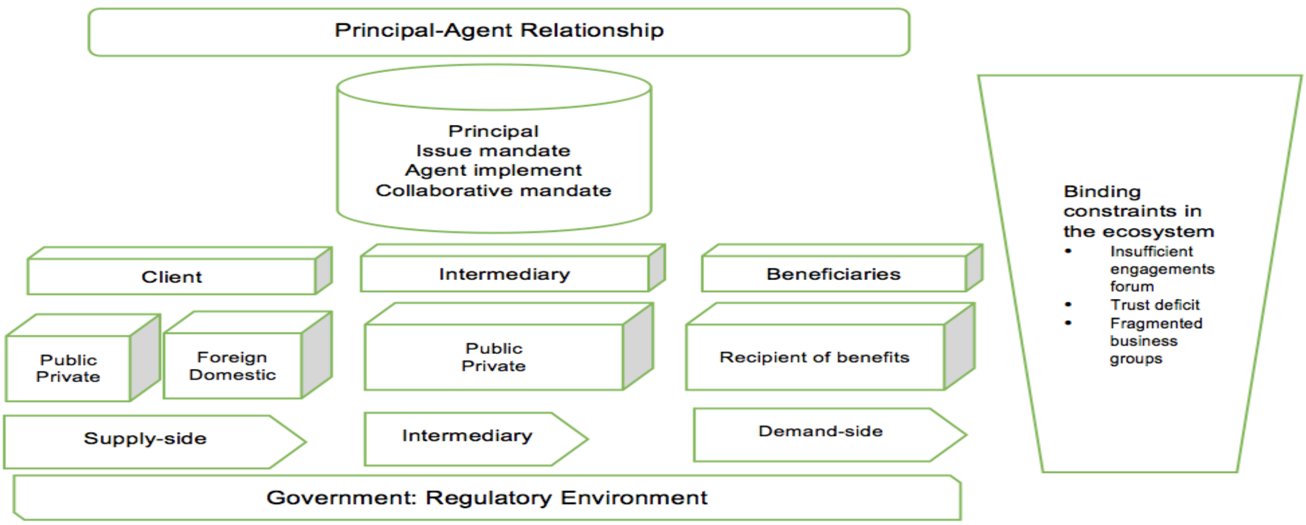



Figure 49 Case 4 Impact Investment ecosystem

Figure 49 above highlights that the Impact Investing ecosystem is underpinned and driven by principal-agent relationships cutting across the value chain from the supply-side, intermediary and to the demand-side.

The regulatory framework is the key success factor of principal-agent relationships in the Impact Investing ecosystem and builds the infrastructure required by the industry. The binding constraints in the ecosystem are however trust deficit, insufficient engagements and fragmented business groups which are the things that were raised by commercial banks cases.

## 5.2 Macro Perspective

### 5.2.1 Case 5 Banking Association of South Africa (BASA)

Question two's intent was to understand the nature of the South African Impact Investing ecosystem from a macro perspective. From the BASA's perspective two global themes, two organising themes and six basic themes emerged from the codes as depicted in figures 50-51. The global themes focus on an impact investment ecosystem that requires a robust architecture and the prerequisites for a successful impact investment ecosystem.

**Global theme 20 Case 5: RQ2:**

An impact investment ecosystem requires a robust architecture. It has one organising theme and three supporting basic themes.

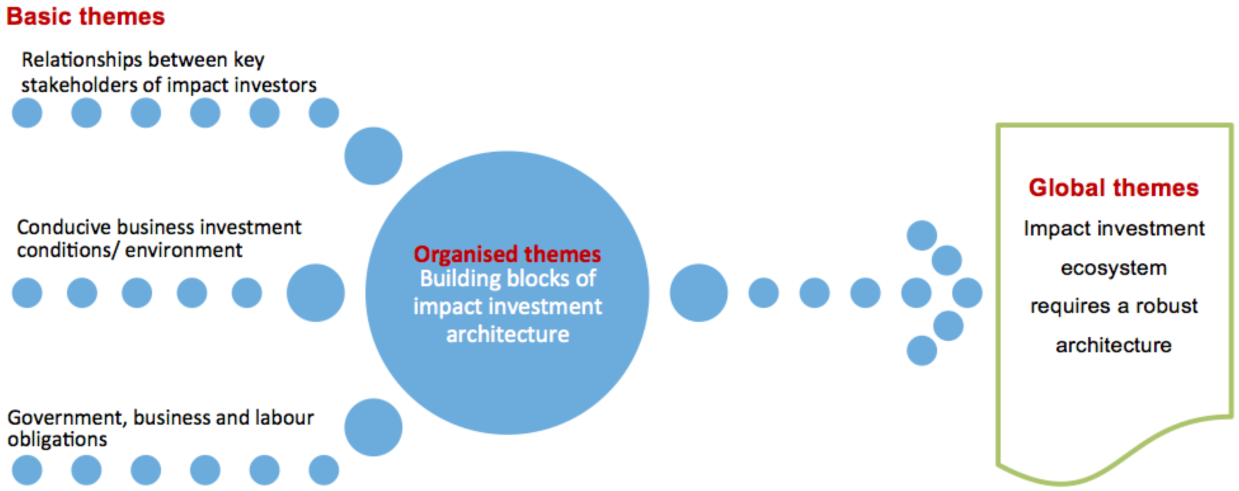



Figure 50 Case 5 Organising theme 32 Global theme 20

The organising theme 32 of global theme 20 is the building blocks of impact investment architecture which is a blueprint to ensure impact investment industry success. The supporting basic themes highlight essential elements of the architecture as: effective relationships between key stakeholders of impact investors; favourable business investment conditions/environment; and government, business and labour obligations or social compact.

The BASA is depicting the macro environment within which the impact investment in South African banking sector should exist. Its blueprint is cohere by the relationships between government, business and labour.

Basic themes – respondent's excerpts and field notes

Respondent 1:

> *"I don't think we understand each other's roles, each other's responsibilities – between government and business in this case. I think there's still a view among certain sectors of government that businesses are just profit takers. There's a view amongst business that government is inefficient. I think that for impact investment you need an architecture that says that government and business need to clearly define each other's roles, understand each other's roles.*"

*"We need to put national interests on the agenda and we need to say "Okay how do we then enable a different sort of environment where we enable each of the three critical factors here that's –government, labour and business - to do what they do best okay. So, you know to me, that's the sort of architecture that's necessary, that's the sort of interaction that's necessary and we need to develop that and build that."*

*"Certainly from a business point of view we would say that business is most effective when it has an environment to actually invest, so that its investments are protected, it can make a reasonable profit and in that way it actually contributes to social development."*

Key issue from the field notes:

"Architecture is the blueprint of impact investment at macro level and requires strong relationships between government (as a referee, principal and agent), business (principal and agent) and labour."

**Global theme 21 Case 5 (RQ2):**

Prerequisite of a successful Impact Investing ecosystem

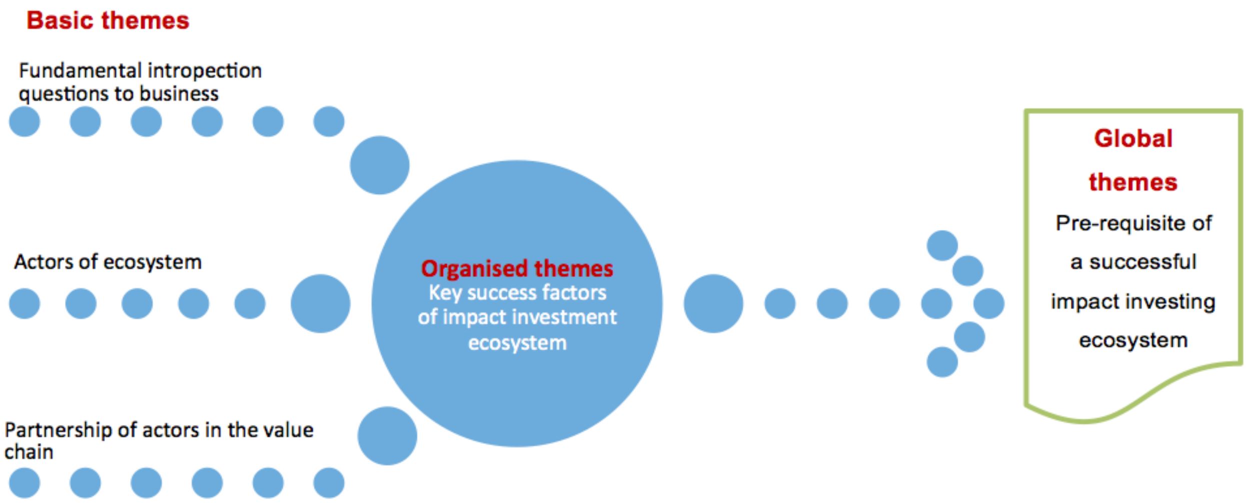



Figure 51 Case 5 Organising theme 33 Global theme 21

The global theme 21 (Case 5: RQ2) that emerged is the prerequisite of a successful Impact Investing ecosystem at macro-level.
The organising theme 33 of global theme 21 is the key success factors of impact investment ecosystem at macro level.

The supporting basic themes are fundamental introspection of the purpose of banking and its value creation; actors of ecosystem within the business environment; and partnership of actors in the value chain.

Basic themes – respondent's excerpts and field notes

Respondent 1:

> *"But that discussion is exacerbated if the policy environment is such that there's no certainty and if the dialogue is such that business is seen to be the devil in the dialogue all the time. Then eventually you get to a stage where you say 'Well why should we be investing in these things? This is government's job, why should we invest in this and they don't recognise any contribution we make anyway.' So, I think that we've got a lot of work to do - one both in business - and I've been pushing quite hard that business leaders need some introspection to say that in my view the line between the workplace and society is no longer there."*
>
> *"three critical factors here that's –government, labour and business."*
>
> *"What I'd rather look for is smart partnerships between the public and private sector to make these things happen you know and it's those sorts of discussions that we should be having."*

Key issue from the field notes:

*"Partnership of actors in the value chain is critical unlike the current status where Development Finance Institution (DFI) compete with the banking sector focusing mainly on exclusive creation of economic value. Collaboration in the ecosystem is key for the success of impact investment".*

**BASA overview of Impact Investing ecosystem**

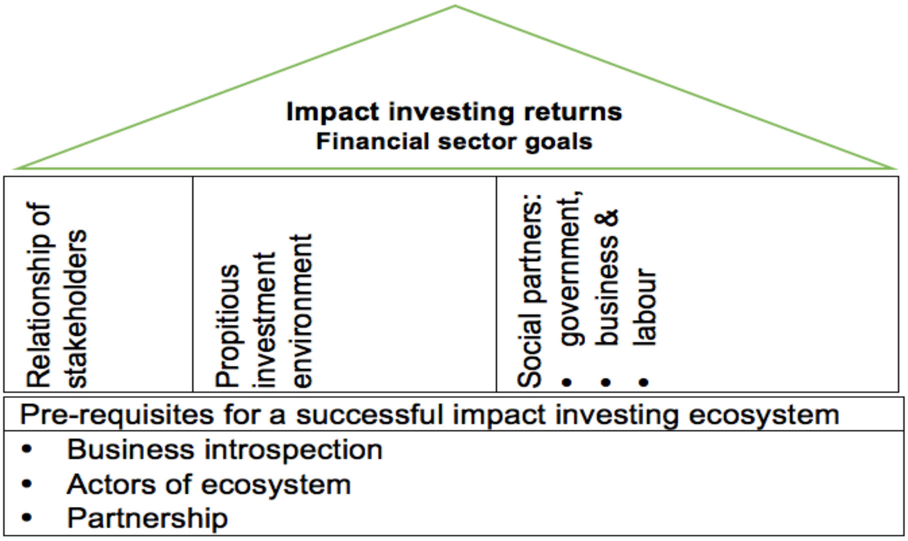



Figure 52 Case 5 Overview of impact investment ecosystem

Figure 52 highlights an overview of the impact investment ecosystem from the BASA's perspective. The Impact Investing ecosystem requires an architecture that depicts relationships between actors and the common goals they seek to achieve. Impact Investing returns should be seen in relation to the bigger financial sector goals. The prerequisites of a successful Impact Investing ecosystem are: business introspection (revisit purpose of existence and value creation), actors (identify and build relationships between internal and external actors) and partnership (describe partnership model that could support impact investment infrastructure).

## 5.3 Value Chain Perspective

### 5.3.1 Supply-side: Institutional Investor

Case 6 has one global theme, one organising theme and three basic themes as depicted in figure 55. The global theme focuses on the prerequisite for a successful impact investment ecosystem in South Africa.

**Global theme 22 Case 6: RQ2:**

Prerequisites for a successful impact investment ecosystem. Impact Investing ecosystem in South Africa covers the value chain which include supply-side, financial intermediaries and demand-side including beneficiaries

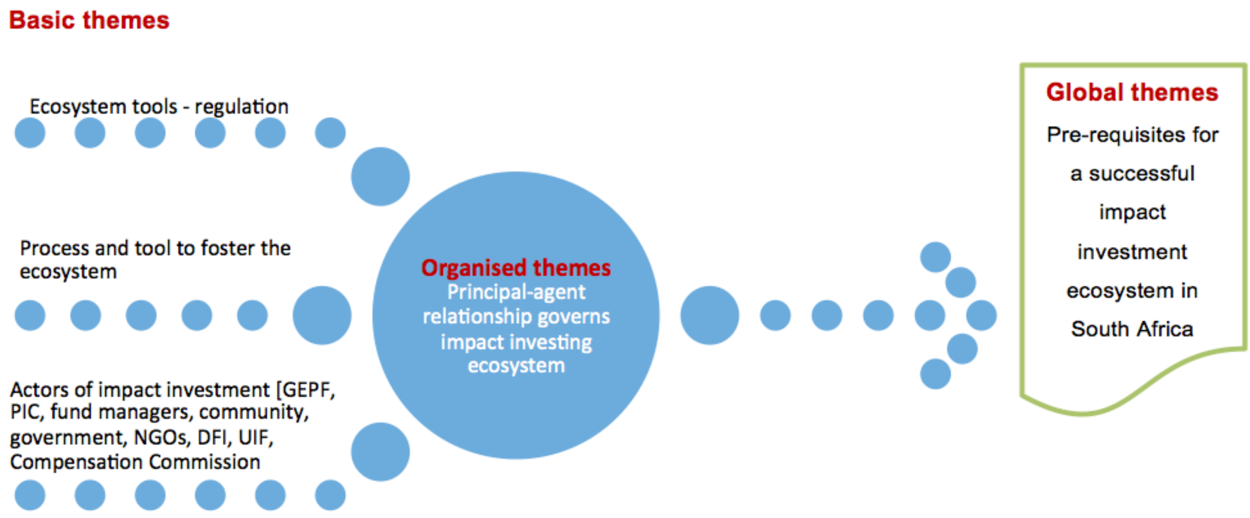



Figure 53 Case 6 Organising theme 34 Global theme 22

The organising theme 34 of global theme 22 focuses on principal-agent relationship that governs South Africa's Impact Investing ecosystem across the value chain from the supply-side. The institutional investor confirms the principal-agent relationship as a cornerstone of the Impact Investing ecosystem.

The supporting basic themes are ecosystem tools, process and tool to foster the ecosystem and actors of impact investment. Regulatory framework is the tool that could be used to drive Impact Investing uptake. The actors identified were mainly on institutional investors (GEPF, DFI, UIF and Compensation Commission), financial intermediary (fund managers and PIC) and demand-side (NPO).

Basic themes – respondents' excerpts and field notes

Respondent 1:

"*Because Company Act require it. So, maybe we need regulation that really force people to move into impact investment, investing because the Company Act... because there are some element. You see how people take governance so seriously because it's regulated, but things like minimum wage, whatever – it's just guidelines; it's not regulated. Environmental – people are starting to take it serious because of the National Environment Management Act?*

*Respondent 2:*

*"I don't think we need legislation to be. There's a lot of emphasis these days on environmental, social and governance issues. I think the pension act with the relations that changed, the trustees – I think it's regulation 28 – that says the trustees must now take environmental, social and governance issues into account when they give a mandate to sub managers. So I think there is a lot of emphasis there. I think we can't deny it that we have to run away from the fact that there are documents such as documents, such as the national development plan which clearly spell out what needs to happen in this country to make a difference in people's lives and to take the country forward. So, and the danger that you are faced with, the moment that you legislate some of these issues, it becomes an inbox approach. So I just do it for the mere reason that I want to do it.*

*And for me, that will take away from the fact as well, if I need to just, it will be for me about the numbers. If I am forced to do it, social CSI spending, nê, it will be about the numbers. Yes there is a legislation that say I must spend 1% of profit before tax on socially nice projects, so I am going to do it. So is it really going to be investing… because the moment you legislate something, it becomes a must do and not a want to do."*

Respondent 1:

> "*And a lot of our other clients now have done a similar approach. The unemployment insurance fund, the Financial and Fiscal Commission, all of them have now moved towards that. That they all, UIF and CC, Compassion Commission, they all now we want to make a difference. I mean it's extremely important for the UIF for example, our investment in Lonmin now, because if those people lose their jobs, UIF will have to pay out…*"

Key issue from the field notes:

"*the relationship is based on principal and agent model with the principal issuing instruction or mandate and the agent executing on behalf of the principal. This relationship cascades across the value chain. Institutional investors are mandated by their own investors and they mandate the agent (financial intermediaries who invests it or mandate business or organisation where they place impact capital.*"

**Supply-side overview of Impact Investing ecosystem**

| **GEPF**[10] | **PIC**[11] | **NPO** | **Community** |
|---|---|---|---|
| **Actors** | | | |
| **Supply-side Client** | Financial intermediary | Demand-side | Beneficiaries |
| **Principal-agent relationship governs Impact Investing ecosystem** | | | |
| **Stakeholder engagement** | | | |
| **Government** | | | |
| **Infrastructure** | Policies | Legislation | Regulation |

Table 15 Case 6 Overview of impact investment ecosystem

Table 15 highlights the overview of impact investment from the supply-side (case 6). The key ingredient of an Impact Investing ecosystem from the supply-side is the principal-agent relationship that governs value chain actors.

[10] GEPF is an acronym for Government Employees Pension Fund

[11] PIC is an acronym for Public Investment Corporation

From an institutional investor perspective the key actors are GEPF, PIC, NPO (Not for Profit Organisation) and Communities as beneficiaries. Impact Investing ecosystems require supporting infrastructure that is comprised of policies, legislation and regulation.

### 5.3.2 Case 7 Demand-side: Non-Profit Organisation (NPO)

Case 7 has one global theme, one organising theme and three basic themes as depicted in figure 56. The global theme focuses on the prerequisite of a successful Impact Investing ecosystem.

**Global theme 23 Case 7: RQ2:**

Prerequisite of a successful Impact Investing ecosystem. It has one organising theme and three basic themes.


Figure 54 Case 7 Organising theme 35 Global theme 23

The organising theme 35 of global theme 23 (Case 7: RQ2) focuses on actors of impact investment from a demand-side perspective.

The supporting basic themes are banking, non-profit organisations and communities. For successful Impact Investing financial intermediaries need to educate NPOs on how to use and account for the financial injection done for social outcome especially with Impact

Investing bonds because they have to account for the investment. Demand-side require demand-side financial intermediaries that will support and build the capacity as argued under the conceptual framework.

Respondent 1:

> "*Ja, well I think you know from a banking perspective they can play a major role with the non-profits in guiding them, giving them guidance on how to manage their assets better. So, from the banking perspective - a lot more education to NPOs on looking at their assets and how they can realise their assets either into income generation or sell and invest."*

Key issue from the field notes:

*"NPOs desperately need training and mentoring from financial intermediaries in order to cultivate a culture of accountability which according to the respondent is lacking."*

**Demand-side Overview of the Impact Investing ecosystem**

| **Impact investing ecosystem** | | | |
|---|---|---|---|
| **Value chain** | **Intermediary** | **Demand-side** | **Beneficiaries** |
| **Institution** | Banks | Non-Profit Organisation | Communities |
| **Role / function** | • Train managers<br>• Educate NPO | • Identify opportunities<br>• Execute programmes | • Recipient of benefits<br>• Source of social needs |

Table 16 Case 7 Overview of impact investment ecosystem

Table 16 highlights overview of impact investment ecosystem from a demand-side perspective. From the demand-side perspective the actors are financial intermediaries, NPOs and social beneficiaries. These actors represent the banks, NPOs and communities. Financial intermediaries play different roles than when they engage with the institutional investors. The principal-agent relationship is at one level between financial intermediary and the NPO.

## 5.4 Competition Landscape Perspectives

### 5.4.1 Case 8 Other Financial Intermediary: Competitor/Asset Management Company 1

Question Two's intent was to understand the nature of the South African Impact Investing ecosystem from the competition landscape, the asset management perspective. From the Asset Management Company 1 one global theme, one organising theme and three basic themes emerged as depicted below in figure 57.

The global theme focuses on principal-agent relationship in the Impact Investing ecosystem.

**Global theme 24 Case 8: RQ2:**

Principal-agent relationship governs Impact Investing ecosystem

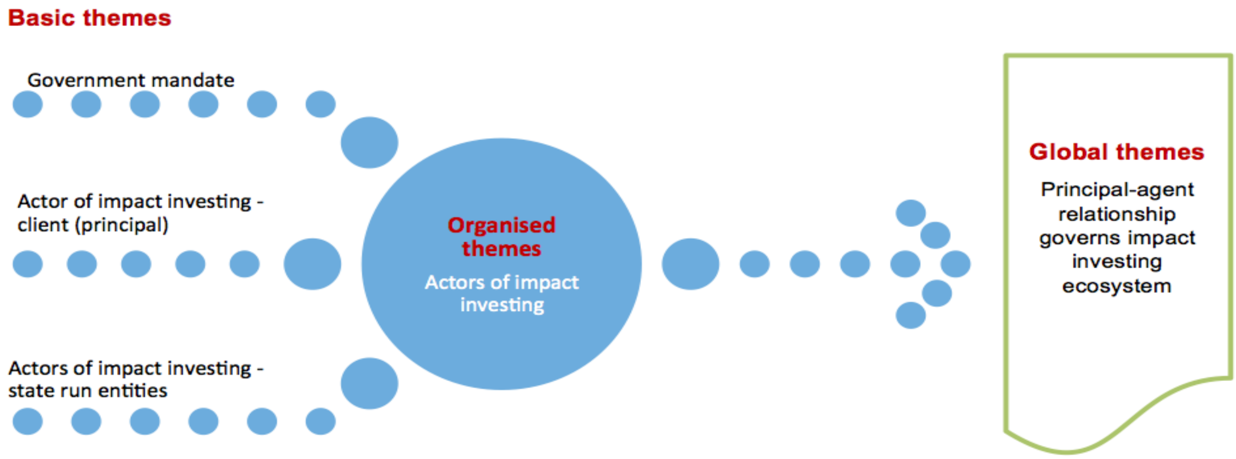



Figure 55 Case 8 Organising theme 36 Global theme 24

The organising theme 36 of global theme 24 (Case 8: RQ2) focuses on the actors of Impact Investing and the level of the principal-agent relationship.

The supporting basic themes are the government mandate, the client-as-principals, the asset managers-as-agent and the role of state entities in Impact Investing. Government is a key player in infrastructure development investment and the roles and responsibilities of state entities is essential.

Asset management companies/fund managers are guided by principal mandate in this space of infrastructure development; government and its entities provide a mandate for financial intermediaries to execute.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> *"okay, in terms of infrastructure specifically we need government okay, because it is government's mandate who will allow infrastructure in South Africa. But in addition to government we can support what government does as institution investors, so on behalf of our clients we see we recognise that there is an opportunity for clients that have a mandate as part of their investment strategy to invest in specific infrastructural developmental projects. We could come alongside government, government being the key role player…"*
>
> *"I think they (GEPF and PIC) have been big supporters already and so have… so in addition the other state-run entities have as well have been big supporters in terms of their pension fund side, it's those being the institutional investors. They have been for the past few years they have definitely been supporters in terms of these types of investments."*

*Key issue from the field notes:*

*"Actors of the impact investment are governed by the principal-agent relationship that is underpinned by contractual obligations."*

**Overview of Impact Investing ecosystem – infrastructure development Case 8**

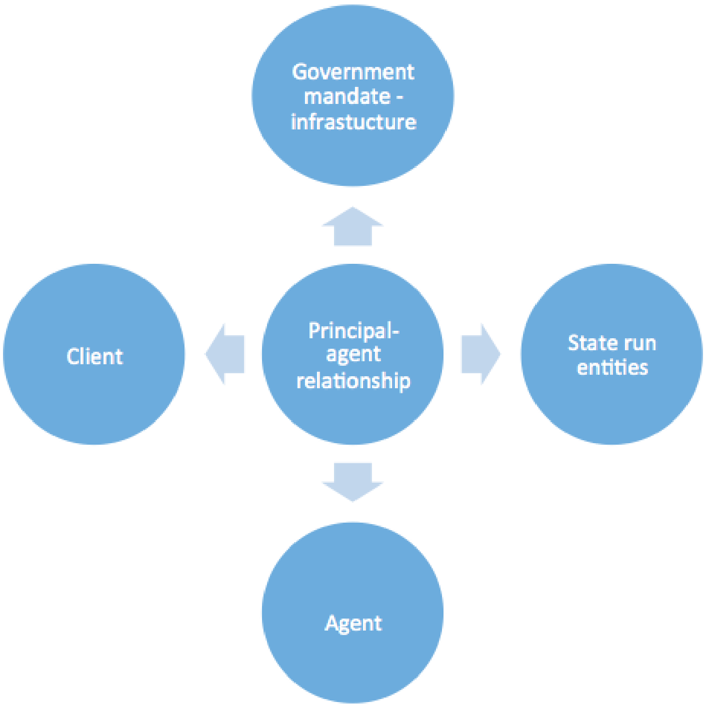



Figure 56 Case 8: Overview of the Principal-Agent governed impact investment ecosystem

The principal-agent relationship for this asset management company is at two levels: government as principal 1 and state entities as agent 1; and level two is state entities as principal 2 and asset Management Company as agent 2.

Asset management companies recognise that the principals are the triggers and drivers of the impact ecosystem. It also shows the effect of principal-agent relationships across the value chain.

### 5.4.2 Case 9 Other Financial Intermediary: Competitor/Asset Management Company 2

From Asset Management Company 2, one global theme, two organising themes and six basic themes emerged as depicted in figures 57-58. The global theme is the prerequisite of a successful Impact Investing ecosystem.

## Global theme 25    Case 9: RQ2:

Prerequisite of a successful Impact Investment ecosystem.

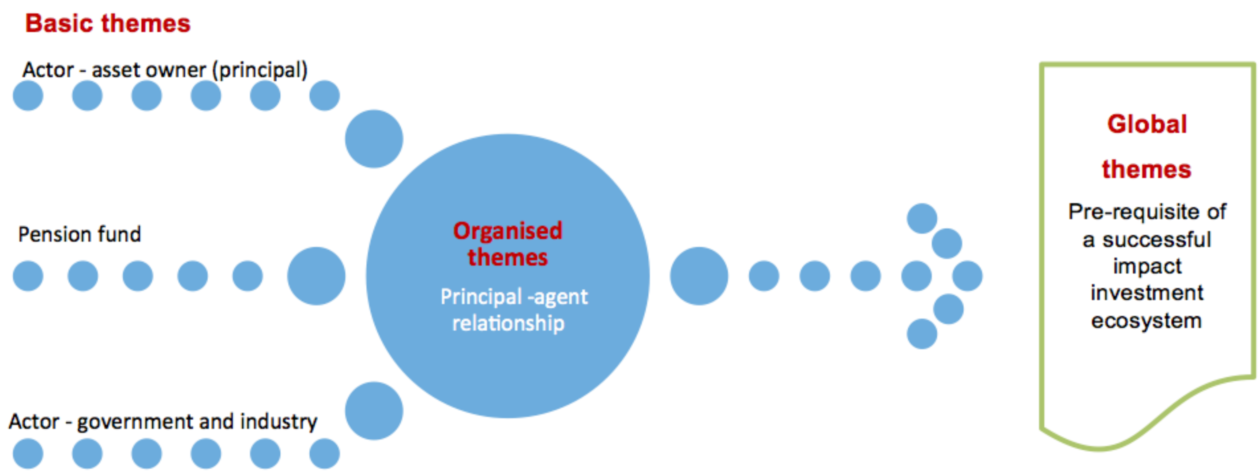



Figure 57 Case 9: Organising theme 37 Global theme 25

The organising theme 37 of global theme 25 (Case 9: RQ2) focuses on the principal-agent relationship with two levels: in level one the asset owner (government) is principal 1 and institutional investors or state entity is (asset manager) agent 1; and in level two state entity is principal 2 and asset management companies are agent 2.

The supporting basic themes are asset owner as principal, pension fund as Impact Investing driver, and government and industry as macro players. Principal-agent relationships underpin relationships between role-players. This buttresses and concurs with the findings of Case Study 8.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> *"The fact that there would… maybe a couple of big asset owners started to actively fund, seek out and fund impact investors – maybe allocating somewhere between one and five percent of the pension fund capital that they have into that space. And*

*we need to sort of capture that in the best way possible and I think that we would benefit from the government looking, or the industry looking at those sort of issues in a more committed way."*

Key issue from the field notes:

*"The supply-side in most infrastructure development is dominated by government and pension funds that issue mandate."*

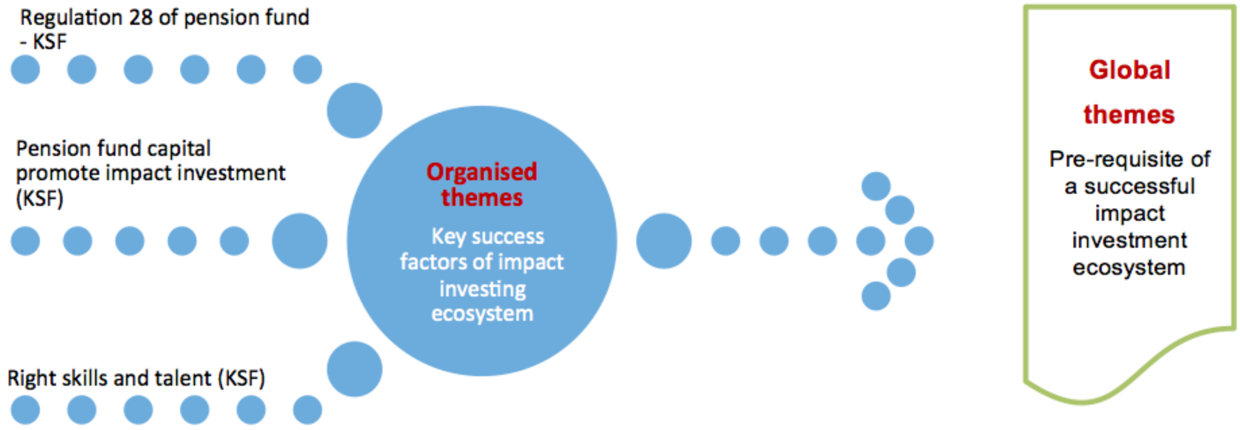



Figure 58 Case 9 Organising theme 38 Global theme 25

The organising theme 38 of global theme 25 (Case 9: RQ2) focuses on the key success factors of the Impact Investing ecosystem from asset management perspectives.

The supporting basic themes are regulation such as Regulation 28 of the Pension Fund Act, making pension fund capital available and the right skills and talent that are critical to ensure successful hybrid returns.

The key drivers of Impact Investing are regulatory frameworks and the pension capital fund which will be directed to the Impact Investment portfolios. Pension funds can direct and mandate the agents to inject capital into the Impact Investment industry.

Basic themes – respondents' excerpt and field notes

Respondent 1:

> *"I mean I think regulation 28 in the pension fund space started to create the beginnings of the regulatory framework for an evolving and growing impact investment industry. But I think a lot of it is still to do with a combination of improved reporting… measurement and reporting, so that people can demonstrate credibly the types of impact that they're achieving. So if you say that you're gonna have certain impact on your available baseline measure, monitor and report on that. So I think that that would be a good space. I think that that, that those sort of movements would help promote Impact Investment space and start attracting kind of the right sort of skills and talents into that space."*

Key issue from the field notes:

*"The pension funds capital can be used to fund venture capital through asset or fund managers. Venture capital would be used to target SMME that boost economic development and create jobs."*

**Case 9 Overview of Impact Investing ecosystem**

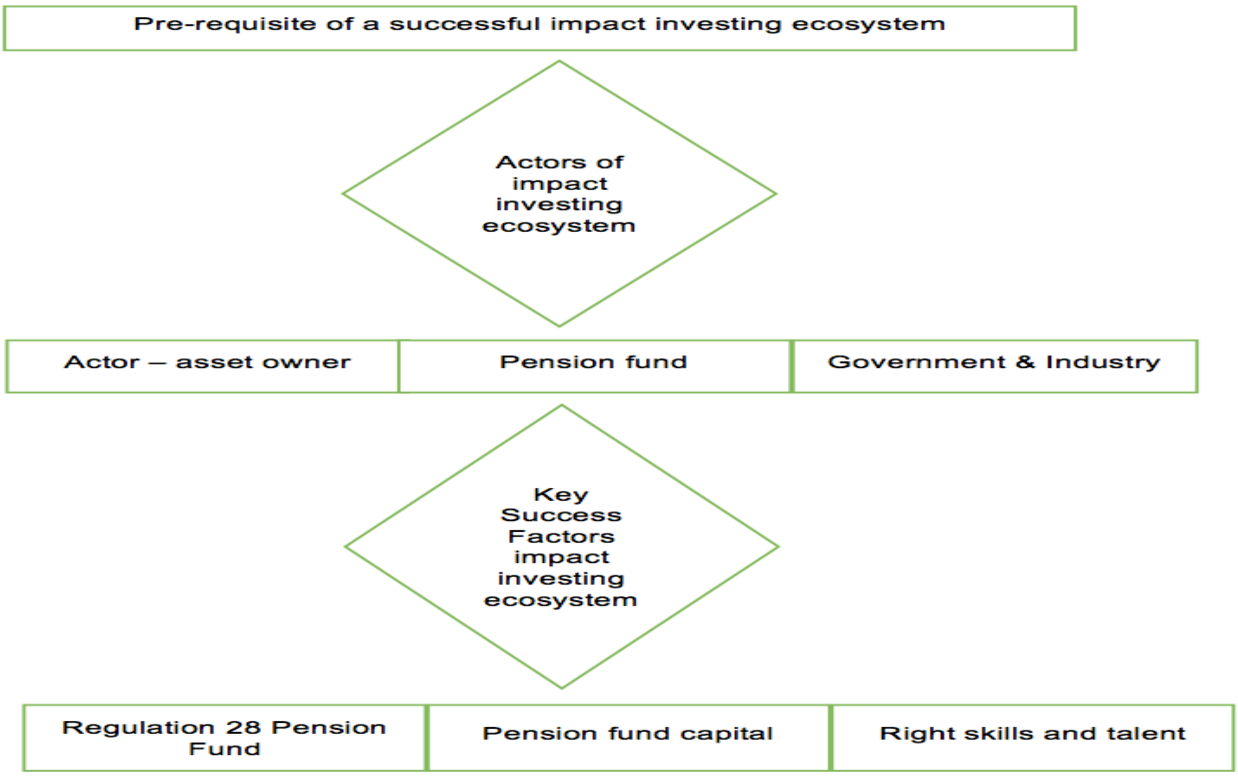



Figure 59 Case 9 Prerequisite of a successful impact investment ecosystem

Figure 59 highlights that the prerequisites of a successful Impact Investing ecosystem are actors of Impact Investing and key success factors. Actors of Impact Investing in the asset management industry are asset owners (principal) and asset managers (agent), pension funds and government and the industry.

The key success factors in the asset management industry are regulatory framework (Pension Fund: Regulation 28) and the right skills and talent.

## 5.5 Concluding Remarks

This chapter described and explored 16 organising themes and 12 global networks and the emerging patterns within each case. Summary of global networks and emerging patterns across the cases will be discussed in *Chapter 7*.

| Perspective | Case | Global networks | Emerging patterns |
|---|---|---|---|
| Micro Perspective | Commercial Bank: Case 1 | 1. Impact investment value chain is integral in the measurement of returns<br>2. Pre-requisite for a successful impact investment ecosystem | 1. Value chain is integral component of impact investment measurement<br>2. Fundamentals of the ecosystems are collaboration, partnership, innovation |
| | Commercial Bank: Case 2 | 3. Pre-requisite for a successful impact investment ecosystem | 3. Actors and regulatory frameworks (KSF)<br>4. Principal- agent relation |
| | Commercial Bank: Case 3 | 4. Pre-requisite for a successful impact investment ecosystem | 5. Legislation, regulation and ethical codes (KSF) |
| | Development Bank: Case 4 | 5. Principal-agent relationship governs impact investment ecosystem | 6. Redefine value, actors and partnerships |
| Macro Perspective | BASA: Case 5 | 7. Impact investment requires a robust infrastructure | 7. Relational capital [government, business and labour] |
| Value Chain Perspective | Supply Chain | 8. Pre-requisite for a successful impact investment ecosystem | 8. Principal-agent relationship governs impact investment ecosystem<br>9. Actors and regulations |
| | Demand-side | 9. Pre-requisite for a successful impact investment ecosystem | 10. Actors of investment (financial intermediary role) |
| Competition landscape | Asset Management Company 1 | 10. Principal-agent relationship governs impact investment ecosystem<br>11. Pre-requisite for a successful impact investment ecosystem | 11. Actors of impact financial observe (asset owner, manager)<br>12. Principal- agent relationship governs impact investment ecosystem |
| | Asset Management Company 2 | 13. Pre-requisite of a successful impact investment ecosystem. | 14. Principal- agent relationship governs impact investment ecosystem |

Table 17 Emerging patterns of impact investment ecosystem

The key emerging patterns are: prerequisites of a successful impact investment ecosystem and a principal-agent relationship model that governs the Impact Investment ecosystem. These are supported by partnership amongst actors and a regulatory framework as the foundational pillars of the ecosystem.

The key finding emerging across micro and macro perspectives, value chain and competition landscape perspective is that Impact Investing ecosystem is governed by the principal-agent relationship across the value chain.

In terms of the impact investment value chain there are three main constituents the supply-side, intermediaries and demand-side. These constituents are held together by the principal and agent relationship model which is informed by contracts.

The key success factor of the ecosystem is the regulatory framework that is seen as an essential building block of an Impact Investing infrastructure. This is supported in the conceptual framework where policy and regulatory framework are raised as essential for impact investment infrastructure.

Further analysis will be discussed under cross-case synthesis of Impact Investing ecosystem in Chapter 7 section 7.4.

# Chapter 6 Measurement of social value

## Introduction

*Chapter four* findings revealed that impact investments create an indivisible blended value comprised of intentional and measurable financial and non-financial returns. Impact investments create sustainable value comprised of economic, social and environmental value thereby producing hybrid returns.

*Chapter five* findings reveal that impact investments are governed by the principal-agent relationship where the principal mandates the agent therefore any measurement of the returns by the financial intermediary (agent) has to involve the principal (supply-side) who provides the mandate to the agent.

Chapter four and five therefore provides a sound basis to understand the nature of measuring non-financial returns with particular reference to social value generated through Impact Investing. Question three's intent was to understand the nature of measuring non-financial returns with particular reference to social value generated through Impact Investing, taking into cognisance that impact investment returns are hybrid and governed by the principal-agent relationship.

Chapter six will focus on the measurement of the social value approach by the four perspectives covering micro (three commercial banks and one development bank), macro (BASA), value chain (supply-side and demand-side) and the competitive landscape.

## 6.1 Micro Perspective of the Banking Sector: Within-Case Analysis

The micro perspective will depict how the 3 commercial banks and one development bank measure social value of the impact investments.

### 6.1.1 Case 1 Commercial Bank

Case 1 has one global theme, five organising themes and fourteen basic themes as depicted in figures 60 - 64. The global theme focuses on the measurement formula of social value in South African banks: inclusive product price and return.

**Global theme 26 Case 1: RQ3:**

Measurement formula of social value in SA Banks: inclusive product price and returns. It has five organising themes and thirteen supporting basic themes.

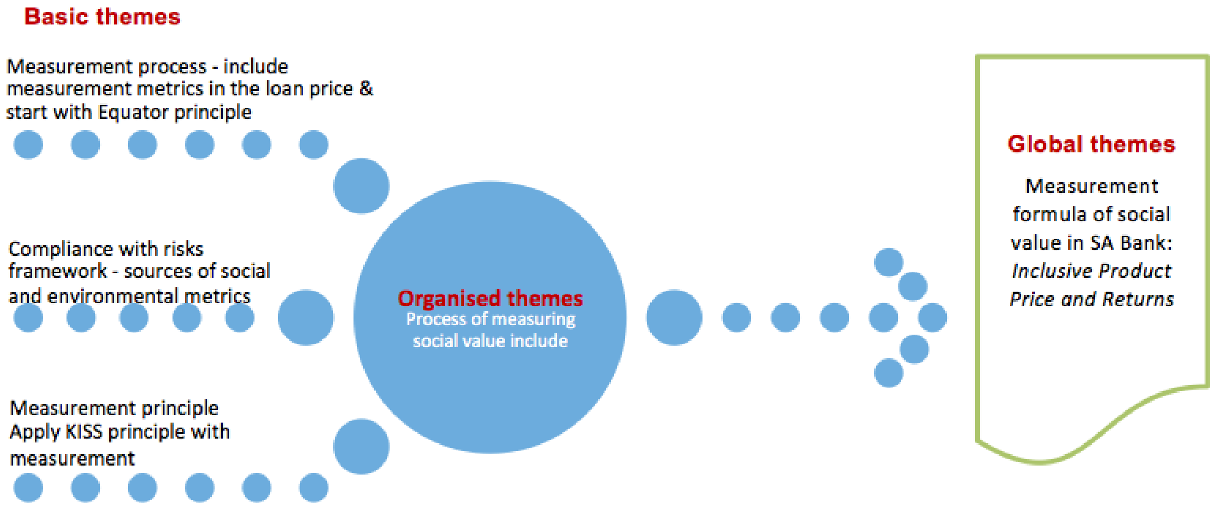



Figure 60 Case 1 Organising theme 39 Global theme 26

Figure 60 depicts the organising theme 39 of global theme 26 (Case 1: RQ3) which focuses on the process through which social returns are measured. The supporting basic themes detail the process of how social returns are being measured.

The measurement process includes the development and inclusion of the social metrics in the loan price or cost. The compliance with the risk frameworks such as Equator principles is the source of social metrics guided by Equator III principle 2: environmental and social assessment, principle 3: applicable environmental and social standards and principle 4: environmental and social management system and Equator Principles Action Plan.

The measurement principles adopted that guide the measurement process, is to keep it simple (abbreviated herewith as the KISS principle) – keep measurement as simple as possible, unambiguous using common language that is understandable to the ecosystem. IRIS as argued in the conceptual framework, has developed and established social metrics in order to standardize them. Thus the measurement process covers how the social metrics will be factored into the product price to have inclusive price.

Basic themes – respondent excerpt and field notes

Respondent 2:

> "*Part of the normal credit review process, determine the pricing that a loan for one of these projects will be given, they will actually consider environmental and social risk. This was a big thing for us because it took us to the leading edge of where Impact Investing or rather, not Impact Investing but the measurements around social impact is globally. We've been implementing that for the equator deals being big deals. But then also that kind of assessment has been applied to any affected transaction subsequently*."

Respondent 2:

> "*So, we're gonna comply with Equator and therefore we're going to apply these social and environmental metrics and assessments to big transactions and organically it filtered into the smaller transactions. And that for me was a sign that the operating environment is very fertile for more social metrics being applied in the business of lending particularly*."

Respondent 3:

> "*I think each project has to have for the time being its own set of values and parameters and over time, when more of these projects sort of build-up and more data that you can assimilate, we can try and find commonalities within these project and then looking forward we can have a bench mark, to say these are the bench marks for Impact Investing.*"

Key issue from the field notes:

*"Equator principle is the point of departure for measuring social value in banking products and services thus it is driven mainly from compliance framework perspective."*

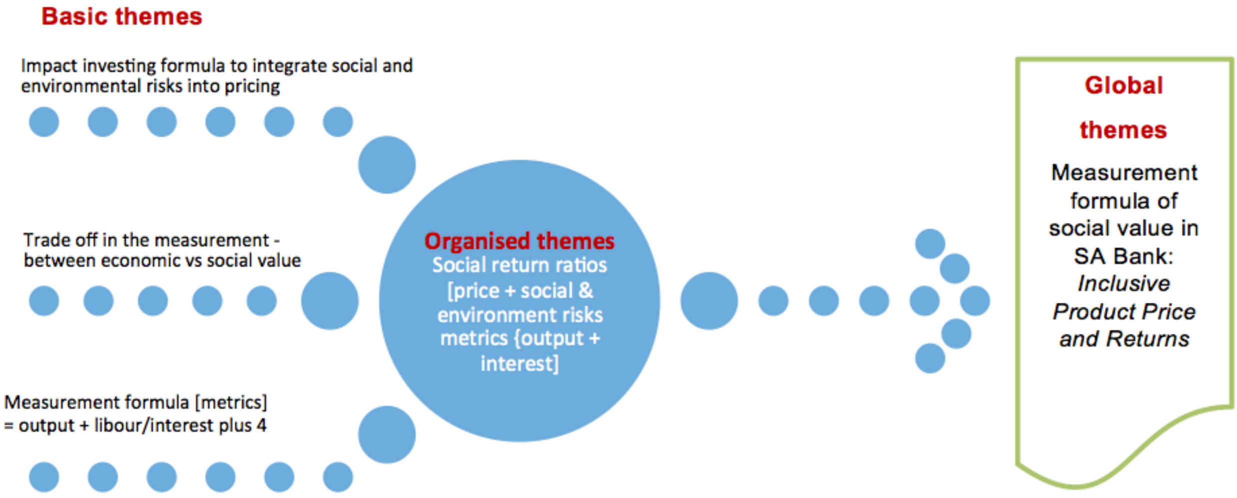



Figure 61 Case 1 Organising theme 40 Global theme 26

Figure 61 depicts the organising theme 40 of global theme 26 (Case 1: RQ3) that focuses on the social return ratios.

The supporting basic themes is the Impact Investing formula which integrates social and environmental risks into loan price; trade-off between focusing on finance or impact first (deciding on expected financial return and positive social impact?); and measurement ratio of output + libor/interest plus 4%. The Equator Principle as the point of departure has to be integrated into the product price during the transaction due diligence. It covers social and environmental risks, hence the inclusion of sustainability managers in the impact investment transaction, deal structure or team.

The measurement ratio is included in the loan price as such there is no trade-off between financial and non-financial returns as per the blended value proposition. Thus the measurement ratio entails financial and non-financial output + libor (interest rate plus 4%). Consequently two social return ratios emerged from the data – cost and return ratios:

$$Cost\ ratio: Inclusive\ Product\ Price = Cost\ of\ the\ product + cost\ of\ social\ output\ [100\ houses\ metrics]$$

Equation 1 Case 1 Cost Ratio (Cr)

$$Return\ ratio: RoI = Output\ [financial\ return + social\ return^{12}] + repo\ rate^{13} + interest\ rate$$

Equation 2 Case 1 Return Ratio

Basic themes – respondent excerpt and field notes

Respondent 1:

> "*From your basic empirical methodologies around how do you actually measure something, how do you measure the social, the non-financial impact before you put money there to what does this mean for our financial instruments? Are we prepared to say let go of some of the financial returns for social returns? And we haven't answered all of those questions."*

Respondent 2:

> "*That's our social impact. We wanna put people in houses. Full stop. What's the financial return? libour plus 4 or whatever it is. And so we're not ... Then you also don't constrain your highly analytical people by saying okay; we've got a new measurement matrix for this stuff. They're going okay, 100 thousand houses, libour plus 4."*

Key issue from secondary document:

*"equator is a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects. It is intended to provide a minimum standard for due diligence to support responsible risk decision-making. It becomes the source of environmental and social metrics."*

---

[12] Example of social output: 100 houses built and 300 beneficiaries who have access to accommodation [improve access to accommodation]

[13] Repo rate is the interest rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.

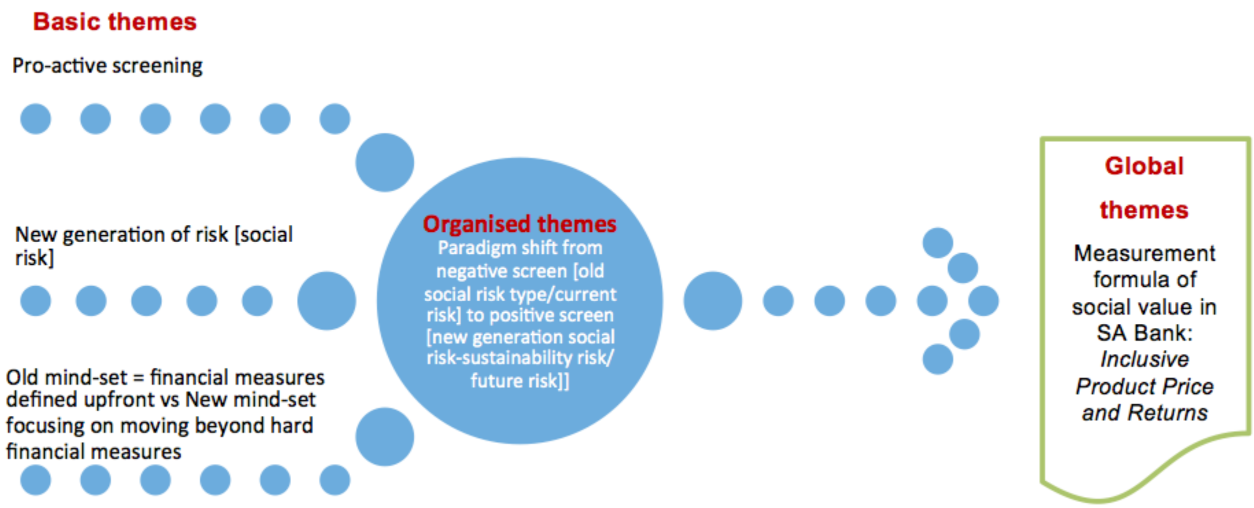



Figure 62 Case 1 Organising them 41 Global theme 26

Figure 62 depicts the organising theme 41 of global theme 26 (Case 1: RQ3) which focuses on the paradigm shift from negative to positive screening as argued in the conceptual framework of the shift from ESG risk management to maximum-impact solution.

The supporting basic themes are pro-active screening that is the essence of impact investment and its unique feature; new generation of risk (increasing awareness of social risk and need to mitigate them as per the Equator principles); and balance between old mind-set- of hard financial measures and new mind-set focusing on social metrics which were previously not part of business value creation.

The focus on positive investment screening is on providing social solution rather than just avoidance which is about kicking the ball into the touchlines without taking full responsibility. The introduction of new measurement impact ratio, instead of exclusive focusing on financial ratio, will entail including and factoring in the social externalities into the product price.

Basic themes – respondent excerpt and field notes

Respondent 2:

> "*Because people are like it's this new generation of risk and it's hard to measure and therefore it's got to be difficult. But what actually needs to happen in order to make it real in the organisation's life is the people, the parties involved in putting this thing together have to start recognising the new generation of risk that we're trying to take cognisance of.*"

Key issue from the field notes:

"the new mind-set of investment confirms the paradigm shift from negative to positive screening. The banks seeks to be part of the solution to social needs and challenges."

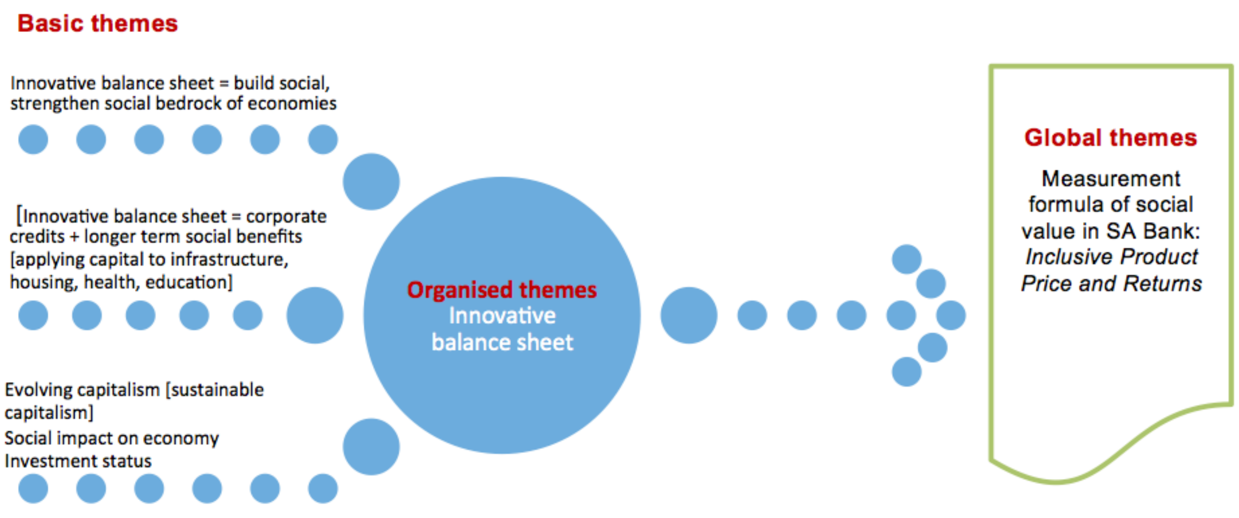



Figure 63 Case 1 Organising theme 42 Global theme 26

Figure 63 depicts the organising theme 42 of global theme 26 (Case 1: RQ3) that focuses on the innovative balance sheet as a result of hybrid returns: economic and social value. The supporting basic themes are innovative balance sheets that build social value which is the economic bedrock; and evolving capitalism.

The innovative balance sheet balances corporate credits with long-term social benefits such as improved social progress through economic and social infrastructure, housing, health and education. The innovative balance sheet supports economic and social value creation. Capitalism has evolved from shareholder capitalism (that exclusively created the economic value for the shareholder through financial returns) to stakeholder/sustainable capitalism (which holds that every organisation creates blended value – comprised of the economic, social and environment – for broader stakeholders with a long-term view) that embraces a long-term view and broader sharing of benefits.

The model of Sustainable Stakeholder Capitalism (SSC) implies that sustainable global capitalism requires that business, government and civil society leaders inclusively and moderately balance the economic, psycho-social moral, and credit risk demands of market and non-market stakeholders in all four quadrants and be held accountable for lapses in judgment for not doing so (Petrick & Quinn, 2001).

Basic themes – respondents' excerpt and field notes

Respondent 1:

> "*And we were talking about the social imperative from a Treasury perspective and saying, so how do we start looking at our balance sheet more innovatively, so that we can start building social, strengthening the social bedrock of the economies in which we operate.*"

Respondent 2:

> "*Cause he was like yes, we've been focussing on corporate credits and other parts of the business for various reasons but actually longer term we need to look at how do we unlock the social benefits that come from applying capital to infrastructure, housing, health, education and so on.*"

Key issue from the field notes:

*"innovative balance sheet requires fundamental shift in the manner in which a balance sheet is constituted."*

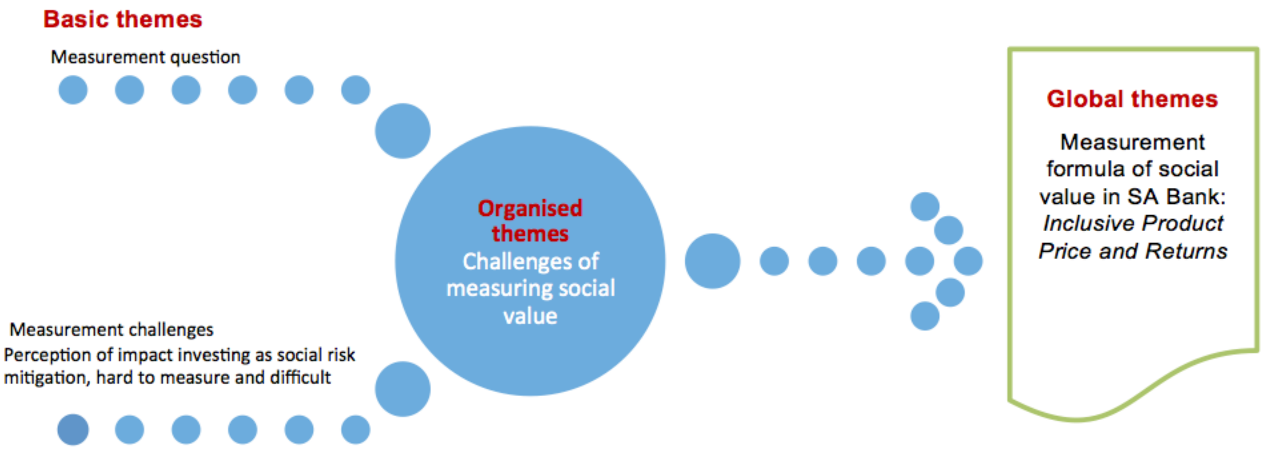



Figure 64 Case 1 Organising theme 43 Global theme 26

Figure 64 depicts the organising theme 43 of global theme 26 (Case 1: RQ3) that focuses on the challenges of measuring social value experienced by the bank.

The supporting basic themes are measurement questions such as what does social value measurement mean for the existing financial instruments that are not used to hybrid logics? Are they flexible to accommodate both the financial returns and social returns?

The challenges include quantification of social metrics and standardization of those thereof. Although IRIS and GIIN have made progress of standardizing metrics and common language as argued in the conceptual framework the challenge still remain. Banks are known for being conservative, prudent and opting for a case by case approach of scaling the measurement instead of the blanket approach or one size fits all, unless there is an objective measurement system which this study is developing.

Basic themes – respondents' excerpts and field notes

Respondent 2:

> "*From your basic empirical methodologies around how do you actually measure something, how do you measure the social, the non-financial impact before you put money there to what does this mean for our financial instruments? Are we prepared to say let go of some of the financial returns for social returns? And we haven't answered all of those questions. It's these new things and often what you*

*find is that people in the investment space are very, a-type. You know. They like measurement, they like things clearly defined, they want to put a number to it, you know, all of that stuff. And then you come in and you say okay guys, but you know, actually we are funding NGOs who are against the steel. Okay. And they don't necessarily know too much about the measurement, but they know that it's bad for them for the following reasons and how do you bring the two kind of mentalities together in a constructive way.*"

Key issue from the field notes:

*"we deal with dealmakers who primary concern is financial returns to client and we have to work hard to show them that their client would prefer more than financial return. But the stumbling block has always been how do we measure social value and how do we reconcile old and new mind-set of the investors".*

## Case 1 Overview of the measurement of social value

Social value is measurable and has two essential quantifiable ratios namely, inclusive product price and returns. The measurement of social value in its nascent stage however is still plagued with challenges.

The challenges are also exacerbated by the combination of various fields as impact investment is emerging inter-discipline, as revealed by the findings in chapter 4.

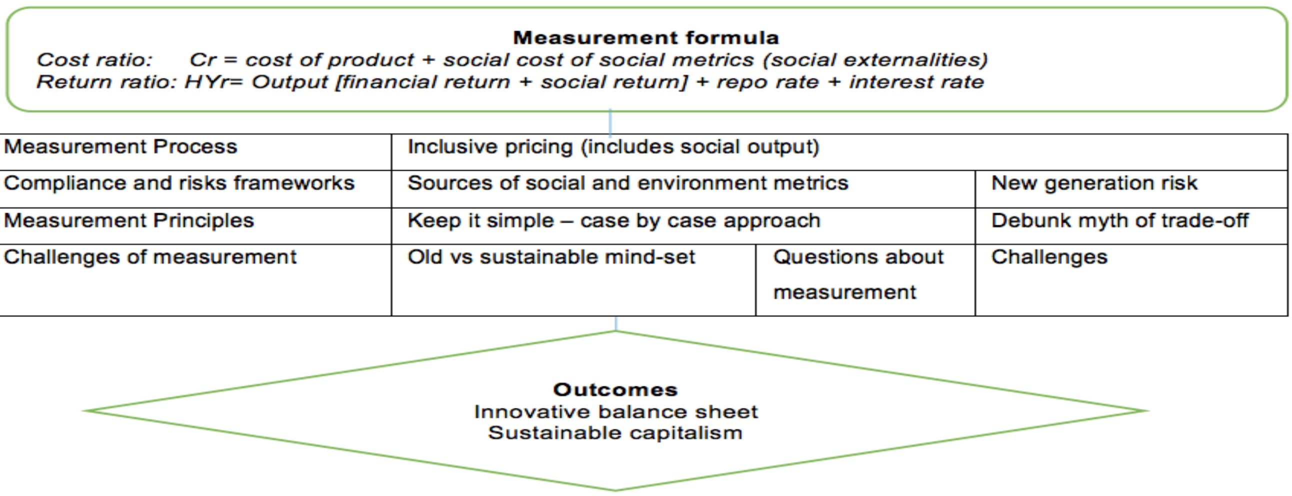



Figure 65 Case 1 Overview of the measurement of impact investment

Figure 65 depicts summary of case 1 measurement formula and challenges. In terms of this case, the costs and returns of non-financial returns (social) are embedded in the impact investment cost and hybrid returns ratios. The impact investment product must have an inclusive price that includes costs of social benefits and returns, and this imply they should be built into the ratios.

The indivisibility of value simply means that this should be embedded in the impact investment transaction ratios. This ultimately means that the costs and returns of social output should be quantified and given financial value. Social metrics are sourced from the compliance and risks frameworks as per the Impact Investing evolution.

Consequently these ratios will lead to an innovative balance sheet and redefined capitalism that others might call sustainable capitalism. Social output will lead to social outcomes that changes people's lives.

### 6.1.2 Case 2 Commercial Bank

Case two has one global theme, three organising themes and nine basic themes emerged, as depicted in figures 66 - 69. The global theme focuses on the measurement formula of social value: market price + context based metrics.

**Global theme 27 Case 2: RQ3:**

Measurement formula of social value*: Market Price + context based metrics*.

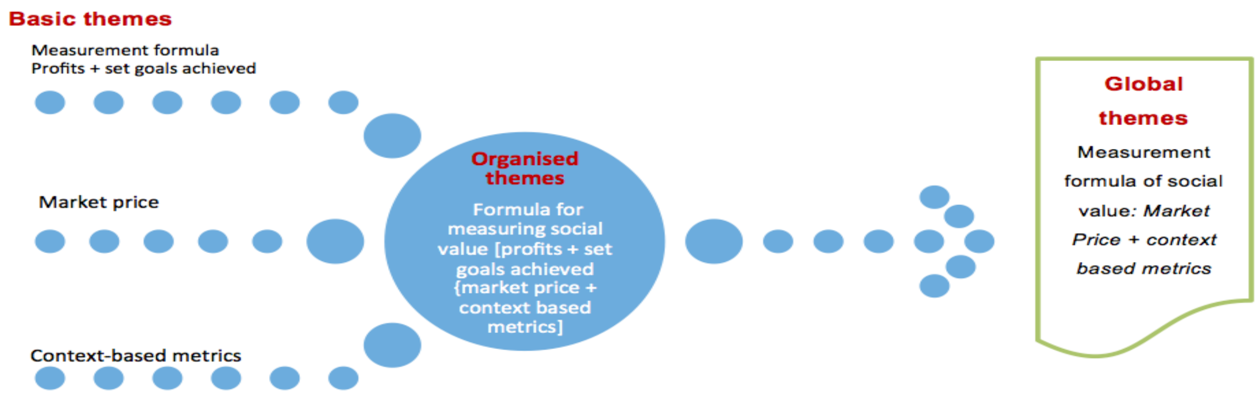



Figure 66 Case 2 Organising theme 44 Global theme 27

Figure 66 depicts the organising theme 44 of global theme 27 (Case 2: RQ3) that focuses on the formula of measuring social value. The building blocks of the formula as captured by the supporting basic themes are measurement formula [financial profits + non-financial returns as represented by achieved set goals]; market price and context-based metrics (pricing that include: product price + social externalities such as social costs and benefits).

The context based metrics take into consideration that the pricing of social metrics may vary depending on their context. Market price in this instance means the financial price plus social costs.

The social return ratios that emerged are:

$$Cost\ ratio: Cr = Market\ price\ [cost\ of\ product\ +\ variable\ cost\ of\ quantified\ context - based\ metrics^{14}]\ (e.g.\ social\ cost\ of\ jobs\ created, skills\ development)$$

Equation 3 Case 2 Cost Ratio (Cr)

$$Return\ ratio: Hybrid\ R\ (HyR) = financial\ return + quantified\ social\ goals\ achieved\ (financial\ value\ of\ social\ benefits)$$

Equation 4 Case 2 Return Ratio (HyR)

Basic themes – respondents' excerpts and field notes

Respondent 1:

> "*So I think that we need to come up with our own matrix ourselves that will meet with our environment and also the level of sophistication of investors. Our investors are still either just ordinary investors not as sophisticated as the west. The context is so different, then the social needs are different, I mean, the context of poor people in the US and poor people in Africa and the context of poor people in Europe and if we talk poverty in Africa, South Africa and poverty in Nigeria, is very different, so I think that the context plays a big role.*"

[14] Variable cost of context-based social metrics would vary according to the geographical context.

Respondent 2:

> "*if how you're measuring performance is not purely on profits but on goals achieved that's a performance output you know and if you remunerating an individual on that they're driven to achieve that*."

Key issue from the field notes:

*"context-based social metrics are influenced by the geographical context of the social needs and challenges."*

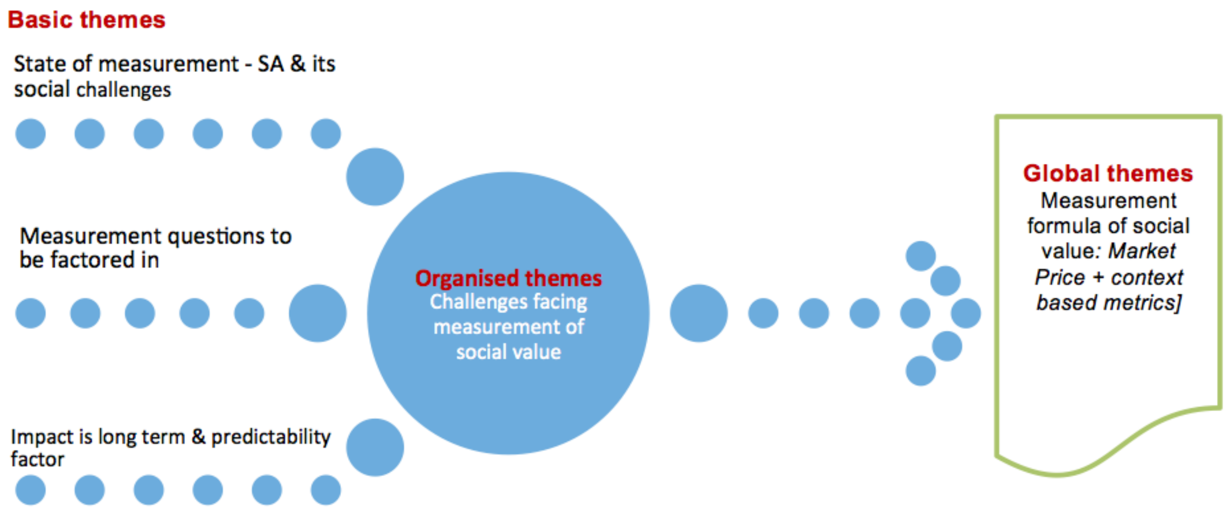



Figure 67 Case Organising theme 45 Global theme 27

Figure 67 depicts the organising theme 45 of global theme 27 (Case 2: RQ3) which focuses on the challenges facing measurement of social value.

The supporting basic themes are the state of measurement in South Africa & its social challenges, measurement questions to be factored in, such as how to quantify social value, put value on human life, impact time-frame and the predictability factors of intervention's cause-effect (how to factor in impact time-lag).

Measurement in South Africa is faced with the following challenges that characterize the infancy stage of measurement and Impact Investing. It is a long term investment where the results are not immediate. Are the investors willing to wait for impact that can be proven after a certain time-lag?  These challenges are similar to issues raised under section 2.4 on measurement of social value.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> "*If you talking impact, you talking systemic issues. So, its, you really talking systemic, talking long term and so it's people that aren't really looking for a quick buck because you need to have a long term thing when you looking at impact and like I said earlier, you may not see the impact immediately and you may not necessarily get the impact that you are hoping to get, but you may get an unexpected result, unexpected principles that may be positive or negative, due to the fact of the negative inter pricing of all of these, if whatever impact you actually or initiative that you are actually investing in, if it yields an unexpected negative consequence or result.*
>
> *How do you price that in and how do you factor that in, and what you may be trying to intervene in may not yield expected results but might yield something else, so that you may not have an indicator in you and I think for me the space, if you are talking social impact, it is an iterative process and they are not clearly defined up front, because you are dealing with, a lot of the time you are dealing with, okay, except for the environment, maybe, but if you are dealing with, sort of, there are always going to be people involved and people involved, you can never really clearly define up front to say these are the behaviours today and these are the behaviours that we are expecting tomorrow.  So, you can never really define them up front.*"

Key issue from the field notes:

*"Social measurement is seen as hard because of the fundamental questions regarding low probability of cause-effect predictability with regard to social value."*

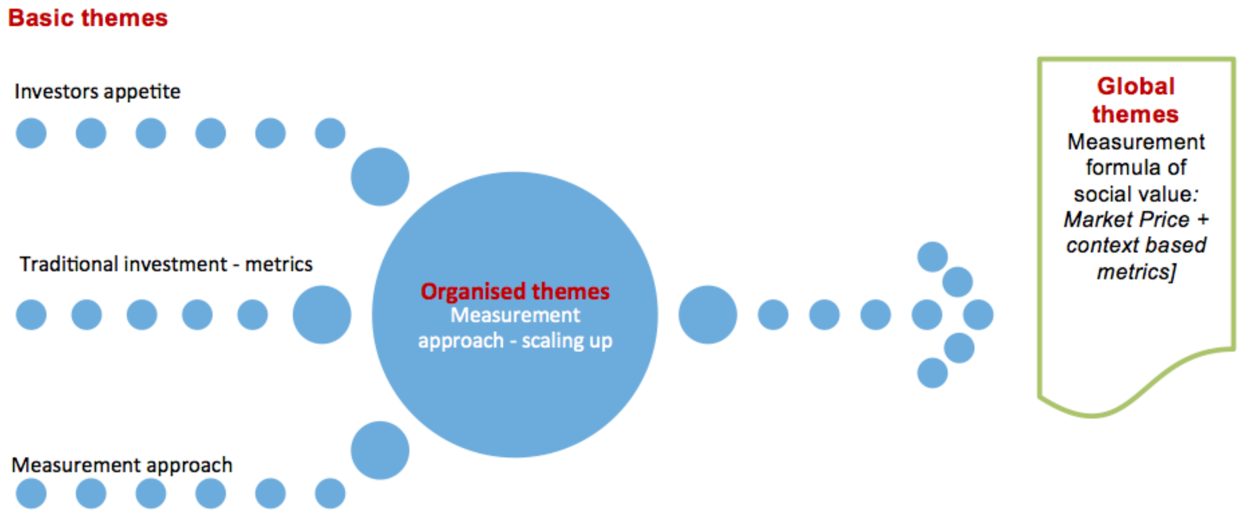



Figure 68 Case 2 Organising theme 46 Global theme 27

Figure 68 depicts the organising theme 46 of global theme 27 (Case 2: RQ3) as the measurement approach – scaling up (start with small transaction and scale-up to big transactions). Consolidate measurement on small transactions before moving to big transactions.

The supporting basic themes are the investors' appetite, traditional investment metrics and measurement approach. Thus the development and maturity or acceptance of the measurement approach is guided by the investors' appetite because the higher the appetite and increase in momentum, the greater the speed to scale up. The shift from traditional to impact investment metrics is not swift.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> *"And there is an interesting bit about development for the social context, something is weighed on as small scale and the minute you scale them up they don't work, which I think is an important factor because what we need to have to be careful of is not trying to adopt initiatives that have worked to sort issues on a small scale and scaling those up to be deliverable or to deliver initiatives because than it changes the dynamics completely. There is no one size fits all. So, it may work on*

*a small scale but the minute now you want to take it upscale it because that is what you are going to need to do with these initiatives. The minute you upscale it, it changes everything so ja."*

Key issue from the field notes:

*"the bank is cautious and emphasised the need to approach each project with its own measurement rather than having one-size fit all approach."*

**Case 2 Overview of the measurement of social value**

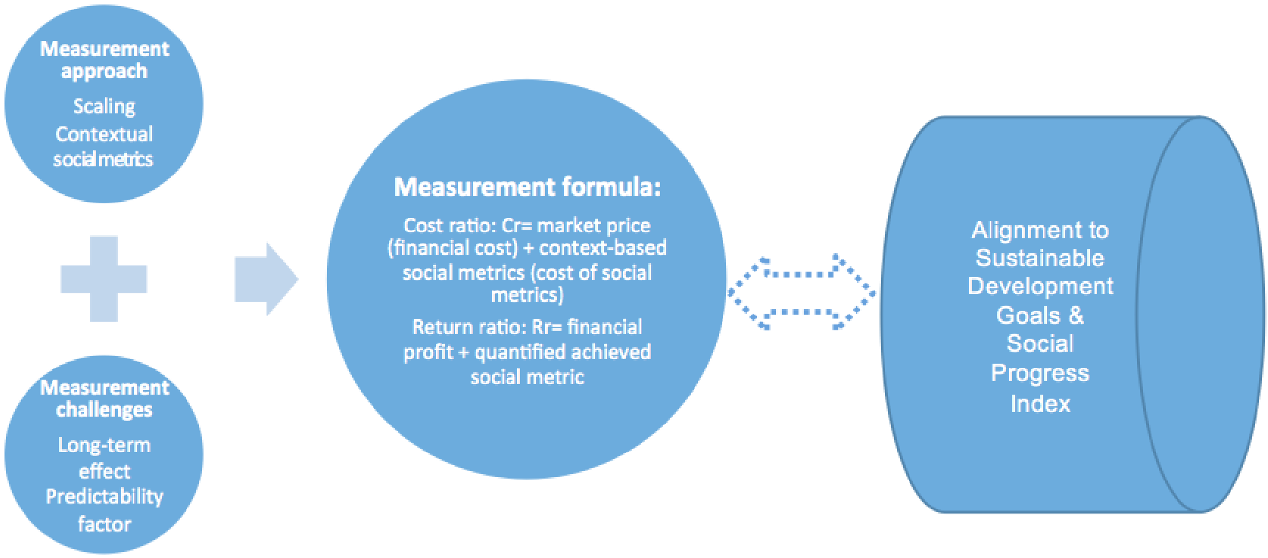



Figure 69 Case 2 Overview of measurement formula

Figure 69 depicts the overview of the measurement of social value of Case 2. The two emergent measurement ratios are market price [product cost + variable context-based social metrics] and hybrid returns [financial profit + quantified achieved social metric].

The measurement of social value is faced with the challenges of long-term effect, predictability factors of cause-effect logic and the variability of the context-specific social metrics. The achieved social metrics will be aligned to the Sustainable Development Goals (SDGs) to depict the bank and its value chain's contribution to SDGs and Social Progress Index (SPI). In South Africa the NDP is aligned to the SDG.

### 6.1.3 Case 3 Commercial Bank

Case 3 has one global theme, three organising themes and eight basic themes as depicted below in figures 70 - 72. The global theme focus on measurement formula ratio of social value: *Risk premium [cost of capital + cost of impact (big picture of social impact)]*.

**Global theme 28 Case 3: RQ3:**

Measurement formula ratio of social value: *Risk premium [cost of capital + cost of impact (big picture of social impact)]*.

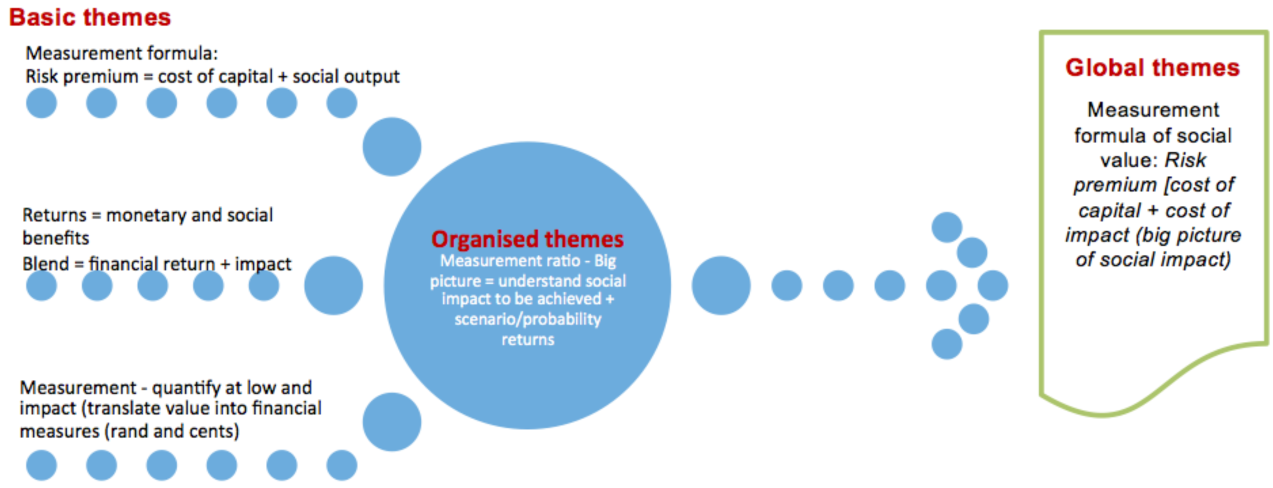



Figure 70 Case 3 Organising theme 47 Global theme 28

Figure 70 depicts the organising theme 47 of global theme 28 (Case 3: Q3) that focuses on the measurement ratio which posits that understanding the big picture of social impact entails looking at a scenario of probability of social returns and expected financial returns.

The supporting basic themes focus on the measurement formula [risk premium = cost of capital + cost of social output]; blended returns = financial return + impact (social benefits); and measurement quantification using rating scale of low, medium and high impact [translate value into financial metric]. Two social returns ratios emerged:

$$Cost\ ratio: Cr\ =\ Price\ [cost\ of\ capital\ +\ cost\ of\ impact\ [low/high]]$$
$$= cost\ of\ capital\ [product\ cost\ +\ social\ output\ cost]$$

Equation 5 Case 3 Cost Ratio (Cr)

$$Return\ ratio: HYr$$
$$= \ financial\ return\ [monetary\ benefits]$$
$$+\ big\ picture\ impact\ (social\ metrics)\ [social\ benefits]\ or\ HYr$$
$$= \ (Financial\ return\ +\ Positive\ social\ impact\ created)$$

Equation 6 Return Ratio (HYr)

Basic themes – respondents' excerpts

Respondent 1:

"*Getting a perfect blend between the return element of it and the impact element of it and there is a lot of, there is a lot of data and research, which I am sure you are well aware of that shows that social responsible investments do actually amass significant value at a return level and at an impact level right. I think that the bigger picture helps you harness, so creating an understanding of what social impact we are trying to build then the return the scenario returns or the probability returns are around that you know, you will then I think help manage and guide the value proposition at a blended or combined level, if that makes sense.*"

Respondent 2:

"*If we would say this year we made so much money, we met our cost of capital and we created jobs, I think you have to go beyond that, you have to find ways of reducing the other forms of value add, ultimately to a financial metric.*"

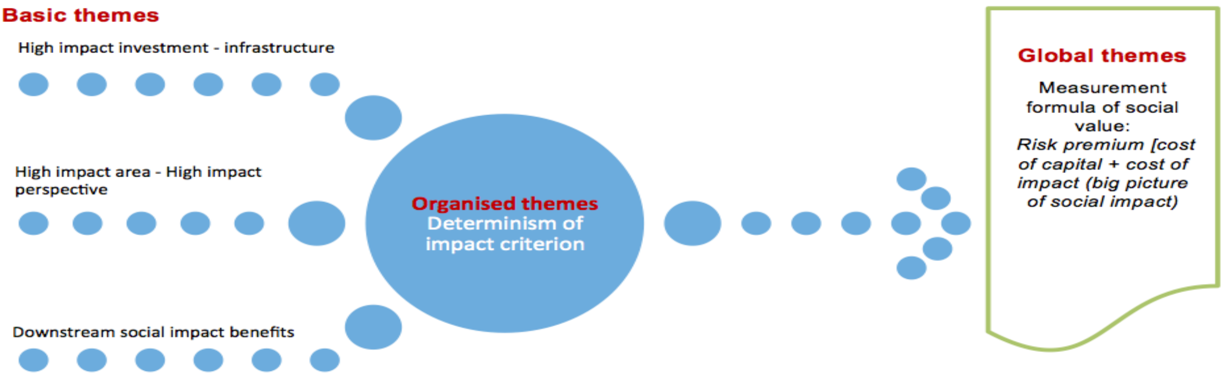



Figure 71 Case 3 Organising theme 48 Global theme 28

Figure 71 depicts the organising theme 48 of global theme 28 (Case 3: RQ3) which focuses on the criteria to determine the rating of impact.

The supporting basic themes are high impact investment which consists of two ratings – infrastructure; high impact areas and downstream social impact benefits. Impact can be categorised in terms of the level, area of investment (where investment would be made and the potential impact it would create) and type of industry (where impact investment is made e.g. infrastructure development) or investment in agricultural irrigation scheme or SMME finance for venture capital.

Respondents' excerpt

Respondent 1:

> "*It is tangible because you can do that, you can, you can actually attribute the value impact, so when you talk about impact I think the industry consider something that you can quantify especially at, at a tangible level and you can see and vision the impact of at a particular individual, because I think that is what most of the people that actually end up most of our clients then who wanted to invest in you know and then that is how we structured it and that is how then I hope it gives you an idea of how then the industry tends to look at the low impact, what they considered low impact and high impact and I mean I have been four years removed, but I am, I think having spent significant amount of time, I think that's that was the norm, yes.*"

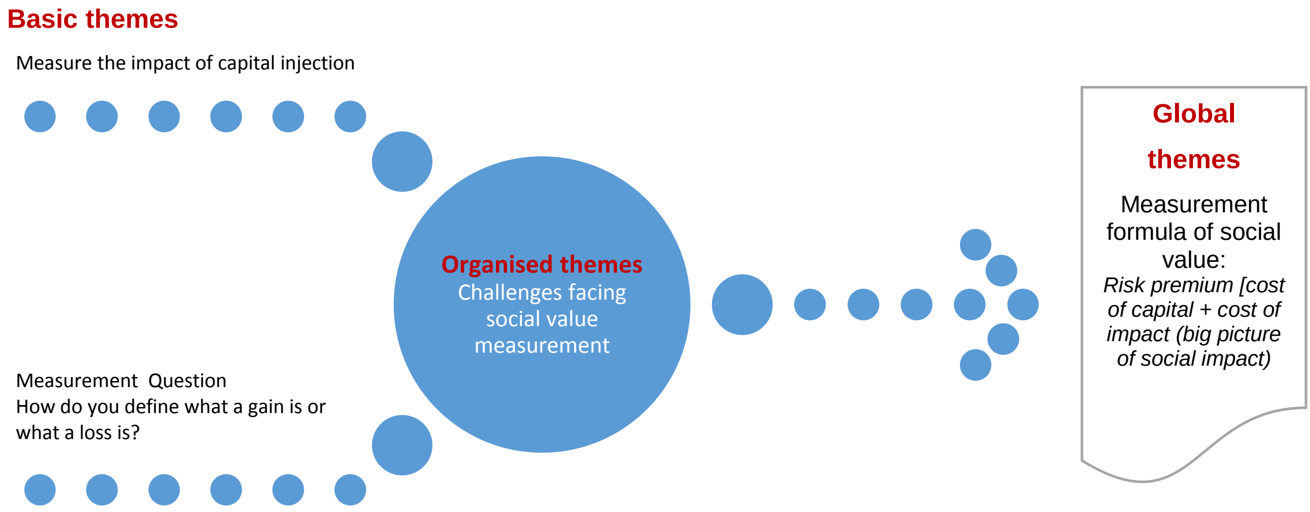



Figure 72 Case 3 Organising theme 49 Global theme 28

Figure 72 depicts the organising theme 49 of global theme 28 (Case 3: RQ3) that focuses on the challenges facing measurement of social value measurement. The challenge is the quantification of the social value using financial metrics.

The supporting basic themes are measuring the impact of capital injection and defining gain or loss in terms of finance metrics. The challenge of reducing every social metric to financial value is lack of standardization in terms of valuation, for instance a social metric in a part of the world could be more valuable than in another area. IRIS has covered the ground by developing indicators however valuation or pricing of such is still context-based.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> "*Definitely it is measurable because I think with anything where you, I don't want to use the word invest, where you inject capital, you can then measure the, you can then measure the impact of that capital injection. But then how you then say how then do you define what a gain is or what a loss is, becomes quite, becomes quite, quite the challenge, especially given the type of investing that you are talking about in here.*"

Respondent 2:

"*I think the area of Impact Investing and how to measure it is not in my view as… that particular research area has not been finalized and in particular how do you establish the cost of capital and value add of these national monopolies or public goods, I don't think that area has been properly explored*."

Key issue from the field notes:

"the ultimate returns include financial and social returns which should be ultimately converted into a financial metric."

**Case 3 Overview of the measurement of social value**

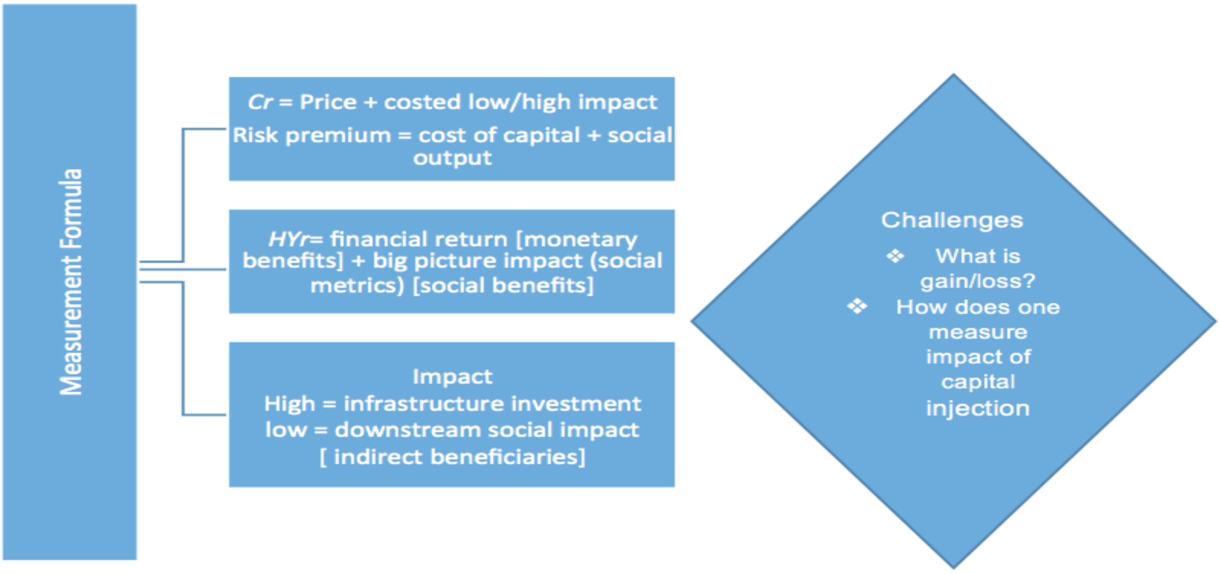



Figure 73 Case 3 Overview of the measurement of social value

Figure 73 depicts overview of the measurement of social value of case 3. Two measurement ratios emerged: cost and hybrid ratios. The cost of social impact and the value of social benefits can be quantified and included as part of the product price and returns. The measurement challenges highlighted, focuses on defining gain/loss of investment and putting financial value into social metric. The challenges do not deter the growth of the impact investment industry.

### 6.1.4 Case 4 Development Bank

Case four has one global theme, three organising themes and six basic themes as depicted in figures 74 - 76. The global theme focus on the social returns measurement formula.

**Global theme 29 Case 4: RQ3:**

Social return measurement - formula of social value: *Cost of capital + Return of development variables*

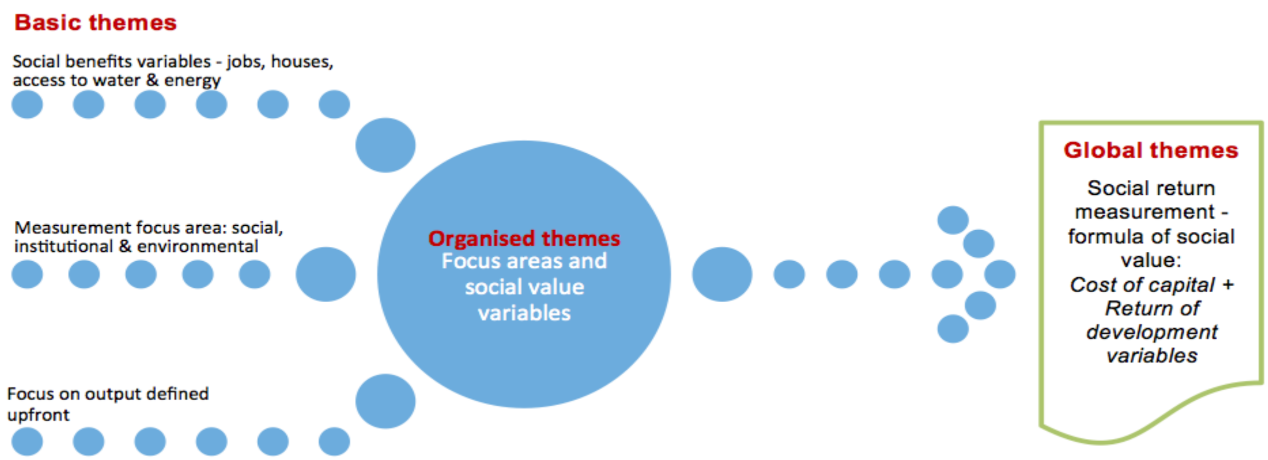



Figure 74 Case 4 Organising theme 50 Global theme 29

Figure 74 depicts the organising theme 50 of global theme 29 as the Impact Investing focus areas and the social value variables. The focus areas has bearing on ratings of the investment and type of social metrics.

The supporting basic themes are social benefits variables such as jobs, housing, SMME funding; measurement focus areas such as social, institutional and environmental support the ESG factors as discussed in the conceptual framework and focus on output defined upfront. Social value variables that comprise of social return are kept at output level and defined upfront before the project commences. Two ratios emerged:

$$Cost\ ratio: Cr\ =\ cost\ of\ capital\ +\ cost\ of\ social\ metrics$$

Equation 7 Case 4 Cost Ratio (Cr)

$$Return\ ratio: HYr$$
$$=\ financial\ return$$
$$+\ development\ metrics\ [social\ variables\ achieved\ at\ output\ and\ outcome\ level]$$

Equation 8 Return Ration (HYr)

Basic themes – respondents' excerpts and field notes

Respondent 1:

> "*we have a Development Results Matrix in the bank that I can put you in touch with the people who do that, it's basically monitoring and evaluation but we have a framework that looks at all our investments and tries to calculate what the social, gender, economic, youth, the jobs all those variables, what impact our money is bringing into those contexts, and because we work closely with the South African government on the infrastructure delivery side we have a whole division that deals with that, so the government gives us money for health education and human settlements, so their budget comes to us. We manage the budget, we manage the contractors and we make sure that houses, schools and clinics are built. And we do some of them and we do maintenance management as well to oversee the contractors that is I think our South African based impact investment but it's not our money, we are the fund managers for government on that*."

Key issue from the field notes:

> *"the social benefits in the development bank is still at output level were the results are tangible output like schools or clinic build and number of beneficiaries of such infrastructure provision."*

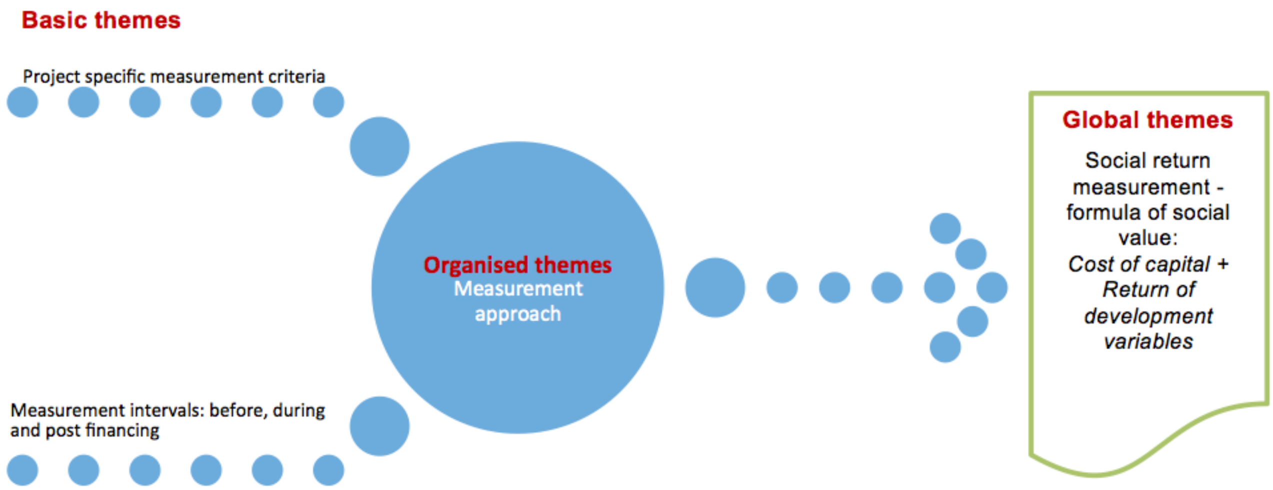



Figure 75 Case 4 Organising theme 51 Global theme 29

Figure 75 depicts the organising theme 51 of global theme 29 which focuses on the measurement approach and is supported by basic themes project specific measurement criteria and measurement intervals (before, during and post-financing).

The criteria to measure social value is relative to a particular project. The intervals to measure the output is all encompassing covering pre and post project delivery.

Basic themes – respondents' excerpt

Respondent 1:

> "*so every project gets measured on the most relative criteria that are affected, so whether it is gender or jobs, just access to utilities that will change the way people experience life. We used to have institutional and environmental specialists who use to evaluate, every project we would get in, when it first came into the bank to the point where we financed it and post financing and during financing as well, because when a company or sponsor brings in a project to the bank they need to specify what those outcomes are going to be.*"

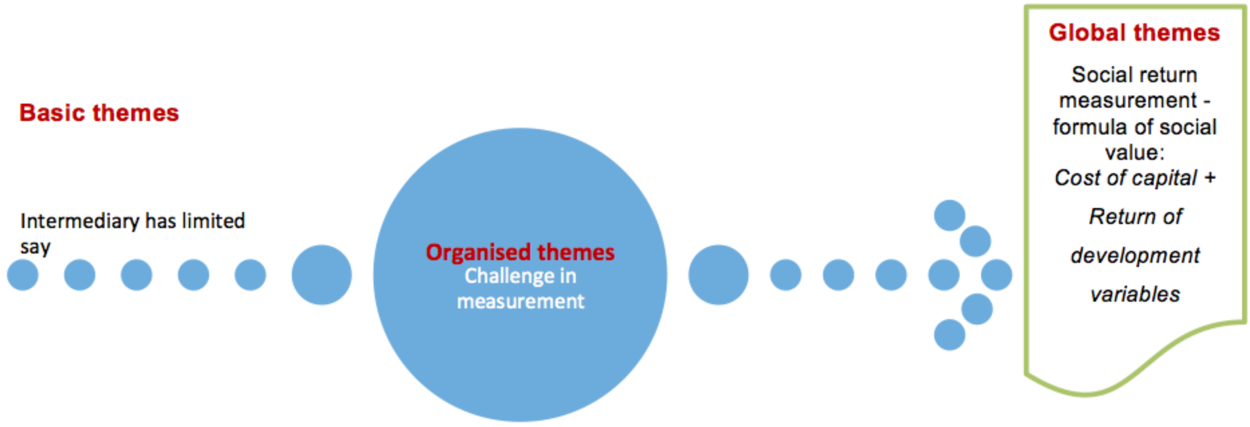



Figure 76 Case 4 Organising theme 52 Global theme 29

Figure 76 depicts that the organising theme 52 of global theme 29 is the challenge in the measurement of social value.

The supporting basic theme is limitation of intermediary on project execution. Projects are run by demand-side and final arbiter on whether the project has delivered or not is the supply-side leaving the intermediary with a limited role. The financial intermediary as an agent has limitations that can curtail their role in the creation of positive social impact. Their limitation is based on the contractual obligations entered into between the principal and agent. At principal-agent level 2 where the financial intermediary is the principal 2, they are still limited in that the final say is with principal one.

Basic themes – respondents' excerpts and field notes

Respondent 1:

> "*But remember the projects don't belong to us, so that is an added complication because if the project was ours we would be able to do a lot more with the money that we invest.*
> *So there is no proper baseline plus follow through to see the information as it is building over time, there is no timeline for the information. Now, we are much more stringent and we make sure that we do have baseline figures and see how those figures change overtime, because we can tell you how many kilometres of roads we have built, how many hospitals we have built, how much megawatt we have*

*contributed to, but when it comes down to the impact, because that is the outcome. When it comes down to impact we are still working on it.”*

**Case 4 Overview of the measurement of social value from the development perspective**

| Focus areas | Social | Institution | Environment |
|---|---|---|---|
| **Social Value** | Social variables | Pre-defined output<br>● Jobs<br>● Access to basic needs: water, houses, energy, education<br>● Housing [human settlements]<br>● Schools | |
| **Measurement approach** | Project specific measurement criteria<br>Ratios: Cr = cost of capital + cost of development metrics<br>HYr = Fin return + Development Indicators achieved [output + outcome] | | |
| | Measure | Establish baseline | |
| | | Measure pre, during and post-financing | |
| **Challenges of measurement** | Intermediary limitation | | |

Table 18 Case 4 Overview of the measurement of the social value

Table 18 depicts the summary of the measurement of social value. Two ratios emerged: cost and return ratios as the impact investment equation.

Cost ratio refers to the cost of capital which include cost of development metrics and return ratios covers financial returns and development indicators achieved at both output and outcome level. Output refers to the tangible infrastructure built whilst outcome refers to positive change experienced as a result of the infrastructure. Measurement challenge is the limitation of the intermediary role as a result of the principal-agent relationship model that governs impact investment as discussed in chapter five.

## 6.2 Macro Perspective of the Banking Sector: Within-Case Analysis

### 6.2.1 Case 5 Banking Association of South Africa

Case 5 has one global theme, one organising theme and three basic themes as depicted in in figure 77.

The global theme focuses on the measurement tool of social value.

**Global theme 30 (Case 5: RQ3):**

Measurement tool of social value in SA banks.

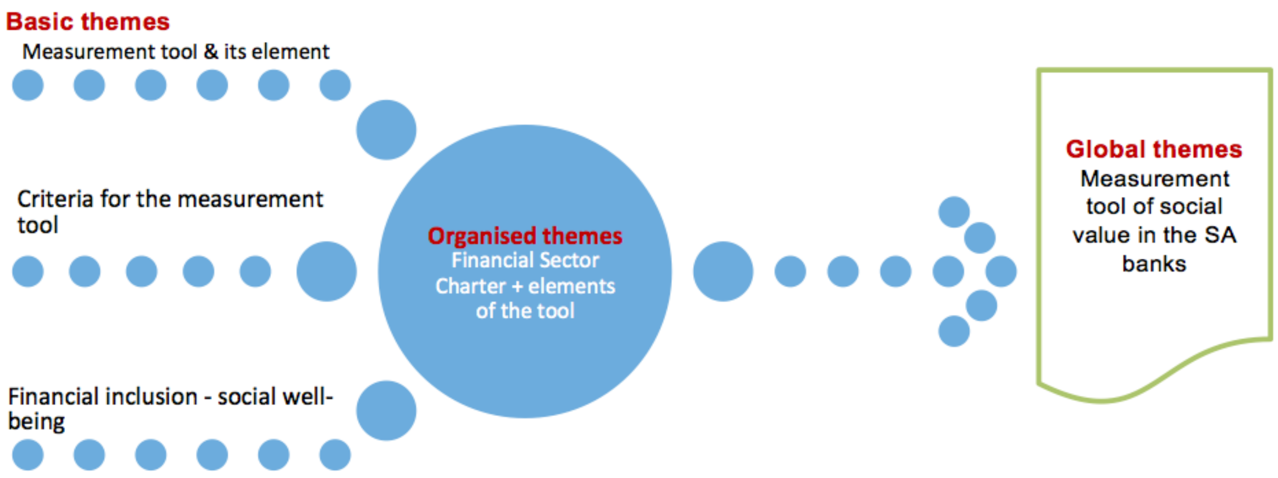



Figure 77 Case 5 Organising theme 53 Global theme 30

Figure 77 depicts the organising theme 53 of global theme 30 that focuses on the Financial Sector Charter as a tool to measure South African banks' social returns.

The supporting basic themes is that the Financial Sector Charter possess the measurement tool and its elements; it has the criteria for the measurement tool of Impact

Investing; and identified financial inclusion [social well-being] as one of the social objectives that the banks should address as part of social value creation.

The Financial Sector Charter becomes the ultimate tool of measuring social returns in the South African Banking Sector.

Two ratios emerged:

$$Cost\ ratio: Cr = Product\ costs + cost\ of\ social\ metrics\ (social\ elements\ of\ the\ charter)$$

Equation 9 Case 5 Cost Ration (Cr)

$$Return\ ratio: HYr = financial\ return + social\ elements\ of\ the\ charter\ achieved$$

Equation 10 Return Ration (HYr)

Basic themes – respondents' excerpts and secondary document

Respondent 1:

"*As far, you know one of the things that the financial sector obviously uses as a tool for this and both for implementing this and for measuring this in the Financial Sector Charter. Okay and if you look at the infrastructure – financing part of the Charter – we developed quite a few years ago a main infrastructure element of the Charter says that financial institutions will qualify for points under the Charter if they develop infrastructure and well fund infrastructure that makes a difference essentially in black people's lives okay… and we developed a set of criteria to measure that. Now, I think you should perhaps go onto the Charter Council website and you can probably get some stuff there. So, in the financial sector the Charter has been and will continue for the next few years to be a tool to measure the social impact of investing.*

*So, it's the infrastructure, it's agricultural finance for emerging farmers, it's human settlement development for people who don't have homes and who are still in shacks, it's access to financial services, which in itself I think, rese each is beginning to show, that financial inclusion is intricately linked to people's wellbeing and welfare okay. So, that all those elements that are in the Charter*."

Secondary Document:

"*Recognising the unique position that financial institutions hold in the development of South Africa, two new elements have been introduced into the scorecard over and above the seven elements that exist in the CoGP. These are Empowerment Financing and Access to Financial Services. These elements are intended to broaden and hasten the transformation process as they focus on making financial services accessible to the previously unbanked and under-served. They empower the previously disenfranchised through the provision of affordable housing, financing of black SMMEs and agricultural activities, and investing in various forms of transformational infrastructure that create the necessary platform to grow the economy on an equitable basis.*" - Financial Sector Code

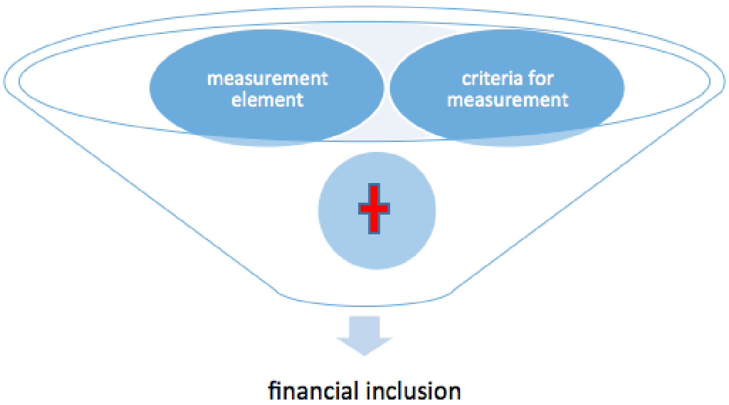



Figure 78 Case 5: BASA Overview of the measurement of impact investment

Figure 78 depicts the overview of the measurement of social value in the South African Banking Sector.

The source of social variables and/or social objectives is the Financial Sector Charter which identifies social and economic objectives to be met. The Financial Sector Charter is a tool that can guide social value creation and measurement.

Social value creation from banking perspective should be seen within the context of achieving financial inclusion as a corrective objective of a developmental venture capital.

## 6.3 Value Chain Perspective

### 6.3.1 Case 6 Supply-side: Institutional investor

Case 6 has one global theme, three organising themes and seven basic themes as depicted below in figures 78 - 80. The global theme focuses on measurement of social value formula for supply-side.

**Global theme 31 Case 6: RQ3:**

Measurement formula from the supply-side: cost and return ratios.

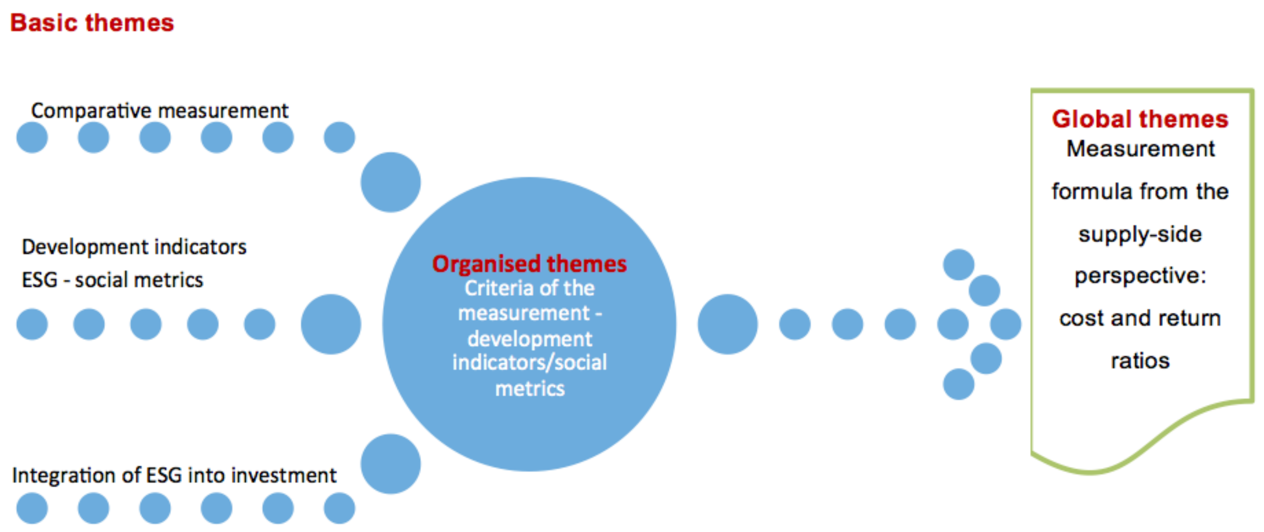



Figure 79 Case 6 Organising theme 54 Global theme 31

The global theme 31 (Case 6: RQ3) is the measurement formula that the supply-side is using to account for the returns and measure if their expectations are met. The organising theme 54 of global theme 31 is the criteria to choose the measurement development or social metrics indicators.

The supporting basic themes are comparative measurement, development indicators sourced from the ESG social metrics or factors and integration of ESG due diligence into the investment analysis.

The criteria to choose measurement indicators should be something that is planned and done upfront during the due diligence process of transaction consideration. Sustainability managers as part of the team should lead the stream that deals with social value measurement during the due diligence process in order to inform non-financial returns to be expected from the deal.

Two ratios emerged from the data:

$$Cost\ ratio: [ESG\ due\ diligence\ = (quantify: social\ spend\ +\ expected\ beneficiaries)]$$

Equation 11 Case 6 Cost Ratio (Cr)

$$Return\ ratio: financial\ return$$
$$+\ development\ goal\ [achievement\ of\ ESG: social\ and\ environmental\ metrics]$$

Equation 12 Case 6 Return Ratio (HYr)

Basic themes – respondents' excerpts

*Respondent 1:*

> *"Okay, I started with them last year and historically, the whole issue of ESG integration has been only brought in after the investment has been approved. Where, now, people will say, okay now ... and it was more looking at the developmental indicators – job creation, CSI – you know, that soft issues that at least one can be able to count,*
>
> *but now, we are going deeper to say, you know what - ESG integration should be a process that goes with every step of the investment. That's the only way we will be able to measure the impact."*

*Respondent 2:*

> *"What we have is, we have an ESG Metrics. So we have designed our own measurement tool and we rate companies according to their environmental, social and governance issues. And we now actually only focus on the social part of it."*


Figure 80 Case 6 Organising theme 55 Global theme 31

The organising theme 55 of global theme 31 (Case 6: RQ3) focuses on the challenges facing measurement of social value.

The supporting basic themes are financial reporting based on financial returns, measurement of the intangibles such as positive social impact and measurement challenges of time.

Measurement of social value is faced with challenges of measuring the intangibles and converting them into acceptable financial metric. Conversion of social metrics into financial metrics is done to meet the financial reporting requirements/obligations because the reporting is biased towards financial metrics. Changing people's mind-set on blended value return will take time because people still have questions about how social value will be measured and accepted.

Basic themes – respondents excerpt

Respondent 1:

> *"There are issues that are hard to measure, but probably you will see them as … you need time because what you can do is like if you are in the mining sector and*

*that particular year the mining sector had a bigger strike, but your production is still above the target.  You understand?"*

Respondent 2:

*"The whole reporting that we have in the financial industry is about returns, returns. There is nowhere that people really want to see social returns on their investments. We are lucky from where we are sitting.   Our major client, the GEPF."*

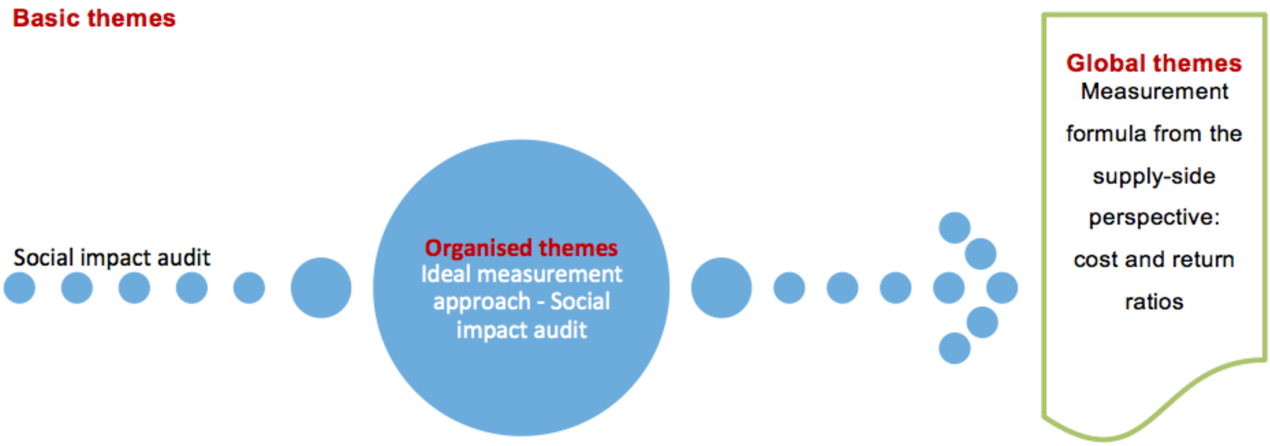



Figure 81 Case 6 Organising theme 56 Global theme 31

The organising theme 56 of global theme 31 (Case 6: RQ3) focuses on the ideal measurement approach which advocates for social impact auditing that will audit for compliance.

The supporting basic theme is the social impact audit alongside the modus operandi of corporate governance audit.  In an ideal environment social impact audit could be a measurement approach that formalises Impact Investing.  The social impact audit will be developed in a similar fashion as governance report.

Basic themes – respondents excerpt and field notes

Respondent 1:

> *"I think, you know one thing that I've learned – people are very serious about their Audit Report. If we could find a way where auditors also look at ... or maybe come up with a scoring system where the auditors will score that particular company and say ... the same way they do with finance and other stuff – come up with a … if we can come up with something that … that information will sit on the Audit Report; I think people will take it serious because it will kind of like … I don't know – there should be some … the material is … I don't know; I'm struggling to put it, but I'm saying at least something that goes into the Audit Report or even if the company can just require to do a Social Impact Audit."*

Key issue from the field notes:

*"Social impact audit from supply-side will assist to see if their agents can account for the non-financial returns or social value that they claim in their reports."*

**Case 6 (Supply-side Perspective) overview of impact investment measurement of social value**

| | | | | | |
|---|---|---|---|---|---|
| **Measurement ratio** | ***Cost ratio: [ESG due diligence = quantify: spend + expected beneficiaries]***<br>***Return ratio: financial return + development goal [achievement of ESG: social and environmental metrics]*** | | | | |
| **Challenges** | Intangibles | Time | Financial metrics reporting | Clients expectations | Financial returns |
| **Ideal measurement approach** | Social impact audit | | | | |

Table 19 Case 6 Overview of the measurement of impact investment

Table 19 provides a succinct overview of how the supply-side approach measurement of social value. From institutional investor perspective, two measurement ratios emerged.

The cost ratio and return ratio as impact investment social measurement equation. Cost ratio entails quantification of spend on social benefits.

Return ratio has hybrid return of financial and development goals. Social impact audit is viewed as a potential carrot for higher uptake on Impact Investing.

Impact Investing however is still a challenge such as quantifying the intangibles, time lag, and biased financial reporting metrics.

### 6.3.2 Case 7 Demand-side: Non-Profit Organisation (NPO)

Case 7 has two global themes, three organising themes and eight basic themes as depicted below in figures 82 - 84. The global themes focus on the measurement formula and challenges faced by the measurement.

**Global theme 32 Case 7: Q1:**

Measurement formula [Return on Investment = [social deficit + financial profit]. It has three organising themes and eight supporting basic themes.

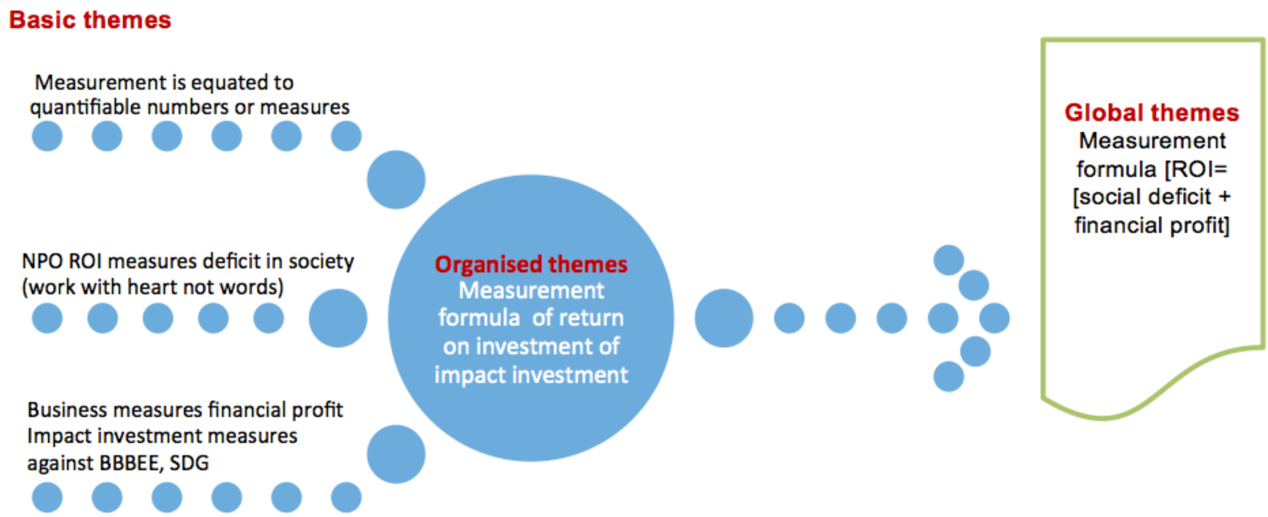



Figure 82 Case 7: Organising theme 57 Global theme 32

The organising theme 57 of global theme 32 (Case 7: RQ3) focuses on the measurement formula of return of investment of Impact Investing.

The supporting basic themes are that the measurement is equated to quantifiable numbers or measures; NPO's return on investment measures deficit in society (as a result of the intervention) and business traditional measures are focused and biased towards the financial metrics. The NPOs focus is now on measuring social deficit to justify the use of capital injection received.

Two ratios emerged from the demand-side perspective:

$$Return\ ratio: Rr = financial\ profit\ (return)\ +\ reduced\ social\ deficit\ (social\ returns)$$

Equation 13 Case 7 Return Ratio (HYr)

$$Reduced\ social\ deficit = achievement\ [BBBEE\ +\ SDG\ Goals]\ +\ change\ in\ lives\ [+impact]$$

Equation 14 Case 7 Reduction of social deficit

Basic themes – respondent's excerpt and field notes

*Respondent 1:*

> *"Well you know the thing is with Impact Investing prior to that terminology coming through, it would be measuring numbers. But we can make a difference to the deficit in society by making an impact in changing lives and making a difference. Because remember we said about how do we measure it against the BEE Scorecard and how do you measure it against the Sustainable Development Goals for South Africa? You know from the Millennium Development Goals to 2015. which is now, is now becoming with the UN Sustainable Development Goals and then each country has got their Sustainable Development Goals. So, they would look at things like that – look at the bigger picture of the business model into the social change."*

Key issue from the field notes:

> *"The demand-side focus on social value measurement is on measuring social benefits to assess reduction of social deficit. There is little focus on measurement of social cost."*

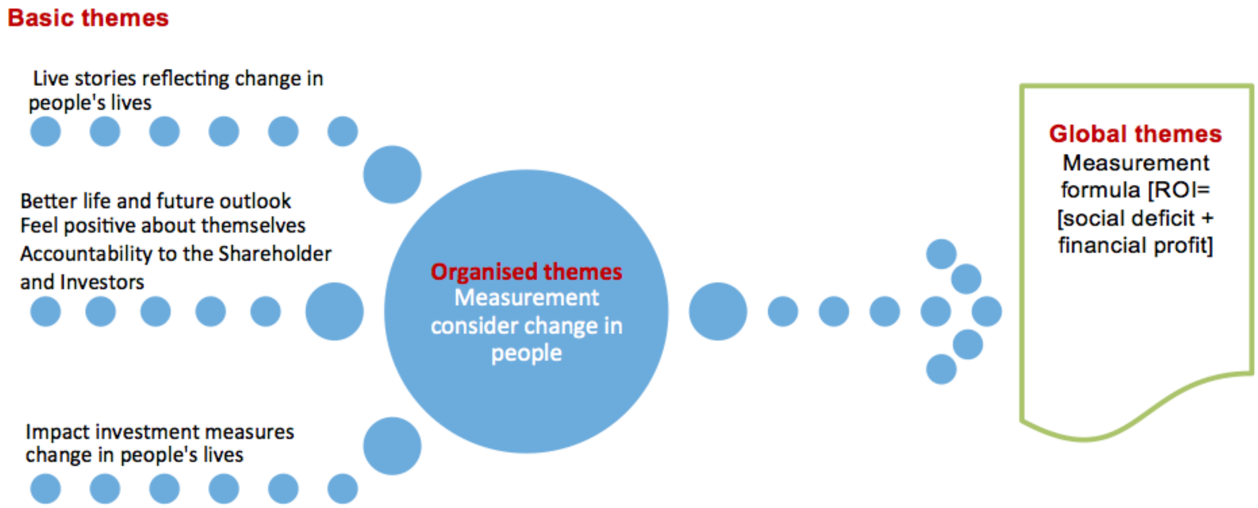



Figure 83 Case 7 Organising theme 58 Global theme 32

The organising theme 58 of global theme 32 (Case 7: Q3) is that measurement considers change in the quality of lives of people.

The supporting basic themes are changes in people's lives better explained through life stories that reflect the journey people have gone through from low to better quality of life.

Better life and future outlook are qualitative measures of reducing social deficit and Impact Investing measures are to be considered.

The following social value ratio emerges:

$$\begin{aligned} &Social\ value\ ratio\ (Svr){:}\ entails\ positive\ social\ impact \\ &\qquad = positive\ change\ in\ people's\ lives\ [better\ life\ +\ future\ outlook \\ &\qquad + positive\ feeling\ about\ the\ individuals]. \end{aligned}$$

Equation 15 Case 7 Social Value Ratio (Svr)

Positive change in people lives are often best captured qualitatively instead of quantitatively.

Basic themes – respondent's excerpt

Respondent 1:

> "So *what you…Impact Investing is – are we gonna keep feeding these same people, these same children, day in day out, year in year out or are we going to take them out of this situation and make life better so that they can go to the shops and feed themselves? And that is the difference with Impact Investing is that it's not just about the numbers, it's actually about the changing of the individual.*

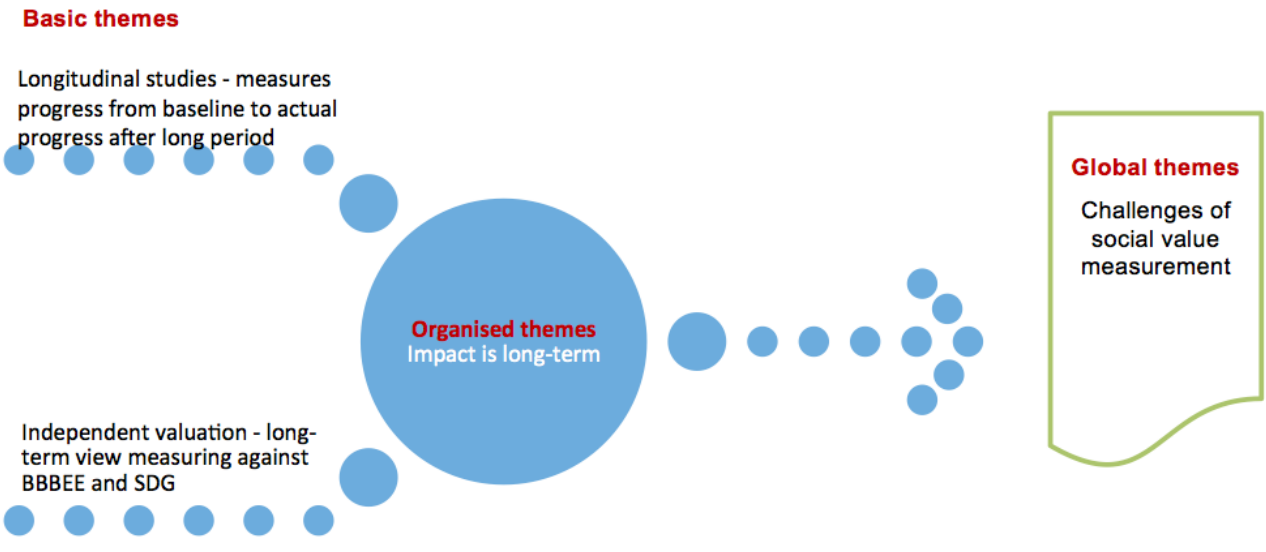



**Figure 84 Case 7 Organising theme 59 Global theme 33**

The organising theme 59 for global theme 33 (Case 7: RQ3) focuses on impact as a long-term horizon concept therefore its goals are not short-term focused. Investors often invest in short to medium term investments.

The supporting basic themes are measuring baseline against changes recorded, and measurement will require independent valuation to ascertain the achievement of set goals. The challenges are to quantify the positive change in people's lives. Impact is long-term concept and it requires independent of valuation to ascertain whether it is achieved. It takes time to note the change in social investment.

Basic themes – respondent excerpt

Respondent 1:

> *"Then you would measure the impact through the results of…So for… Let's say we're going to do a Financial Management course for twenty NPOs. They would then do like a longitudinal study of where they started when they went on the first course; the second course; the third course and did they develop their business plan? Did they stick to the business plan? Were the results there and how did they strengthen their organisation and their programs to their beneficiaries through better financial management or more savvy financial savviness?*

**Demand-side: Overview of measurement of social value**

| Measurement of social value | |
|---|---|
| **Return ratio = Rr** | Rr = financial profit (return) + reduced social deficit (social returns) Reduced social deficit = achievement [BBBEE + SDG Goals] + change in lives [+impact] |
| **Social value ratio = Svr** | Svr: positive social impact = positive change in people's lives [better life + future outlook + positive feeling about the individuals]. |
| **Ultimate / ideal Svr** | Reduction in social deficit + increase in social progress |
| **Measurement challenges** | ● quantify the positive change in people's lives,<br>● impact is long-term<br>● independence of valuation |

Table 20 Case 7 Overview of the measurement of social value

Table 20 depicts the overview of the measurement approach by the demand-side. From the demand-side perspective the focus is on return ratio, the social value ratio. They focus on the social returns that the financial intermediary expect as part of contractual obligation between principal (financial intermediary) and agent (demand-side).

The challenges faced with social value ratio is quantification of the positive change in people's lives, impact time lag frame and independence of valuation.

## 6.4 Competition Landscape Perspective

### 6.4.1 Case 8 Other financial intermediaries: Competitor/Asset Management Company 1

From the Asset Management Company 1, two global themes, two organising themes and six basic themes emerged as depicted in figures 87 - 88.

The global themes focus on the measurement of social value metrics and growth of impact funds.

**Global theme 34 Case 8: RQ3:**

Measurement of social value metrics

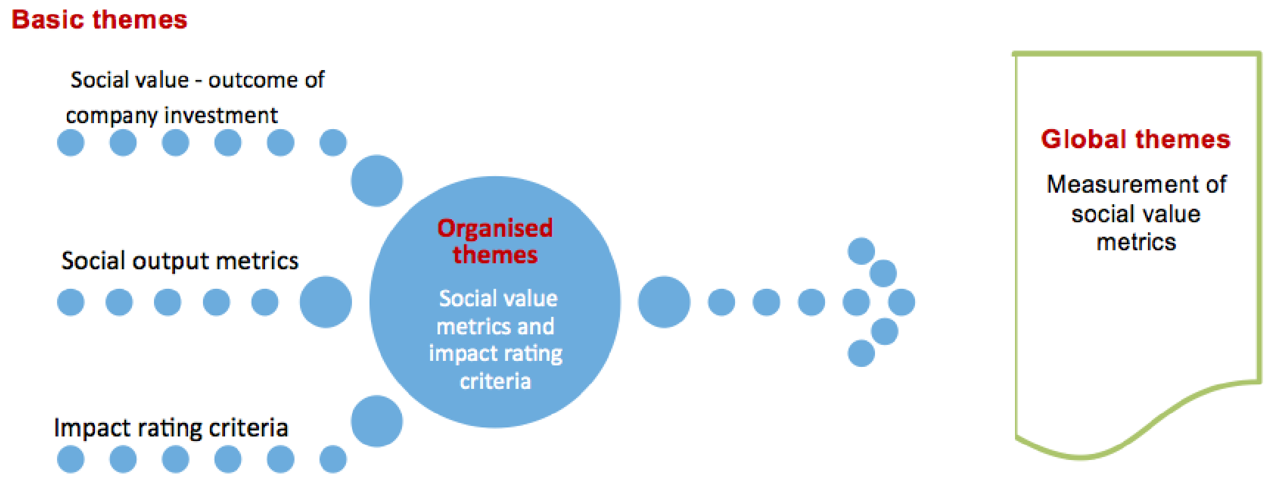



Figure 85 Case 8 Organising theme 60 Global them 34

The organising theme 60 of global theme 34 (Case 8: RQ3) focus on the social value metrics and impact rating criteria.

The supporting basic themes are social value outcome, social output metrics and impact rating criteria.

Measurement of returns on impact investment focuses on social metrics as a way to measure the business return of social value creation.

These are done on a project by project basis:

$$Social\,Value\ (Sv) = social\ output\ metrics + impact\ rating\ [direct\ or\ indirect\ link\ to\ benefits]$$

$$Social\ value\ = Number\ of\ homes\ built\ or\ rental\ units\ created + jobs\ created\ [social\ costs\ +\ output\ of\ recipient + social\ outcome\ achieved\ -\ \%\ of\ access\ to\ accommodation]$$

Equation 16 Case 8 Social Value Ratio (Svr)

***Level or ratings of impact***

The measurement formula rates investments according to the types of impact expected:

- *sector rating [high impact = direct tangible output/outcome to end user] or*
- *[medium impact = indirect tangible output/outcome to end user]*
- *Commercial returns + social value [combined asset return value proposition]*

Basic themes – respondent's excerpt

Respondent 1:

> *"The social values in terms of all the outcomes of the company's investments will all be different. You could invest in companies that provide affordable housing. So the social value would be… outcome would be creating of affordable housing in terms of previously disadvantaged individuals and there could be a social outcome in terms of job creation and so forth."*
>
> *"Yes well it would be on a project by project basis so for instance for a affordable housing transaction the measurement there would be a number of homes built or rental units created and then jobs created as well. We could look at energy*

*efficiency in terms of the development as well. So the criteria would be different to the costs of the different projects say for instance if there is another example for SME development we could look at what the number of SMEs that we supported in terms of funding and then also jobs created could be a measurement as well. We also look at specific sectors and then assign a very high level rating in terms of low, medium or high, so the higher the rating in terms of the allocation in terms of high that would refer to any outcome that is directly beneficial to the end user so for instance a housing development would be… would rank as high impact and that should be on the basis that it is something tangible that the end user has immediately. Whereas say for instance funding and municipality could be medium because you know, the end user receive services, refund the municipality and then the municipality provide specific services so the end user impact is not direct."*

## Global theme 35 Case 8: Q3:

Growth of impact investment funds

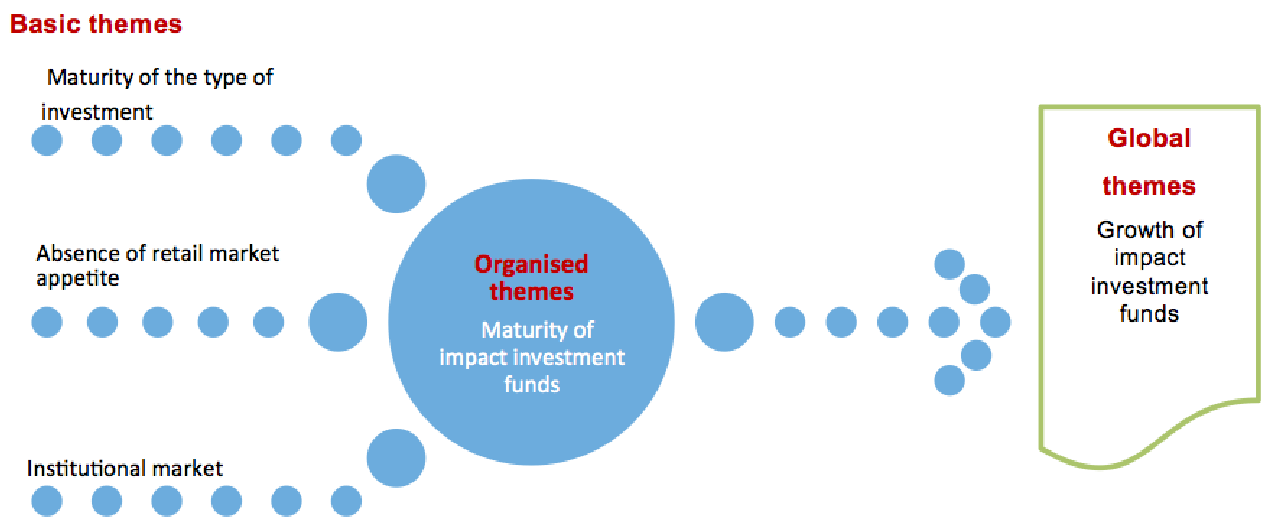



Figure 86 Case 8 Organising theme 61 Global theme 35

The organising theme 61 of global theme 35 (Case 8: RQ3) focuses on comparing the maturity of impact investment funds between asset management companies and the banking sector.

The supporting basic themes are maturity of the type of investment, absence of retail market appetite within the banking space. The focus is still dominated by traditional investment and institutional market growth, as the space is dominated by institutional investors.

Basic themes – respondent's excerpt

Respondent 1:

> *"The only thing there is if that the banking sector would provide its… the product to the retail market. To the man in the street and there has been very little interest in growth in terms of the retail market for these type of products. It's been more a take up in terms of the institutional market for them. It is not for everyone's appetite, it is… and I am speaking on behalf of our institution investors. It is on a client by client basis where they have specific appetite in terms of risk return for these type of investments. So we have a range of an institutional impact type of funds that we offer our clients but it is not sold on the basis on social value only***."**

**Measurement of social value**

The two ratios emerge: cost ratio and hybrid ratio.

Social value: social metrics (output) + impact rating [direct & indirect link - beneficiaries]

Commercial Asset Return (CAR) = commercial return + social return [social output + impact rate]

Sv = social output metrics + Impact [Outcome]

Figure 87 Case 8 Overview of the measurement of social value

**Growth of impact investment funds**

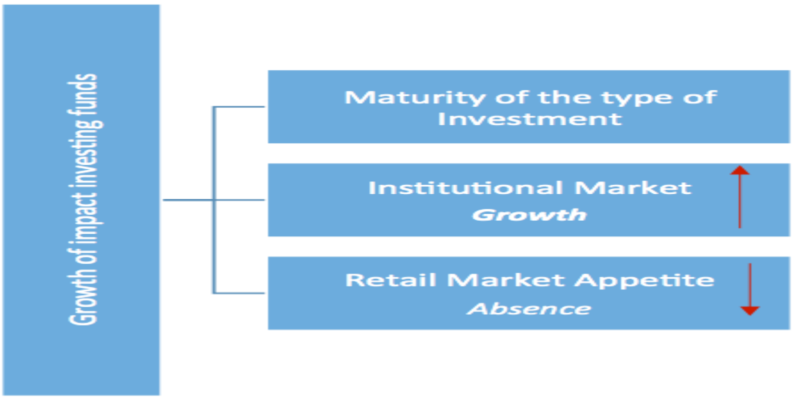



Figure 88 Case 8 Growth of impact investment funds

Asset Management has seen growth/maturity of the type of investment in comparison with slow growth in the retail market space. The growth in the asset management space could be attributed to the supply-side that drives the impact investment industry through institutional investors.

### 6.4.2 Case 9 Other financial intermediaries: Competitor/Asset Management Company 2

From Asset Management Company 2, one global theme, three organising themes and ten basic themes emerged as depicted below in figures 88 - 89. The global theme focuses on measurability of social impact of the impact investment.

**Global theme 36 Case 9: RQ3**:

Social value of impact investment is measureable

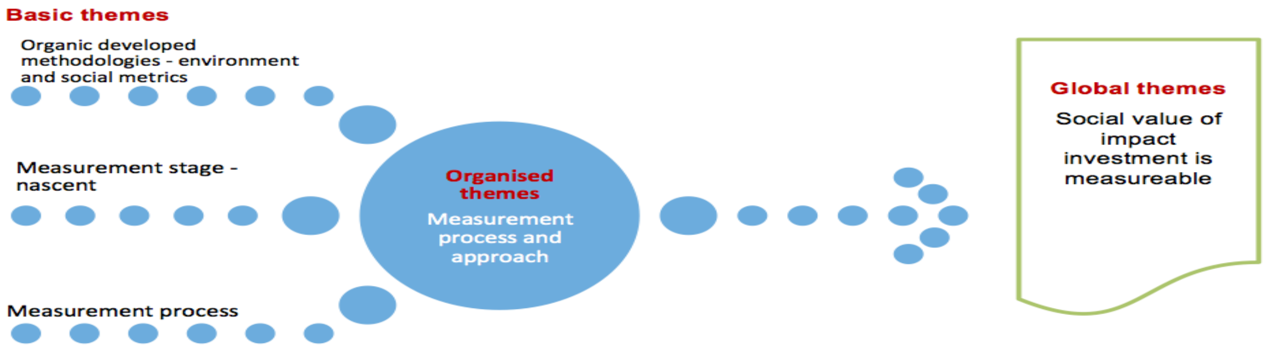



Figure 89 Case 9 Organising theme 62 Global theme 36

The organising theme 62 of global theme 36 (Case 9: RQ3) focuses on measurement process and approach to the measurement of social value from an asset management competitive perspective. Arguments advanced are that social value is measurable.

The supporting basic themes argues that methodologies to measure of social value are organically developed and takes into consideration the context and project type. Although the asset management industry has more experience in the space than the banking sector asset management company 2 assert that measurement of social value is still is at nascent stage. Measurement process defines the process of identifying and defining metrics.

Basic themes – respondents verbatim & triangulation (notes/documents).

Respondent 1:

> *"Broadly I think the answer is no. I don't think many people are measuring or monitoring or even reporting anything in the non-financial space. I think some managers… I mean the manager that I used to work for investing asset management has started sort of developing methodologies and data sets that are tracking things like carbon exposure, employment numbers et cetera. But I think it's still very nascent in its evolution. And I think it almost requires the business to say "these are the five key metrics that we're going to monitor on all of our investments – be it job creation, average pay, total water consumption, number of you know children educated…" Or whatever those metrics are; to make it a very real focus."*
>
> *"So I think there scope for impact fund to kind of clear that out that five areas that they're gonna work in, and then define, develop the metrics and measure them over time. So over a period of three to five years they actually get real data that they can report back to their potential investor or investors in terms of their actual impact."*

Key issue from the field notes:

*"Measurement of social value is still fluid and looked at from project to project. Developments in IRIS would assist in standardising metrics and processes."*

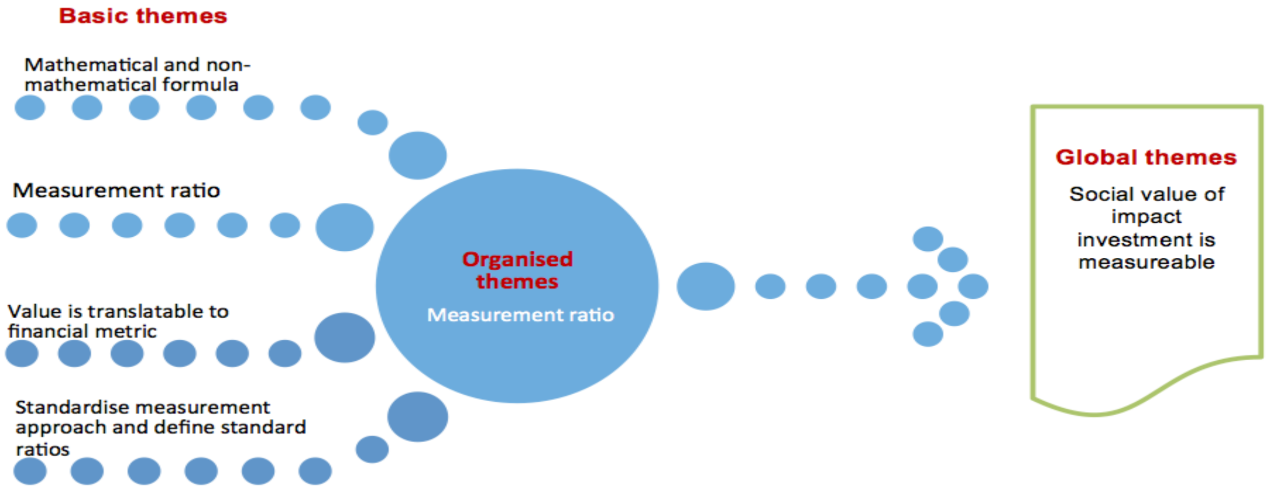



Figure 90 Case 9 Organising theme 63 Global theme 36

The organising theme 63 of global theme 36 (Case 9: RQ3) focus on the measurement ratio to measure returns.

The supporting basic themes are that the measurement ratio can use mathematical and/or non-mathematical formula to measure social value created. The value created is translated into financial metrics as a standardised measurement approach, and thus defines the standard ratio.

Measurement ratio emerged:

$$desired\ social\ outcome/impact = upfront\ defined\ social\ areas\ and\ metrics + measurement\ metrics\ [social\ costs\ =\ financial\ value]$$

Equation 17 Case 9 Social Value Ratio

Basic themes – respondent's excerpt and field notes.

Respondent 1:

> "*Impact can then be translated into monetary terms as well so… I'm not a big believer in the fact that… like this constant of non-financial. I think everything is measurable and ultimately translatable into some form of value. If we get really sort of caught up in the fact that it's defined as not financial and I'm not sure that that's actually correct; that there is anything that is really non-financial. I think finance is just one way of defining value. We can define values in lots of ways but it's just like saying that it's a non-mathematical formula – well I think we can probably break most things down to that mathematical formula if we needed to…*
>
> *"So I think the standardisation is more around making sure that we've got agreeing measurement metrics for things like carbon, or human wellness or whatever, those need to be standardised. The ratios are really fairly easy to define and maybe we need to agree on an Energy Intensity Ratio and everybody agrees that that ratio is measured in the following way. We use $CO_2$ measured according to a certain methodology. We use revenue as a Total Revenues Generated, and then we know immediately whether it's in rands or dollars or pounds or euros and that's the ratio of...."*

Key issue from the field notes:

"Financial value reporting is one way to define value, resulting in a formula that defines the cost of externalities: social cost of social impact + monetary value of social benefits.


Figure 91 Case 9 Organising theme 64 Global theme 36

The organising theme 64 of global theme 36 (Case 9: RQ3) focuses on the source of social metrics that measures social value.

The supporting basic themes are pre-defined social metrics, informed and influenced by industry and country issues. The macro view of social and environmental metrics influence and inform the micro perspective and role of finance in developing total capital, which includes the six capitals: financial, manufactured, intellectual, human, social and relational and natural capitals. Social metrics of a corporate are influenced by macro social factors of the environment within which it operates.

Basic themes – respondent's excerpt and field notes

Respondent 1:

> "*But I think for a fund to be clear on what it wants to measure from the start rather than retro-fitting metrics to what it does, define up-front what you gonna do and then measure those and monitor those over the lifetime of the fund. Or as I say we're going to look to measure our GHP or our GNP rather than our GDP as a country, and if the country sort of defined key social and environmental metrics that it was gonna be reporting on, it could then push that down over time into the industry - in the banking industry, the asset management and insurance industries and require them to report on those type of metrics as well. I think that we need to have a slightly less purely capitalistic view, and we need to have an enlightened capital view as to kind of the role of financial capital in developing total capital including human capital, social capital, and environmental capital."*

Key issue from the field notes:

*"Financial capital cohere (hold together) development of all other five capitals that are critical in creating value to all stakeholders."*

**Overview of Social value of impact investment Case 9: Q2**

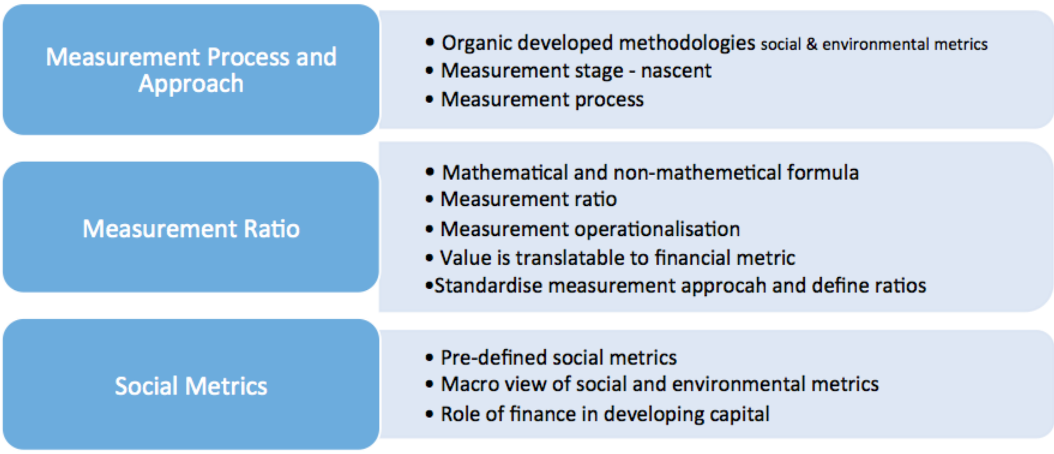



Figure 92 Case 9 Overview of the measurement of social value

Asset management Company 2 acknowledges that the measurement process and approach are organically developed and at nascent stage.

Although asset management is ahead of the fund managers with the banking sector, the measurement of social value is still evolving. Measurement ratio could be both mathematical (quantification of the value in financial metric) and non-mathematical meaning that the financial value is one of the measurement methods.

However mathematical (qualitative value metric) valuation will assist to compare performance according to the financial metric. As an industry steeped in financial metrics and reporting, Company 2 asserts that social metrics should be pre-defined and informed by the macro view of social and environmental metrics.

## 6.5 Concluding Remarks

This chapter described and explored 25 organising themes and 12 global networks and the emerging patterns within each case. Summary of global networks and emerging patterns across the cases will be done in Chapter 7.

| Perspective | Case | Global networks | Emerging patterns |
|---|---|---|---|
| Micro Perspective | Commercial Bank: Case 1 | 1. Measurement formula of social value in SA bank: inclusive product price | 1. Hybrid returns (include social externalities)<br>2. Hybrid Ratios: cost and return<br>3. Measuring challenge: putting financial value human life |
| | Commercial Bank: Case 2 | 2. Measurement formula of social value in SA bank: market price + context based | 4. Hybrid ratio (cost and return)<br>5. Measurement challenge: financial value to human life, predictability and long-term impact |
| | Commercial Bank: Case 3 | 3. Measurement formula of social value in SA bank: Risk premium (cost of capital + cost of social impact | 6. Hybrid ratios: cost and return<br>7. Criteria to determine impact<br>8. Measurement challenge: what is gain/loss |
| | Development Bank: Case 4 | 4. Measurement formula of social value in SA bank: cost of capital + return of development | 9. Hybrid rations: cost and return<br>10. Measurement challenge: limited role of financial intermediary |
| Macro Perspective | BASA: Case 5 | 5. Measurement tool of social value in the SA bank | 11. Financial Sector Charter is cornerstone of social value created by the bank |
| Value Chain Perspective | Supply Chain | 6. Measurement formula of social value in SA bank: | 12. Hybrid ratio: cost + return<br>13. Social impact audit – governance mechanism |
| | Demand-side | 7. Measurement formula of social value in SA bank: | 14. Social deficit is part of social return [social value equation]<br>15. Impact is a long-term investment |
| Competition landscape | Asset Management Company 1 | 8. Measurement of social value | 16. Social value ratio = social output + impact rating;<br>17. Social value can be mathematical and non- mathematical |
| | Asset Management Company 2 | 9. Growth of impact investment fund<br>10. Social value of impact investment is measurable | 18. Social metrics sourced from FSC, NDP and<br>19. Institutional investors lead impact investment funding |

Table 21 Emerging patterns of the measurement of social value

Table 21 depicts emerging patterns of the measurement of social value.

The key emerging patterns on measurement of social value are: hybrid ratios: cost and returns, challenges facing social value, measurement tool (Financial Service Charter and National Development Plan) and positive impact (output, outcome and impact).

For South African banks the financial sector charter and NDP become the guiding tool in terms of identifying targeted areas and desired outcomes that will assist to improve social progress.

The measurement of social value of Impact Investing is at nascent stage where trial and error is still dominant and teething problems are experienced as indicated by the challenges faced.  Further analysis across the micro and macro perspectives, value chain and competition landscape, will be explored in details in Chapter 7 section 7.4.  At this stage case analysis has highlighted the need for quantification of social metrics and emergent ratios. Chapter six has established that social value of impact investment is measurable and quantifiable.

# Chapter 7 Analytical Generalisation

## Introduction

This chapter as aforementioned in chapter 4 includes a second component of data analysis that focuses on cross-case analysis and synthesis using step 5 (summarise thematic networks) of the thematic network analysis discussed in chapter 3 section 3.6. Chapter 4 to 6 focused on individual cases using step 4 (describe and explore global networks) and this chapter seeks to synthesis and synergise them in order to develop robust theoretical propositions based on analytical generalisation. The concept of analytical generalisation will be espoused and expounded in this chapter.

The objective of step 5 is to summarise the principal themes that began emerging in the description of the networks, and begin to make explicit, the patterns emerging in the exploration (Attride-Stirling, 2001).

The thematic network will be summarised using the tables. Step 5 summaries will be depicted by the emerging models across the questions.

The figure below depicts the nine cases within their four perspectives, namely micro and macro banking perspective, the value chain and competition landscape perspectives, to reflect how the cases of the study interact within their environment. Chapter 5 has already painted the interdependencies between financial intermediary and its supply and demand-side through the principal-agent relationship model.

This chapter used cross-case synthesis to depict the fairness and accuracy of the data analysis and provide evidence for the interpretations and conclusions (Gizir, 2014).

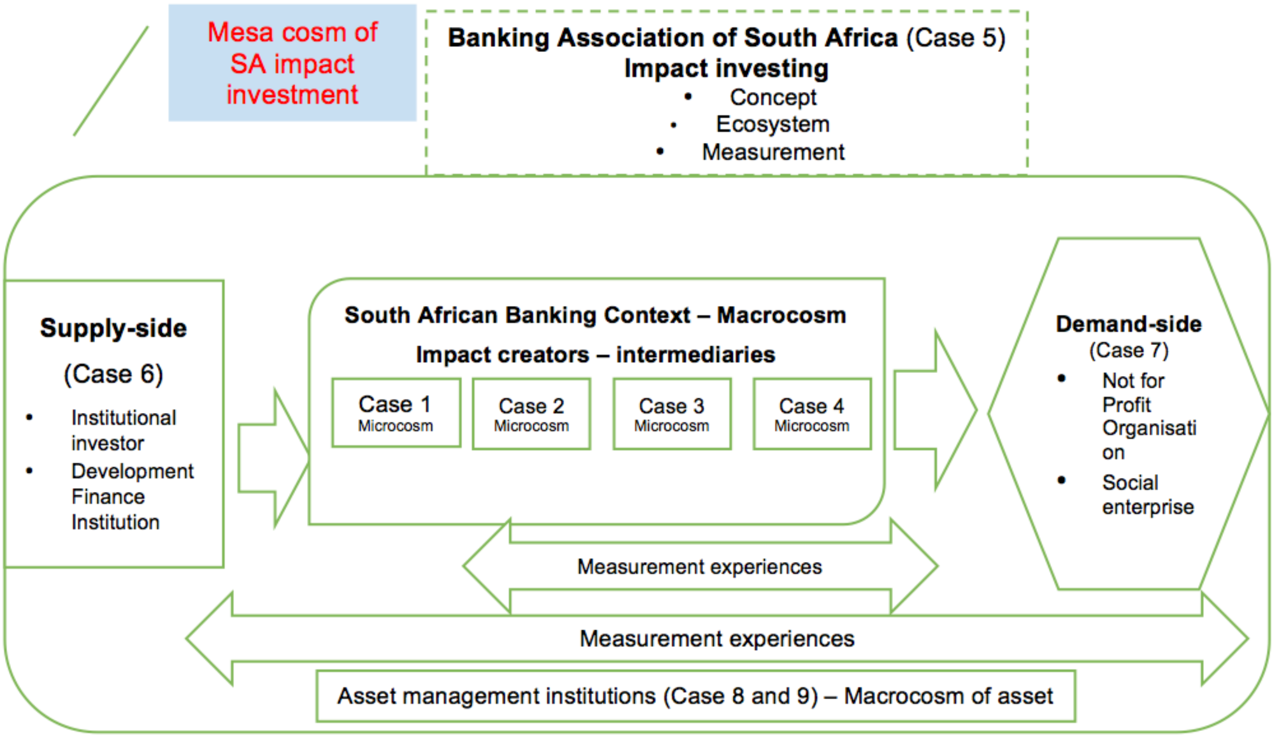



Figure 93 Four Perspectives of Cross-Case Synthesis

This chapter therefore is divided into cross-case synthesis of the nine cases that have been discussed from chapter 4-6 according to the types of the case groups and the research sub-questions.

The cross-case synthesis for the three sub-research questions focusing on impact investment concept, ecosystem and measurement of social value will be comprised of: synthesis of micro and macro perspectives (three commercial banks, development bank and BASA); synthesis of South African banking perspective and value chain (supply-side) perspective; synthesis of South African banking perspective and value chain (demand-side) perspective; and synthesis of South African banking perspective and asset management companies perspective.

The cross-case analysis will fortify the case to build a theory and generalize the findings. The case studies are criticised for their weaknesses in generalisability (Tsang, 2014). Generalisability refers to a general statement or proposition made as a result of drawing an inference from observation of the phenomenon (Schwandt, 1997) and applying the inference to more cases beyond the study (Ruddin, 2006). In this case it will be inferences drawn from four perspectives discussed from chapter 4-6.

The concept of generalisability criterion is an essential ingredient of validating theory offered by social science because the construction of a quality knowledge that can be generalised, distinguishes a social scientist from everyday generalisations and tacit heuristic exercises (Thomas, 2011).

Generalisation provides interaction with the world in a coherent manner avoiding continual repetition of the same mental procedures for each new experience (Ruddin, 2006). The proponents of generalisation from case studies advance theoretical or analytical generalisation which addresses concerns about unrepresentative samples that is advanced as a reason for the lack of generalisation.

According to Sharp (1998) analytical induction or generalisation seeks to generate a general theory or model which explains the relationships between the elements found to be general in that class of phenomenon understudy and this is based on rigorous study of a limited number of cases, or a single case. In this instance, relationship of elements found to be general in the cases understudy will be generalised.

Thus the theoretical explanation of phenomena from case studies can be built on the basis of having established general principle that applies to the phenomenon under study, rather than exclusively focusing at the uniqueness of some sample in relation to a parent population (Sharp, 1998; Tsang, 2014). Explanation can be built on both general applicable principles and unique characters. Analytical generalisation uses emerging themes, concepts and relationships from within-case analysis and cross-case comparison and compares emergent findings with existing theory (Meyer, 2001).

In this study, generalisation proceeded from within-case analysis (chapter 4-6) and the cross-case comparison of the nine cases (chapter 7), focusing on the three sub-questions that seek to answer the central question of the study in relation to what is covered in the conceptual framework in chapter 2.

According to Yin (2009) analytical conclusions that independently arise from two cases, as with the two experiments, is more powerful than from a single case and in this instance it is coming from nine cases. Kohlbacher (2006) contends that an appropriately developed theory is the level at which the generalisation of the case study results will occur. However, bias within cross-case synthesis is still a concern.

There are three ways to prevent bias in cross-case comparison: separation of the cases into categories and look at the similarities within each group and the differences between the groups; division of the cases into pairs for comparison, look for differences between the cases that are similar and for similarities between the cases that appear to be different; and division of the data according to the data source and try to gain insight into particulars of the heterogeneous data (Sato, 2016).

This study used the first two ways to prevent bias. Firstly the study separated the cases into types of banks, commercial and development bank. Secondly, divided cases into pairs for comparison, thus compare banking with supply-side, demand-side and asset management industry.

## 7.1 Cross-Case Synthesis of Research Question 1: Impact Investment Conceptualisation

This section consists of four tables, micro and macro perspectives of the banking sector, banking and value chain (supply-side and demand-side) perspective, and banking and asset management companies' perspectives.

### 7.1.1 Cross-case synthesis of commercial banks, development bank and Banking Association of South Africa (BASA)

Table 23 below depicts cross-case synthesis of the commercial banks, development bank and BASA represented by case one to five.

The cross-case synthesis covers main findings per case.

## Impact Investing concept

| Question | Case 1: Commercial Bank | Case 2: Commercial Bank | Case 3: Commercial Bank | Case 4: Development Bank | Case 5: (BASA) |
|---|---|---|---|---|---|
| 1. Impact investing concept | ❖ Impact investing is an emerging (from social impact) and evolving (from responsible investing) field/discipline<br>❖ Impact investing is loose and an evolving discipline from various fields [CSR/CSI, ESG, Risk & Sustainability]<br>❖ Social value of impact investment (embedded in products & services) is responsive to social needs located in business environment | ❖ Impact investment is less formalised emerging field that focuses on hybrid returns of investments [financial and non-financial returns] in SA Bank [it is an emerging field/discipline that is at exploratory stage]<br>❖ Impact investments in SA bank are grassroots driven [client driven] and connected to social causes [Snowball approach to impact investments - client & cause driven investment] | ❖ Impact investment is loosely interpreted and an emerging field underpinned by ESG [responsible investment].<br>❖ Sustainable impact investment has financial and social consequences that addresses individual and societal rights<br>❖ Impact investment articulates investments with financial + social returns [empowerment] - [social-conscious mind and impact perspective] | ❖ Impact investing is financing of infrastructure development in the development space.<br>❖ It has two-pronged objectives economic and social development.<br>❖ The concept of impact investing is driven by the private sector.<br>❖ Development indicators of financing of infrastructure development are proxy of social value or return. | ❖ Impact investing evolving from social and environmental assessment [principles: Equator & Basel].<br>❖ Impact investing is driven by need for sustainability of business and business social responsibility codes like UNGC, UNPRI, and Financial Sector Charter.<br>❖ Impact investing returns: financial returns + financial sector goals [Financial inclusion + social well-being]] |

Table 22 Cross-case synthesis of the South African Banking Sector

It is important to forge common understanding of impact investment concept in the South African Banking Sector. This is a precursor to unravel and understand the measurement of impact investment returns.

Impact investment is a relatively new concept coined in 2008 and means different things to different people as argued in the conceptual framework section 2.3. The idea of cross-case synthesising case 1- 5 was to forge a common understanding of the concept within South African Banking Sector.

## Commonalities

Across all the three commercial banks' cases, Impact Investing is an emerging field, less formalised and with fluidity of interpretation because of its inter-disciplinary nature and various influences from different disciplines. It is emerging from different fields as argued in the conceptual framework. Impact investment spectrum depicted in the conceptual framework is applicable to the SA banking sector in terms of the fields from which impact investment is evolving.

It is an evolving field that shifts paradigm from bifurcated to blended view of value creation by business. It shifted from traditional investment and pure philanthropy. It is located within the broader field of social responsible investment but moving from negative to pro-active positive screening as captured in the conceptual framework.

Positive screening lends credence to the argument that impact investment can be located within creating shared value concept that advocates creation of economic value through provision of social solution (social value creation).

All three commercial cases point to the fact that commercial banks are at exploratory phase (early phase of development) in this field, using scaling approach of moving gradual from small to big transactions (trial and error approach).

The commercial banks are treading prudently in the impact investment space, hence some of them adopted pull-market approach instead of push-market strategy.

An additional common factor is that impact investment has hybrid returns which are a composite of financial and non-financial returns (social and environmental returns) making it compulsory that the banks have to measure social returns or value created (non-financial returns).

Hybrid returns are the sustainable investments that cater for financial and social consequences requiring a paradigm shift of how the banks view their investments. It puts the spotlight on the responsibility of the banks as financial intermediaries and impact creators in the impact investment ecosystem.

The banking sector's role as financial intermediary and impact creator connects capital providers with social needs, and in the emerging economies the banking sector plays a critical role in spurring economic growth because it becomes the catalyst facilitating financial investment for economic and social growth.

The commercial banks and development bank have two objectives of simultaneously achieving financial returns and create positive social impact through social value creation with impact investments.

In both settings the investments is at the heart of the business' products and services, not corporate social investment or responsibility. In the commercial space social value and metrics has become a feature on impact investment transaction whilst in the development bank setting, social development has become part of every infrastructure development. They are measured in accordance to social development benefits.

BASA from macro perspective, concurs that impact investment is an emerging field that evolves from social and environmental assessment frameworks such as Basel III, Equator Principles, UNGC, UNPRI and Financial Sector Charter. These are the similar drivers as the micro perspective.

Both macro and micro perspective appreciated the fact that impact investment is about the sustainability of banking, business' long-term survival and the societal progress.

**Peculiarities**

Although impact investment is an emerging field, to all the banks there are differences on the fields that drives and influence adoption of Impact Investing across the three cases. Commercial Bank Case 1 was influenced or driven by CSR/CSI, ESG and risk and sustainability. The driver was mainly risk and compliance frameworks as aforementioned.

Commercial Bank Case 2's adoption is mainly driven by the clients, it is grass roots driven approach "giving clients what they want type of pull market approach". Pull market refers to an instance where the market is driven by the customers, it is the customers that identify the opportunity to create social value instead of the banks selling those opportunities to the clients. Clients that are driven by their social causes advocate for products that contribute positively to the social cause of choice.

Commercial Bank Case 3's adoption is driven by social responsible and ESG concepts and framework. Although Commercial Bank Case 1 and 3 are both driven by ESG, it is from two different drivers, Case 1 is from risk management perspective whilst Case 3 is from social responsible investing perspective.

The development bank's focus is on infrastructure development investments whilst the commercial bank's focus has broad scope and beyond the infrastructure bonds. For instance it could be social impact bond, development impact bond etc. The commercial banks can use different instruments or channels of impact investments across its operations in retail and investment banking.

The commercial could use impact investment to support SMME venture funding, provision of health vaccine, agricultural irrigation scheme etc. The development banks often focus on social infrastructure provision thereby limiting the impact investment instruments.

In the commercial space the use of Impact Investing is slowly gaining traction whilst in the development bank space infrastructure development investment is well established particularly in the emerging economies that have huge backlogs of economic and social infrastructure.

The commercial banks and development bank use different terminologies to refer to non-financial metrics of impact investment, with the commercial banks using social value or returns thereby social metrics, whilst the development bank use development metrics to capture social development gained.

BASA from the macro perspective associates the social returns with the financial sector goals (financial inclusion and social well-being). From micro perspective each bank will choose the relevant financial sector as per the nature of impact investment transaction, however the bank can identify broader financial sector goals that they will focus and prioritise.

Each bank focuses on its transformation areas that are aligned to the bank's strategic priorities and financial sector goals.

Figure 94 below depicts an Impact Investing conceptual model from the South African Banking perspective in terms of the origins, drivers, type of returns and the linkage to the broader (macro) social progress metrics.

The model is informed by within-case and cross-case synthesis analysis of the micro and macro perspectives (commercial banks, development banks and BASA as a body representing the South African banking industry). This model captures the essence of what impact investment means to the South African Banking Sector.

It focuses on drivers of impact investment in the South African Banking Sector and the distinctive elements that separate it from traditional investment. This model can form a basis to any impact creator within emerging economies. It forms a basis of building impact investment portfolios that rallies impact capital to meet social obligations from domestic and foreign investors. It paints an Impact Investing spectrum for the South African Banking Sector and could be used to accelerate the pace of investments and increase the impact capital thereby contributing towards the NDP goals. For BASA these models could be used to inform amendments into the Financial Sector Charter.

The Impact Investing conceptual model concurs with Sonen Capital's impact investment spectrum. In a nutshell the model also confirms the evolving concept of capitalism from shareholder and profit orientation (traditional investment) to the sustainable capitalism model that seeks to broaden the cake to wider stakeholders through blended value creation.

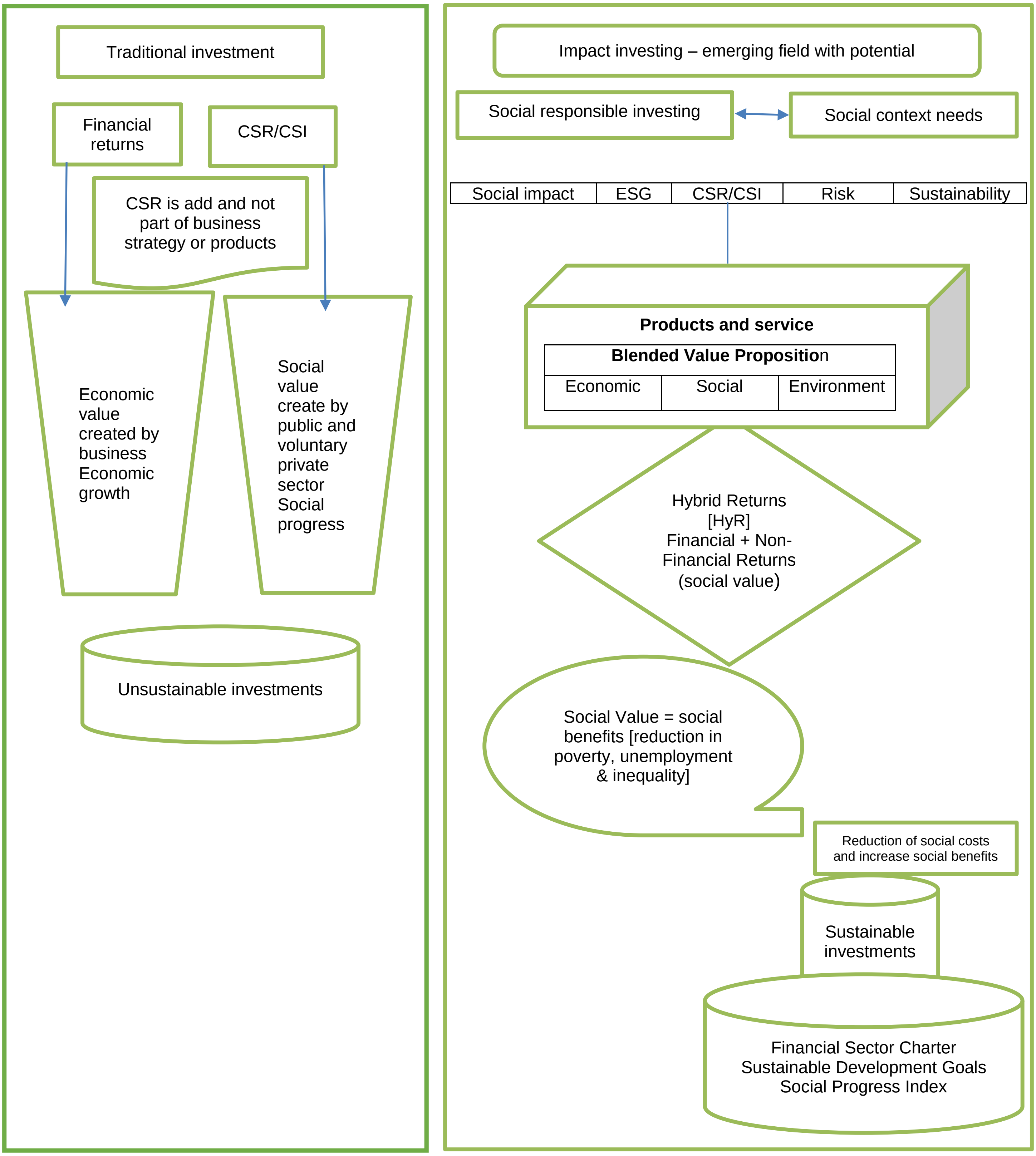



Figure 94 Impact Investment concept: SA Banking Perspective

From the SA Banking Sector Perspective (including the micro and macro perspectives) an impact investment is not a nice to have that makes the business and investors “feel good” about their business and or investment contribution to social good cause.

Impact Investing is at the heart of business and part of the core business products and services. The business products and service (such as green and infrastructure bonds) inherently create economic, social and environmental value therefore this should be intentionally measured as part of the business offering. Their social and environmental returns should be integral part of the investment transaction measurement.

The inherent social and environmental value that used to be discounted should be geared to respond to the social context within which the business operates by responding to the social needs and challenges. This model defines social value as the social benefits that reduces poverty, unemployment & inequality. Social value creation becomes a currency that the banking sector will use to advance goals in the Financial Sector Charter, National Development Plan and Sustainable Development Goals.

In the old traditional investment approach business’s primary concern was economic value and optional provision for social cause if and when business is doing well. At the same time this was often remote to the business strategy.

Impact investment thrusts social value into the heart of business strategy by asking central questions around the social value that is created by the business offerings and taking ownership and accountability of such. Business products and services can be tailored into created blended value propositions that intentionally addresses social value.

This model concurs with the Impact Investing spectrum in terms of paradigm shift from dichotomy of exclusive traditional investment and philanthropy, to blended investment that caters for hybrid returns.

The South African Banking Impact Investing conceptual model seeks to conceptualise what impact investment means to the banking sector of an emerging economy. The banking sector in an emerging economy has a crucial role to play in improving economic and social growth.

The development of the conceptual model assists to describe how impact investment will be used to deliver economic and social growth. Furthermore definition of social value and clarity of hybrid returns form the basis of understanding impact investment ecosystem (model and equation) and the measurement of social value equation.

The model as depicted in figure 94 highlights drivers of impact investment in the banking sector of an emerging economy, use of business products to create hybrid returns with economic and social consequences that advance the country's development goals and SDG.

The model portrays how the banking sector could become a productive entrepreneur that creates blended value to the benefit of society.

### 7.1.2 Cross-case synthesis of SA Banking Sector and Value Chain (Supply-side)

Table 23 depicts the cross-case analysis of the banking sector and supply-side on research question 1. It analyses whether there is a common understanding of impact investment concept between the banking sector and its supply-side.

The supply-side is a trigger as the first principal in the first level of a principal-agent relationship of impact investment. South African Banking Sector as financial intermediary or impact creator needs to forge common understanding with impact capital to ensure that impact investment objectives meet supply-side (investors) expectations through clear measurement.

| Question | SA Banking Sector | Supply-Side |
|---|---|---|
| 1. Impact investing | • Impact investing is an emerging field that evolved from various fields such as social impact, CSR/CSI, ESG, Risk, Sustainability,<br>• Impact investing has hybrid returns: financial and social returns<br>• Sustainable impact investment has financial and social consequences responsive to the societal needs and balancing individual and social rights.<br>• Impact investing is embedded at the heart of business' products and service and integral in the value creation of the business<br>• Social value or benefits will reduce poverty, inequality and unemployment | • Impact investing is an evolving field at nascent stage: evolving from ESG, CSI and global social responsibility codes and agreements – King III, UNGC, and UNPRI.<br>• Impact investing from supply-side is called developmental investment with balanced returns: achieve financial returns and development goals [represented by social metrics].<br>• Ultimately the investments are about changing people's lives.<br>• It provides a platform to combine resources. |

Table 23 Cross-case synthesis of SA Banking Sector and Supply-side

**Commonalities**

The supply-side concurs with the SA Banking Sector that Impact Investing is an emerging and evolving field driven by impact investment spectrum, discussed in the conceptual framework. The spectrum included ESG, CSR/CSI, risk and sustainability. This is important in that both the supply-side and financial intermediary has similar conceptual understanding of the concept which is critical in the understanding for measurement of social value thereof.

Common understanding of the concept is a good foundation for understanding what social value to measure. The ultimate focus is on the change in people's lives as a result of social benefits (reduced poverty, unemployment and inequality) that they receive from capital injection of impact investments.

They both have to concur that the impact investments have hybrid returns, the supply-side expect hybrid returns whilst financial intermediary has to deliver the same.

**Peculiarities**

The supply-side however defines Impact Investing as developmental investment with balanced returns aimed at achieving financial and development goals. The supply-side use development terminology like the development bank and asset management companies.

From the commercial banking side the focus is on value creation which results in blended value. They do not directly link social value created to the development goals. The focus on the supply-side is on development goals whilst commercial banks is on value creation (economic, social and environmental). The development bank however uses the similar concept as the supply-side by referring to social development.

### 7.1.3 Cross-case synthesis of SA Banking Sector and value chain perspective (demand-side)

Table 24 depicts the cross-case analysis of SA Banking Sector and demand-side on research question 1.

It is important to understand what social value means to the recipient of impact capital.

| Question | SA Banking Sector | Demand-Side |
|---|---|---|
| 1. Impact investing | • Impact investing is an emerging field that evolved from various fields such as social impact, CSR/CSI, ESG, Risk, and Sustainability.<br>• Impact investing has hybrid returns: financial and social returns<br>• Sustainable impact investment has financial and social consequences responsive to the societal needs and balancing individual and social rights.<br>• Impact investing is embedded at the heart of business' products and service and integral in the value creation of the business<br>• Social value or benefits will reduce poverty, inequality and unemployment | • Impact investing from demand-side is social investing that seeks to change people's lives.<br>• It involves every department within an organization.<br>• It is guided by societal needs thus responsive to demand-side social needs. |

Table 24 Cross-case synthesis: SA Banking Sector and Demand-side

### Commonalities

The demand-side concurs with the banking sector that Impact Investing is about social investing that results in changes to people's lives as a result of the reduction of poverty, unemployment and inequality.

The demand-side concurs with the banking sector that impact investment is guided by the social needs and demands that exists within the physical environment of the business operations. They both concur that an impact investment transaction requires involvement and participation of more people within an institution.

For the banks it means broadening of the impact investment transaction team, while for the demand-side, it means involvement of every section to ensure that the social programs are delivered.

### Peculiarities

The banking sector has two-pronged focus on the financial and non-financial returns, however the demand-side focuses primarily on non-financial return social value that their programmes create. This depicts the pure philanthropic approach as shown in the impact investment spectrum which is diagonally opposed to the pure traditional investment that seeks financial profit.

There is however a change in the demand-side with emergence of social enterprises that seek dual objectives of financial and social returns. Furthermore the creating shared value concept has since seen cutthroat business entering social spaces to deliver social outcomes as part of their integral business offering.

The traditional purist NPO is facing challenges from mainstream business and social enterprise for access to impact capital. The focus in the demand-side was on the not-for-profit organisations instead of including private sectors or social enterprises. The focus on non-profit organisations was to understand the perspective of recipients and beneficiaries.

### 7.1.4 Cross-case synthesis of SA Banking Sector and asset management companies

Table 25 depicts the cross-case analysis of SA Banking Sector and asset management companies on research question 1.

| Question | SA Banking Sector | Asset Management Companies |
|---|---|---|
| 1. Impact investing | • Impact investing is an emerging field that evolved from various fields such as social impact, CSR/CSI, ESG, Risk, and Sustainability.<br>• Impact investing has hybrid returns: financial and social returns<br>• Sustainable impact investment has financial and social consequences responsive to the societal needs and balancing individual and social rights.<br>• Impact investing is embedded at the heart of business' products and service and integral in the value creation of the business<br>• Social value or benefits will reduce poverty, inequality and unemployment | • Impact investing is new and evolving field of social responsible investment.<br>• It has two-pronged objectives economic and social development.<br>• Financial returns [commercial and risk adjusted return]<br>• Social development [development and social needs]<br>• Example of impact investing is infrastructure bond fund –<br>• Infrastructure is the backbone of an emerging market economy. |

Table 25 Cross-case synthesis of SA Banking Sector and Asset Management Companies

**Commonalities**

The banking sector and asset management companies concur that Impact Investing is an emerging and evolving field. Although asset management companies have been doing this for quite some time (more than 10 years) the respondents indicated that Impact Investing is still an emerging field at exploratory level even though the infrastructure bonds are well-established. They both concur that impact investment has hybrid returns: financial and non-financial (social returns).

Both have Impact Investing at the heart of business products; non-financial returns is part of product costing and returns. The non-financial returns are an integral part of the product. The commercial banks can learn from asset management by starting out in the infrastructure development investment space like the development bank has done. This is so since the infrastructure development's social development has tangible output, like houses or schools built, so it is easier to measure.

**Peculiarities**

According to the banking sector, the drivers of Impact Investing span across different fields whilst with the asset management companies infrastructure development serves as the driver. For the asset management companies the main driver is the delivery of infrastructure as the bedrock of economic development whilst pushing the frontier of social upliftment.

The commercial banks' Impact Investing focus is on their products such as loan, whilst the asset management companies focus mainly on the infrastructure bonds. The asset management companies' approach is similar to the approach of development bank that focus on the infrastructure development investment under section 7.2.1.

The focus of the asset management companies studied was primarily on infrastructure development bonds as opposed to the commercial banks with broader scope of the products. The banking sector has broader scope focusing on different types of product beyond infrastructure development.

The banking sector can play on both social impact bonds and development impact bonds whilst the asset management companies are urgently focusing on development impact bonds. Social impact bonds (SIBs) and development impact bonds (DIBs) bring the public and private sectors together with the aim to deliver more efficient programmes that solve specific social problems (Social Impact Investment Taskforce, 2014). DIB are limited to infrastructure whilst SIB have broader scope that goes beyond the infrastructure.

## 7.2 Cross-Case Synthesis of Research Question 2: Impact Investment Ecosystem

### 7.2.1 Cross-case Synthesis of Commercial Banks, Development Bank and BASA

Table 26 covers cross cases analysis of three commercial banks, development bank and BASA.

| Question | Case 1: Commercial Bank | Case 2: Commercial Bank | Case 3: Commercial Bank | Case 4: Development Bank | Case 5: (BASA) |
|---|---|---|---|---|---|
| 2. Impact investing Ecosystem | Impact investing value chain: pre-requisite of a successful impact investing ecosystem<br>❖ Actors [internal & external]: Supply-side [client], intermediary [internal activists and dealmakers, private equity guys, Environment Social Governance Risk Manager], demand-side [NGO], and beneficiaries [new skill base & potential market]<br>❖ Key success factors: Pro-business government, trust between actors, collaboration & innovation, and ecosystem tools (regulatory & partnership] | Pre-requisite of a successful impact investing ecosystem<br>❖ Actors: Supply-side [High Net Worth Individual, private sector & Institutional investors], intermediary [fund managers], demand-side [NPO], beneficiaries [Individuals], practitioners and researchers<br>❖ Ecosystem tools: Legislative (regulatory) driven, client-driven social causes | Pre-requisite of a successful impact investment ecosystem<br>❖ Actors: Supply-side [GEPF/PIC, wealthy family offices, private equity fund, retail investors, the Boards of Trustees and Philanthropists], intermediary [Fiduciaries and professional managers], beneficiaries<br>❖ Key success factors: balance between prescriptive legislation and self-regulation, ethical codes and principal's mandate,<br>❖ Organising principle: principal-agent relationship theory [principal – supply-side & intermediary-agent] | ❖ The impact investing ecosystem in development bank space if driven by principal-agent relationship that result in collaborative mandate between principal and agent.<br>❖ Actors: Supply-side is the principal [client– domestic or foreign, public or private sector], intermediary is the agent [public and private], demand-side [beneficiaries], government as the owner of the infrastructure and custodian of regulatory space.<br>❖ The centric binding constraint of the ecosystem is the collaboration between actors. | ❖ Impact investing ecosystem requires a robust architecture.<br>❖ Building clocks of the architecture: relationships/collaboration, propitious investment conditions and partnership<br>❖ Actors: business, government and labour.<br>❖ Key Success factor: partnership, business introspection about social responsibilities |

Table 26 Cross-case synthesis of SA Banking Sector - impact investment ecosystem

The cross-case synthesis of case 1 – 5 led to the emergence of South African Banking Sector ecosystem as an impact creator.

**Commonalities**

The commonalities across the commercial banks and development bank cases are that the relationship of the impact investment ecosystem is premised on the principal-agent relationship model in which the principal issues mandates and the agent executes mandates.
All commercial bank cases are advocating for the development of the legislation or regulatory requirements as the building block of the impact investment infrastructure. The internal and external actors are the key success factors of impact investment.

All commercial bank cases concur with the need for a regulatory framework as the building block of Impact Investing infrastructure which is essential for the growth of the industry.

The financial sector charter sets targets in targeted investments which seek to finance or invest in transformational infrastructure projects that support economic development in under-developed areas, agriculture development, low-income housing for households and Black Small Medium Enterprises (SME).

There is also commonalities as far as the actors are concerned with particular reference to the role of government. Actors comprised of internal and external, with the former requiring a paradigm shift of the mind-set to accommodate non-financial returns. Impact investment transaction teams include risk and sustainability managers, and researchers to advice on non-financial returns. Government is expected to play a more active role such as regulator and financier (supply-side) than it is currently playing.

Both commercial banks and development bank indicated lack of collaboration between actors as key issue that restrains the growth of impact investment. They both focus on the similar key success factors like collaboration and partnership. Furthermore they have similar actors and emphasis on the importance of government in ensuring success of Impact Investing.

**Peculiarities**

Although commercial banks and development bank's impact investment is premised on principal-agent relationship, they have different levels of the relationship. All the commercial bank cases as financial intermediaries in the Impact Investing ecosystem has two levels of principal-agent relationship. Level one involves supply-side (principal that could be institutional/foundation/high net-worth individual) and financial intermediary (agent that could be fund manager) and level two involves financial intermediary (as the principal) and demand-side (as agent and this could be the private sector or not for profit organisation), wherever the money is invested in return.

The development bank case has three levels of principal agent relationship. Level one includes government as principal[1] (supply-side) and development bank as agent[1] financial intermediary; level two includes development bank as principal[2] and asset Management Company as agent[2]; and level three includes asset companies as principal[3] and private sector as agent[3].

The development bank has a collaborative mandate where in some instance it co-finances with its principal. The development bank has the dual role of being principal and agent, as an agent at times it co-finances depending on the type of infrastructure bond and their interest in the project. In the commercial space opportunities, co-financing is limited if not non-existent at this stage.

The commercial banks depend entirely on impact capital from the supply-side.

There seems to be no agreement in the form of the regulatory framework that should be in place. There are two forms of regulation prescriptive and self-regulation in the form of industry ethical codes.

Commercial banks Case 1 and 2 argued for the need of prescriptive legislation whilst Commercial bank Case 3 indicated the need to balance prescriptive and self-regulation. Prescriptive legislation was seen as an impetus that would drive or change the impact investment industry. Sceptics of prescriptive legislation argue that Financial Sector Charter and UNPRI failed to build momentum of impact investment and any form of legislation might have unintended consequences that would deter potential investors (supply-side).

Proponents of self-regulation argue that prescriptive legislation can lead to unintended consequences of malicious compliance, but prescriptive legislation can lead to some tax incentives to the industry which could result in exponential growth of the industry.

Macro perspective look at the key success factors from a different level, at higher sectoral levels such as government, business and labour whilst the micro perspective is at a more detailed level.

Macro perspective focus is on building blocks of the architecture that will make the impact investment industry easier such as pro-business government, trust between actors and symbiotic relationships within the ecosystem.

Micro perspective focuses on how a particular architecture ensures that impact investment transactions work at a particular bank. Macro perspective architecture becomes a building block or foundation for the South African Banking impact investment ecosystem.

The architecture is comprised of business, government and labour. Instability at this level has adverse effect on the take-off of impact investment thereby limiting the potential impact of impact investments. Figure 95 depicts how stability at macro level will have positive spin-off on the growth of impact investment industry.

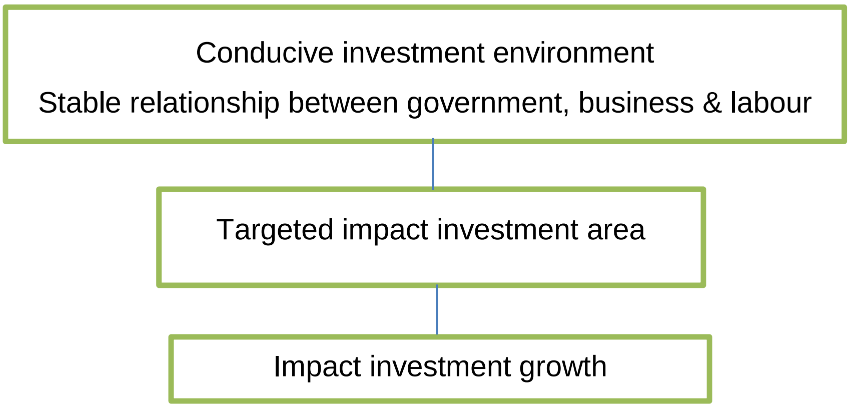



Figure 95 Macro perspective of the impact investment architecture

The cross-case synthesis of micro and macro perspective cases led to the development of the South African Banking Sector ecosystem model from an impact investment creator perspective.  The model in figure 96 depicts the ecosystem of an impact investment which can be used as the building block of impact investment regulatory framework

## South African Banking Sector Ecosystem as Impact Investment Creators

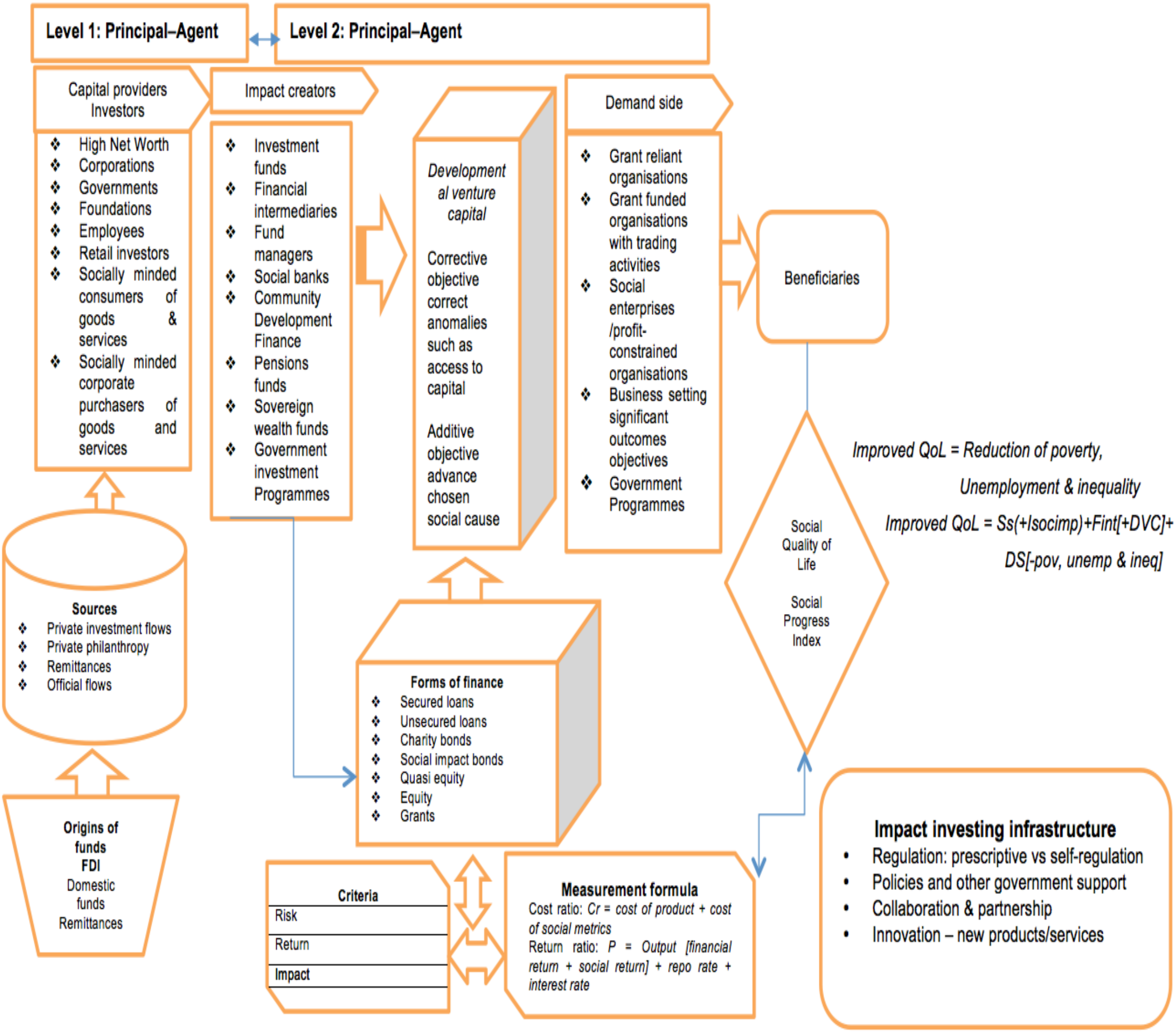



**Figure 96 South African Impact Investment Ecosystem: SA Banking Sector as Impact Investment Creators**

Figure 96 depicts the South African impact-investing ecosystem that reflects the banking role as modelled from social value creation perspective:

*Improved QoL*[15] *= Supply-side (+intent to create social impact) + Financial intermediary [+developmental venture capital facilitation] + Demand-side [poverty, unemployment & inequality]*

15 Improved Quality of Life (QoL) refers to the social value as represented by the reduction in poverty, unemployment and inequality

$$Improved\ QoL\ [reduce\ poverty, unemployment\ \&\ inequality] = Ss(+Isocimp) + Fint\ [+DvC] + DS[-pov, unemp\ \&\ ineq]$$

Equation 18 Impact Investment Ecosystem Equation

This equation shows the intent of actors across the Impact Investing ecosystem.

The ultimate goal of impact investment ecosystem is to improve the quality of life of people.

The social theorists have developed theories to measure quality of life in a scientific and non-arbitrary manner (Lin, 2013).

Two dominant social theories exist, namely quality of life (QOL), which is individual-oriented and uses the indices to explore how well individuals live in a society, and social quality (SQ) theories that use the social indicators to assess economic and social progress that measures the quality of the daily lives of the population (Lin, 2013). The supply-side intend to create positive social impact, the financial intermediary intend to create impact through, amongst others, facilitation of the developmental venture capital (mainly targeting previously disadvantaged with no access to financial services), and the demand-side intend to reduce poverty, unemployment and inequality (via creation of the social value).

Any impact-investing ecosystem consists of four components as portrayed in figure 96: capital providers, impact investment creators (financial intermediaries), demand side, and beneficiaries.

The South African banking sector facilitates developmental venture or impact capital from the capital providers and invests it in such a manner that it meets supply-side's expectations, whilst simultaneously creating positive impact by addressing the social needs that will ultimately improve social quality of life.

The financial intermediaries structure transaction supports ventures that create intended and measurable blended value (economic, social and environmental).

Thus, the South African banking sector will use the impact investment capital to achieve:

- *Corrective objectives: providing access to capital to the demand-side, which will not often receive funding; however, the demand-side programmes must match the needs of the supply side (meet Financial Sector Charter goals).*

- *Additive objectives: addressing social cause of demand-side that matches the expectations of the supply-side; the capital providers make financial returns whilst also making a difference in people's lives.*

According to the (Department of Trade and Industry, 2007), the financial sector will make a significant contribution towards economic growth, development, empowerment and reduction of inequalities and poverty in our society when it addresses its challenges.

The impact investment therefore becomes one of the channels that the banking sector will use to assist the financial sector to address its challenges that intertwined societal issues.

The South African banking sector, as financial intermediaries and/or impact creators, raise capital from the supply-side comprised of the high-net worth organisations such as, institutional investors, corporations, governments, foundations, retails investors, socially-minded consumers, and corporate purchasers of goods and services, and allocate the capital to the demand-side to meet the expectations of the providers. The supply-side provides impact capital with expectations that it will give them financial returns whilst creating positive social impact represented by improvement of the quality of life of people.

These are the supply-side actors that have been discussed in the commercial banks and development bank cases. The sources of capital to be raised could materialise because of private investment flows, private philanthropy, remittances and official flows, which could be from domestic, foreign direct investment, and remittances markets. Impact investment capital is not limited to any specific area.

The forms of capital (finance) could be secured and unsecured loans, charity bonds, social impact bonds, quasi equity, equity and grants. The intermediaries collect the capital from the supply side and distribute it to the demand side to create a measurable positive impact in the society. The hybrid returns are measured in three dimensions: risk, financial returns and impact.

The South African banking sector will achieve corrective and additive objectives, which enable it to meet financial sector charter goals of establishing an equitable society by providing accessible financial services to the previously disadvantaged by directing investment into targeted sectors of the economy (Banking Association of South Africa, 2016). It is expected to report on the financial and non-financial impact created as a result of the distribution of impact capital.

The financial sector plays an intermediary role in the impact-investing ecosystem; hence, Reeder and Colantonia (2014) refer to intermediaries as impact creators while the supply-side is referred to as impact investee. Intermediaries create a positive social impact to society by channelling capital between the supply and demand sides of capital market (Harji et.al., 2014).

The Impact Investing ecosystem model is a blueprint for selling banking as impact creators in emerging economies with immense social needs and challenges. It provides a basis for the impact investment value proposition by the banking sector as impact creators.

The value proposition was informed by both the supply and demand-side of the value chain therefore it can be used as a selling point by the supply and demand-side. The model depicts how the bank can create impact investment that creates measurable positive social impact.

Although financial intermediaries are impact creators, they use the principal-agent relationship model to achieve their goals. The banking sector role as financial intermediaries and impact creators is clearly delineated in the model and informed by value chain partners and the principal-agent model.

Furthermore the model enables the banking sector to align impact investment to the Financial Sector Charter and broader economic and social goals of the country, measured by the Social Progress Index.

The actors of impact investment ecosystem are critical success factors of impact creators. Impact creators cannot exist without internal and external actors and these have been included in the South African banking sector ecosystem model. Impact investment ecosystem equation and intent of actors informs social value equation in terms of who and what of the measurement of social value of impact investment. Who and what is involved in the measurement of social value of impact investment is informed by this ecosystem equation.

### 7.2.2 Cross-case synthesis of SA Banking Sector and Value Chain (Supply-side and Demand-side)

Table 27 depicts the cross-case analysis of the SA banking sector and value chain on research question 2. This table seeks to juxtapose inside-out view of the banking sector against the outside–in perspective of the value chain.

The banking sector is depicting the ecosystem from the inside perspective of financial intermediary or impact creator whilst the supply-side and demand-side are depicting their outside perspectives as principal (source of capital) and agent (recipient of capital) respectively.

| Question | SA Banking Sector | Value Chain (Supply-Side & Demand-side) |
|---|---|---|
| 2. Impact investing Ecosystem | • The pre-requisite of a successful impact investing is the principal-agent relationship between supply-side and intermediaries.<br>• The principal mandate agent to deliver inclusive returns: financial & social value<br>• Actors: Supply-side is the principal [client & institutional investors – GEPF], intermediaries [banks, fund managers], demand-side [NPO] and beneficiaries]<br>• Key success factors: pro-business government, trust, collaboration, collaboration and partnership, balance between legislation and self-regulation]. | • The impact investing ecosystem from supply-side governed by the principal-agent relationship between principal (client) and agent (fund managers).<br>• Actors: Supply-side is the principal [GEPF], intermediary is the agent [PIC], demand-side [NPO] and beneficiaries [community], government drives legislation, policies, infrastructure and regulation.<br>• The key success factor is stakeholder engagement across the value chain. Demand-side<br>• From demand-side perspective the impact investing ecosystem is driven by intermediary, demand-side and beneficiaries.<br>• Actors: Intermediary is the bank [train and educate NPO], demand-side [NPO], beneficiaries [communities – whose buy-in is crucial to achieve the impact envisaged]. |

Table 27 Cross-case synthesis of SA Banking Sector and Value Chain (Supply- and demand-side) - impact investment ecosystem

## Commonalities

The banking sector and the supply-side concur that the Impact Investing ecosystem is governed by the principal-agent relationship with the supply-side as the principal that mandates the agent (financial intermediary) to deliver the hybrid return.

As indicated in the banking impact investment ecosystem they both intend to create positive social impact that improves the quality of life. The supply-side triggers the process by indicating upfront the social value it intends to create. They concur that the common key success factor is the regulatory framework to regulate the industry, protecting all actors in the value chain.

The need for policies and regulation is pointed out by both the banking sector and the supply-side. They both included common internal and external actors such as Government Employee Pension Fund (GEPF), intermediaries, and NPO's. The banking sector and demand-side concur that the Impact Investing ecosystem is governed by principal-agent relationship, they both have internal and external actors. Demand-side's intent as aforementioned is to increase social benefits through reduction of poverty, unemployment and inequality, they both have NPO's and intermediaries as their actors.

**Peculiarities**

Although the banking sector and supply-side have principal-agent relationship, the banking sector (commercial banks) has two levels of principal-agent relationship whilst the supply-side have one level of relationship. Banking sector has dual role as agent[1] in relation to the supply-side and principal[2] in relation the demand-side. The supply-side has one level of principal-agent relationship. It is principal[1] in relation to the banking sector.

The banking sector's key success factors were pro-business, trust, partnership and regulation. The key success factor for the supply-side is stakeholder engagement which is the gel that will make the ecosystem work.

Although they both concur on principal-agent relationship, banking sector (commercial banks) has two levels of principal-agent relationships whilst demand-side has one level.
The banking sector has dual role as agent[1] in relation to the supply-side and principal[2] in relation to the demand-side. It gives mandate to the demand-side. Demand-side has dual role as agent[2] in relation to the financial intermediary.

### 7.2.4 Cross-case synthesis of SA Banking Sector and Asset Management Companies

Table 28 depicts the cross-case analysis of the banking and asset management companies on research question 2. It seeks to depict how the banking sector fare against the established companies with track records on impact investment.

| Question | SA Banking Sector | Asset Management Companies |
|---|---|---|
| 2. Impact investing Ecosystem | • The pre-requisite of a successful impact investing is the principal-agent relationship between supply-side and intermediaries.<br>• The principal mandate agent to deliver inclusive returns: financial & social value<br>• Actors: Supply-side is the principal [client & institutional investors – GEPF], intermediaries [banks, fund managers], demand-side [NPO] and beneficiaries]<br>• Key success factors: pro-business government, trust, collaboration, collaboration and partnership, balance between legislation and self-regulation]. | • Principal-agent relationship governs impact investing ecosystem.<br>• Actors: Principal [client and state run entities – asset owner], agent [fund managers – asset managers], demand-side [beneficiaries], government as the owner of the infrastructure and custodian of regulatory space.<br>• Key Success Factors: Regulation [Regulation 28], Pension fund capital injection and right skills and talent. |

Table 28 Cross-case synthesis of SA banking Sector and Asset Management Companies - impact investment ecosystem

**Commonalities**

The banking sector and asset management companies concur on the principal-agent relationship as the base for the Impact Investing ecosystem. They both have two levels of principal-agent relationship relationships.

The banking sector has dual role as agent[1] in relation to the supply-side and principal[2] in relation to the demand-side. Asset Management Companies have dual roles as agent[1] in relation to the supply-side and principal[2] in relation to the demand-side (private sector). The banking sector and asset management companies advocate for regulatory framework as the critical building block of impact investment industry.

Both the Banking and Asset Management Companies amplify the role of government in ensuring that the impact investment ecosystem is optimally functioning with robust impact investment infrastructure.

**Peculiarities**

Although the banking sector and asset management companies advocate for regulation to support impact investment, the Asset Management Companies rely on Regulation 28 of the Pension Funds Act (No. 24 of 1956) which states that the Minister

"*may make regulations limiting the amount and the extent to which a pension fund may invest in particular assets or in particular kinds or categories of assets, prescribing the basis on which the limit shall be determined and defining the kinds or categories of assets to which the limit applies.*"

The banking sector does not have prescriptive legislation, as such it relies on self-regulation by the industry. However some banking cases are arguing for prescriptive legislative. The banking sector had other key success factors such as collaboration and partnership which are both voluntary whilst the asset management companies focused on the regulation which will be prescriptive. The commercial banks are dependent on what clients need while the asset management companies require legislation that will build the impact investment industry whilst increasing appetite for impact investments.

The banking sector impact investment ecosystem model is fully supported by its value chain and competitors in terms of the requisite impact infrastructure and the key success factors. The South African Banking Sector impact investment model is crucial in order to unravel and understand the measurement of hybrid returns with particular focus on social value.

## 7.3 Cross-Case Synthesis of Research Question 3: Measurement of Social Value

This section will depict cross-case synthesis of micro and macro perspectives, value chain and competition landscape perspectives. Micro perspective commercial banks will be separated from development bank analysis.

### 7.3.1 Cross-Case Synthesis of Commercial Banks

Table 29 depicts cross-case analysis of research question three of the commercial banks.

| Question | Case 1 | Case 2 | Case 3 |
|---|---|---|---|
| 3. Measurement | **Measurement formula**<br>Cost ratio: *Cr* = Inclusive product cost [*cost of product + cost of social metrics]*<br>Return ratio: *HYr = Output [financial return + social return] + repo rate + interest rate*<br><br>Measurement Process: Emphasis is on inclusive price [covers social metrics]<br>Compliance and risks frameworks: Sources of social and environment metrics; New generation risk<br>Measurement Principles: Keep it simple; Debunk myth of trade-off<br>Challenges of measurement: old vs sustainable mind-set; Questions; Challenges<br><br>**Outcomes**<br>Innovative balance sheet<br>Sustainable capitalism | **Measurement formula**<br>Cost ratio: *Cr = market price (financial cost + variable cost of context-based social metrics)*<br>Return ratio: HY*r = financial return + quantified social return*<br><br>Measurement approach: Emphasis is on scaling context-based social metrics<br>Challenges of measurement: Long-term effect; Predictability factor<br><br>**Return ratio**<br>Linked to Sustainable Development Goals and Social Progress Index | **Measurement formula**<br>Cost ratio: *Cr = Cost of capital + cost of social output [low /high impact]*<br>Return ratio: HY*r = financial return [monetary benefits] + quantified social return [big picture social impact]*<br><br>Measurement: Emphasis is on the impact criterion (low/high)<br>Challenges of measurement: What is gain or loss of social benefits? How does one measure impact of capital injection into social benefit?<br><br>**Impact**<br>*Low impact – downstream social benefit*<br>*High impact – infrastructure and direct social benefit to beneficiaries* |

Table 29 Cross-case synthesis of commercial banks - measurement of impact investment

The above table's focus is on the measurement of social value by the three commercial banks. They are separated from the development bank in order to first establish the current practices within the commercial banking space.

The idea is to be able to depict how the commercial banks are measuring social value in comparison with each other and also against a development bank that has a different mandate form the commercial banks.

**Commonalities:**

**Social Value Equation**

The emergent social equation from the three cases posits that social value (social costs and returns) is an integral part of the impact investment transactions.  Social value cannot be measured wholly separate from financial risk and return.  This supports Saltuk (2012) and (Laing, et al., 2012) 's combined accounts for investments' financial return and any social return that is relevant to the investor's objectives.

It is argued that returns of impact investment have combined accounts including financial and social returns.  All three commercial cases from this study have two ratios: inclusive costs and hybrid return ratios.

It is argued that the cost implication of social returns is part of the product costs and social benefits derived as part of investment returns.  Thus impact investment transactions include social externalities which include both social costs (in the product costs) and benefits (in the investment returns). Social value cost and return should be quantified and reduced into a financial metrics value for comparative and reporting purposes.  The financial metrics value afford the opportunity to compare performance of the investments across the portfolio and assist with reporting across the ecosystem.

Investors require feedback on their investment and at this stage using financial value metric for social costs and returns is inevitable.  The social costs and benefits assist the supply-side to make better decisions on the choices of investment; financial intermediaries are able to sell their products and account accordingly to the supply side.

Financial value metric could assists to choose between social housing or agricultural irrigation schemes.

Social value measurement is factored into the impact investment transaction costs and return.

***Emergent ratios***:

$$Cr = Cost\ of\ Capital\ [product\ costs + fin\ risk + variable\ cost\ of\ context - based\ social\ metric\ [low/high\ impact/social\ risk]]$$

$$Cost\ Ratio = financial\ risk + social\ impact\ risk\ [cost\ of\ desired\ social\ progress]$$

Equation 19 Cost Ratio (Cr)

The cost ratio refers to the product cost that include the social cost

$$HYr = Investment\ Returns\ [Fin\ returns = monetary\ benefits\ [repo + interest\ rate] + Soc\ returns = quantified\ social\ benefits\ [Output + Outcome - Poverty, Unemployment\ \&\ Inequality]$$

Equation 20 Hybrid Return Ratio (HYr)

Hybrid returns include financial and social return (quantified social benefit)

Combined accounts:

$$Inclusive\ Product\ Price\ (Cost\ Ratio) = financial\ risk + social\ impact\ risks\ or\ cost\ of\ social\ progress$$

Equation 21 Inclusive Product Price

Thus inclusive product price or costs include social costs

$$Hybrid\ Returns = financial\ return + social\ benefits\ [quantified\ number\ of\ output + social\ outcome\ achieved]$$

$$impact\ investment\ returns = HYr\ [financial\ return + social\ benefits] - Cr\ [financial\ risk + cost\ of\ social\ progress]$$

Equation 22 Impact Investment Return Ratio (IIRr)

$$Social\ value\ measurement$$
$$= \ social\ benefits\ [reduction\ of\ poverty, unemployment\ \&\ inequality] - \ costs\ of\ social\ progress$$
$$[costs\ of\ access\ to\ basic\ needs, jobs, accommodation\ and\ water]$$

Equation 23 South African Social Value Ratio (Svr)

Social value measurement equals social benefits minus social cost as an integral part of impact investment measurement.

**Measurement challenges**

All the commercial bank cases raised the traditional investment mind-set as a challenge and stumbling block because it is fixated and well-entrenched on a single objective of creating financial returns (as argued by friedmanite in conceptual framework) as opposed to the hybrid returns of the impact investment (as posited by blended value proposition in conceptual framework). In this school of thought the focus on measurement is on two dimensions of financial risk and returns metrics.

The three dimension measurement of social impact, risk and return is a new approach causing uncertainty and challenge to financial intermediaries with traditional investment mind-sets.  Impact Investing however requires broader metrics that cover risk, financial returns and social impact because it deals with combined accounts.

The traditional investment mind-set is uncomfortable with social metrics because they are accustomed to financial metrics which are easily defined upfront, 'objective' and easily quantifiable.  The social metrics are considered subjective, ambiguous and ill-defined e.g. improve health lifestyle or economic status of the poor.

To exacerbate the matter of concern achievement of social metrics is not entirely dependent on the financial intermediary and its ecosystem. In some instances it requires intervention of people who may not be directly part of the ecosystem.

Investing money with the demand-side does not necessarily mean that the desired outcome can be achieved because the NPO or social enterprise might also depend on the other role players like public office. Social metrics' predictability has low probability in comparison to financial metrics because of causality factors that are beyond the control of the impact investment ecosystem.

The commercial banking cases raised the challenge of reaching consensus on the financial value of the social metrics. The commercial banks cited lack of standardization of the social metrics, however this argument fails to take into consideration IRIS as pointed out in chapter two, that it has a catalogue of social metrics that are well-defined to ensure standardization of social metrics.

Another challenge is the time-lag return period for social impact return and this means that it takes long to witness the impact or lack thereof. This however fails to take into consideration that output measures can be used to assess progress towards the desired outcome.

The financial mind-set prefers upfront definitions of things that are mostly within their control, however some of the current methodologies are based on ex-post point of view which means after the fact, impact becomes known after the fact.

Furthermore impact introduces other dimensions of predictability [what is the probability of the certainties that the envisaged social outcome will be achieved and what is the probability that A cause B given the fact that some of the things are not in control of A) and how does one factor and price these uncertainties into the social risk.

Probabilities can be determined during the due diligence process. The challenges raised move beyond the capability of transactions advisors in the traditional investments. They require the involvement of new team players such as Risk and Sustainability Managers who can play the leading role as far as non-financial returns of the impact investment transaction is concerned. Sustainability managers become responsible for unpacking and pricing of non-financial returns (social and environmental risk and its metrics).

Impact investment transaction requires a diverse team including members with skills set on social metrics and their valuation. People with financial skills could not adequately address social value.  Thus a mixture of quantitative and qualitative skills is required.  All commercial cases highlight the need to start small and do measurement on case-by-case or project-by-project approach.

They expressed the need to tread cautiously and test all the probabilities before one settles for one big approach that solves all the impact investment challenges.  They still believe this area has uncertainties, therefore scaling approach is the best option.

The sceptics of impact investments are still many and need persuasion, so scaling approach will bring small wins until they build a convincing case.
IRIS has gone a step further by standardizing the social metrics definition, however the standardization of measurement approach and ratios is still missing.  This implies that the combined accounts approach should be carefully analyzed per transaction.  The combined ratios however are important for comparison and transparency purposes.

Investors prefer a transparent approach that reflect costing and returns margins upfront in order to make informed investment decision.

**Peculiarities**

Measurement of social value is still at exploratory stage, as such, the difference experienced in measurement practices are few.

This study aimed at looking at investigating the current practices and develop a robust theory on the measurement of social value, which is informed by common understanding of the impact investment concept and ecosystem.

Commercial Bank Case 1 refers to it as the product cost that includes social cost, and Commercial Bank Case 2 refers to it as the market price and lastly Commercial Bank Case 3 as risk premium.  Commercial Bank Case 1's measurement approach emphasizes the inclusive price that combines financial and social risk (social externalities).

Commercial Bank Case 2's emphasis is on client-driven social cause approach whilst Commercial Bank Case 3 is on the impact generated.

The other difference on what drives the social metrics from Commercial Bank Case 1, is the compliance and risks frameworks such as Equator Principles and managing new generation social risk, with Commercial Case 2, the source of measurement metrics is solely clients' needs, and the source of measurement metrics for Case 3 is the ESG framework.

**Measurement Criterion**

According to the results, social metrics are part of three-dimensional criteria for measuring the impact investment transaction at output level.

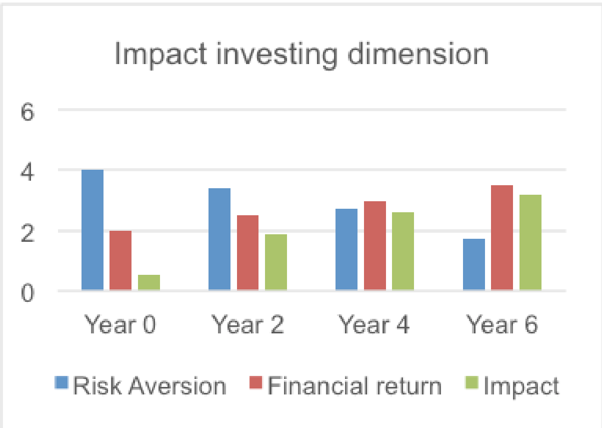



Figure 97 Three-dimensional criteria of impact investment

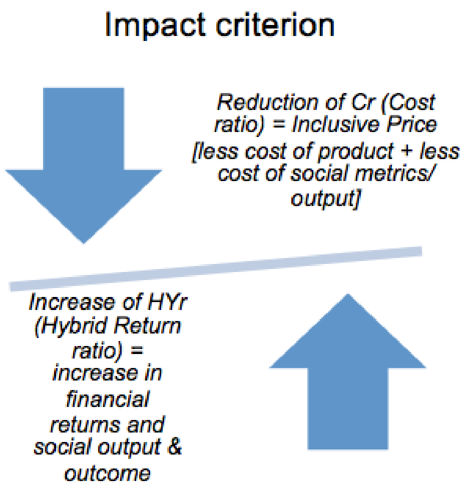



Figure 98 Maximisation of positive impact

Thus the Impact Investing augurs for lowering of risk while increasing internal rate of return and creating measurable positive impact (social and environmental). Internal rate of return and measurable positive social impact becomes the ultimate goal (maximisation of profit and social wealth for the shareholders and the society respectively). This support the notion argued in the conceptual framework that impact investment resonates with the concept of Africapitalism.

Maximisation of impact will entail reduction of the costs of capital of social metrics and the increase in social metrics returns (social benefits).

### 7.3.2 Cross-Case Synthesis: Commercial Banks and Development Bank

Table 30 depicts the cross-case analysis of commercial banks and development bank on research question 3.

| | | |
|---|---|---|
| 3. Measurement | **Measurement formula:**<br>• **Cost ratio:** *Cr = cost of product + cost of social metrics*<br>• **Return ratio:** *HyR = Output [financial return + social return] + repo rate + interest rate*<br>• Inclusive price [product and social output costs]<br>• Measurement has to be conducted on a project basis.<br>• Impact criterion: low [impact to the intended beneficiaries is indirect] and high [designate sectors e.g. infrastructure investment + direct beneficiaries received the benefits].<br>• Challenges: old vs. social conscious mindset of investment, fixation with financial metrics, impact is felt after long time, determination of predictability. | **Measurement formula:**<br>• ***Cost ratio:*** *Cr = cost of capital + cost of development metrics*<br>• ***Return ratio***: *HYr = Fin return + Development Indicators achieved [output + outcome]*<br>• The focus areas are: social, institutional and environment.<br>• The social output variables that serve as development indicators are jobs, houses, schools, access to basic needs such as shelter, water, energy, etc.<br>• Measurement of social variable is at output and outcome levels.<br>• The measurement criteria is relative to the project<br>• Measurement is done at three different interval, pre-financing [establish baseline], during and post-financing [compare the actuals against the projected outcome], what is gain or loss |

Table 30 Cross-case synthesis of commercial banks and development bank - measurement of impact investment

## Commonalities

The similarities between commercial and development banks are that they both have two ratios: cost and hybrid return ratios. Both commercial banks and development bank have cost ratio (inclusive price that include social cost externalities) and hybrid returns (financial and social benefit externalities).
Both commercial and development banks prefer measurement approach based on scaling approach which takes project per project basis instead of one size fits all approach. Focus on both cases is on quantifying social metric into financial value.

The non-financial returns of both commercial banks and development bank are influenced by the ESG risk factors. ESG becomes the main source of social metrics. The banks have the responsibility to cross check whether ESG indicators chosen are defined in the IRIS social metrics standard.

## Peculiarities

The difference between the two banking sectors is that the hybrid returns of commercial banks are variable context-based social metrics whilst the development bank refers to them as the development proxy indicators.

The variable context-based metrics mean that they are mainly driven by the context often at local level whilst the development indicators are at local, national or regional level.

The measurement of non-financial returns of commercial banks are mainly at output level, refers to tangible deliverables such houses or school built etc.

The measurement of the non-financial returns of the development bank is at both output and outcome level e.g. improvement in people with shelter, access to water etc. it is not just houses built but % of people whose lives has been changed as a result of the houses built.

In the case of the commercial banks, the outcome is inferred and the point of departure is to achieve the hard and tangible output (e.g. houses built - quantifiable) whilst in development bank the point of departure is on outcome which is often tied to the social progress and development impact (e.g. increase access to housing settlements – often qualitative in nature).

The commercial banks are driven by clients' needs whilst the development bank is driven by broader societal or development goals. The commercial banks are starting small and are comfortable with social output at this stage however the development bank has been involved in the space of infrastructure development investments for a longer period therefore they are used to the outcome measurement.

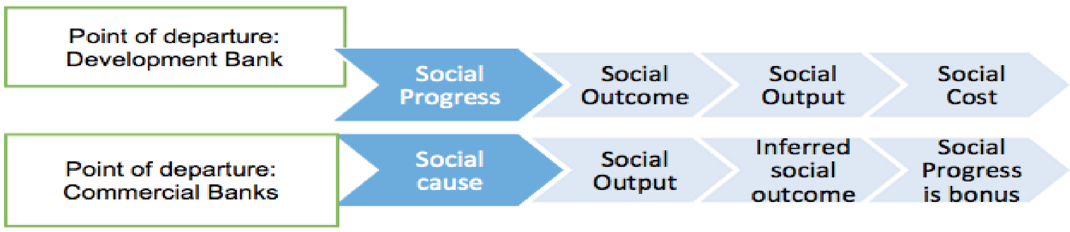



Figure 99 Development and Commercial Banks Approaches

The diagram juxtaposes the different approach between development and commercial banks. The point of departure for development bank is to improve social progress guided by the country's development needs and international development goals (Sustainable Development Goals).

The social output and outcome are the social benefits of impact investment. The point of departure for the commercial banks is to create positive social impact by managing social cost and amplify social benefits.

The commercial banks needs to move beyond client perspective to broader societal issues (from narrow definition of impact investment that seek to meet expectations of the investor to inclusive definition that seek to meet broader societal expectations).

### 7.3.3 Cross-Case Analysis of Commercial Banks and BASA

Table 31 depicts the cross-case analysis of commercial banks and BASA on research question 3.

| Question | Commercial Banks – Micro Perspective | The Banking Association South Africa (BASA) - Macro Perspective |
|---|---|---|
| 3. Measurement | **Measurement formula:**<br>• Cost ratio: *Cr = cost of product + cost of social metrics*<br>• Return ratio: *HyR = Output [financial return + social return] + repo rate + interest rate*<br>• Inclusive price [product and social output costs]<br>• Measurement has to be conducted on a project basis.<br>• Impact criterion: low [impact to the intended beneficiaries is indirect] and high [designate sectors e.g. infrastructure investment + direct beneficiaries received the benefits].<br>• Challenges: old vs. social conscious mindset of investment, fixation with financial metrics, impact is felt after long time, determination of predictability | • Financial Sector Charter + elements.<br>• Transformation infrastructure: transport, telecommunications, water, energy.<br>• Social infrastructure: health, education, correctional facilities, municipal infrastructure & service<br>• Financial inclusion = sustained economic growth & development + social transformation [social well-being] |

Table 31 Cross-case synthesis of micro and macro perspectives - measurement of impact investment

The purpose of the above table is to show alignment between micro and macro perspectives of impact investment within the SA banking Sector.

From macro-perspective, impact investment is located within the Financial Sector Charter space. BASA views impact investment as an opportunity to meet Financial Sector Charter goals and obligations whilst at the same time meeting stakeholders' expectations.

From BASA perspective FSC becomes the source of social metrics, priority areas of impact (criteria to determine impact level) and financial inclusion (broader development goals). Consequently FSC should be reviewed in the light of the emergence of impact investment.  The financial intermediary will align supply-side expectations with the priorities and goals of FSC.

Thus for the push market products or impact investment portfolios the commercial banks can build such products into FSC priority areas.  Commercial bank cases also use compliance and risk frameworks as source of social metrics.

From macro perspective, BASA pointed out that FSC is point of departure for positive social impact or social value creation.  FSC guides the broader societal needs and challenges of reducing poverty, unemployment and inequalities.

From the micro perspective approach, each individual bank will choose its impact focus area from the FSC priorities.  Ratios provide opportunity to realign FSC and clients-driven impact investments transactions. Social value measurement argues for inclusive pricing and returns: quantify and cost social metrics and quantify social returns.

Social value generated from the individual bank contributes towards the agenda of meeting financial sector charter goals.  From macro-perspective, the social value created directly addresses the financial sector goals and transformation agenda of the country. The banks for instance can use developmental venture capital through Impact Investing channels and instruments.

The FSC goal of financial inclusion will lead to sustained economic growth and development which include social transformation [social well-being].

### Value Chain Perspective

### 7.3.5 Cross-case synthesis: Commercial Banks and Supply-Side and Demand-side

Financial intermediaries are the nerve centre of the Impact Investing ecosystem by connecting supply-side and demand-side, therefore measurement of social value cannot be whole without comparison with what the principal (supply-side) determine as social value.

It is important to understand and factor in the supply-side in the measurement of social value by the financial intermediary. As already indicated in chapter 5 and section 7.3 on Impact Investing ecosystem, the principal (supply-side) mandates the agent (financial intermediary) therefore the definition of social value ratio from the supply side becomes an input into the financial intermediary's measurement equation.

In addition, definition of social value ratio from demand-side as an implementation arm is critical to ensure that their deliverable meets the financial intermediary and supply-side's expectation.

Table 32 below depicts the cross-case analysis of commercial banks and supply-side (represented by supply and demand-side) on research question 3.

| Question | Commercial Banks | Supply-Side | Demand-Side |
| --- | --- | --- | --- |
| 3. Measurement | **Measurement formula:**<br>Cost ratio: *Cr = cost of product + cost of social metrics*<br>Return ratio: *HyR = Output [financial return + social return] + repo rate + interest rate*<br>Inclusive price [product and social output costs]<br>Measurement has to be conducted on a project basis.<br>Impact criterion: low [impact to the intended beneficiaries is indirect] and high [designate sectors e.g. infrastructure investment + direct beneficiaries received the benefits].<br>Challenges: old vs. social conscious mindset of investment, fixation with financial metrics, impact is felt after long time, determination of predictability, | **Measurement formula:**<br>*Cr = ESG due diligence [quantified spend + expected beneficiaries]*<br>*Rr = financial return + development goals achieved [social + environmental metrics]*<br>Challenges: measurement of the intangibles, time series, bias of financial metrics reporting and client expectations.<br>Ideal measurement approach is establish social impact audit comparable to governance audit | **Measurement formula:**<br>*Rr = financial profit/return + reduced social deficit [social returns]*<br>*Reduced social deficit = achievement of goals [BBBEE = SDG goals] + change in people's live [positive change/impact]*<br>*Svr = Positive social impact [positive change in people's lives + better future outlook + positive self-esteem of individuals]*<br>*Svr therefore = reduction in social deficit and increase in social progress*<br>Measurement challenges: quantify positive change, time series of impact, independence of valuation |

Table 32 Cross-case synthesis of commercial banks and supply-side - measurement of impact investment

**Commonalities**

Both the commercial banks as agent and the supply-side as principal have cost ratio and hybrid returns. The cost of the supply-side include quantified social cost and the hybrid returns include financial return and development goals achieved (represented by social and environmental metrics).

The supply-side considers externalities during the ESG due diligence. Commercial banks and supply-side have similar measurement challenges, such as time-lag of measuring impact. This could however be addressed by interval payment for social output achieved towards outcome, with bias towards the financial reporting and translating everything to into financial metric.

The similarities with demand-side are on social returns:

*Svr = Positive social impact [positive change in people's lives + better future outlook + positive self-esteem of individuals]*
*Svr therefore = reduction in social deficit and increase in social progress*

**Peculiarities**

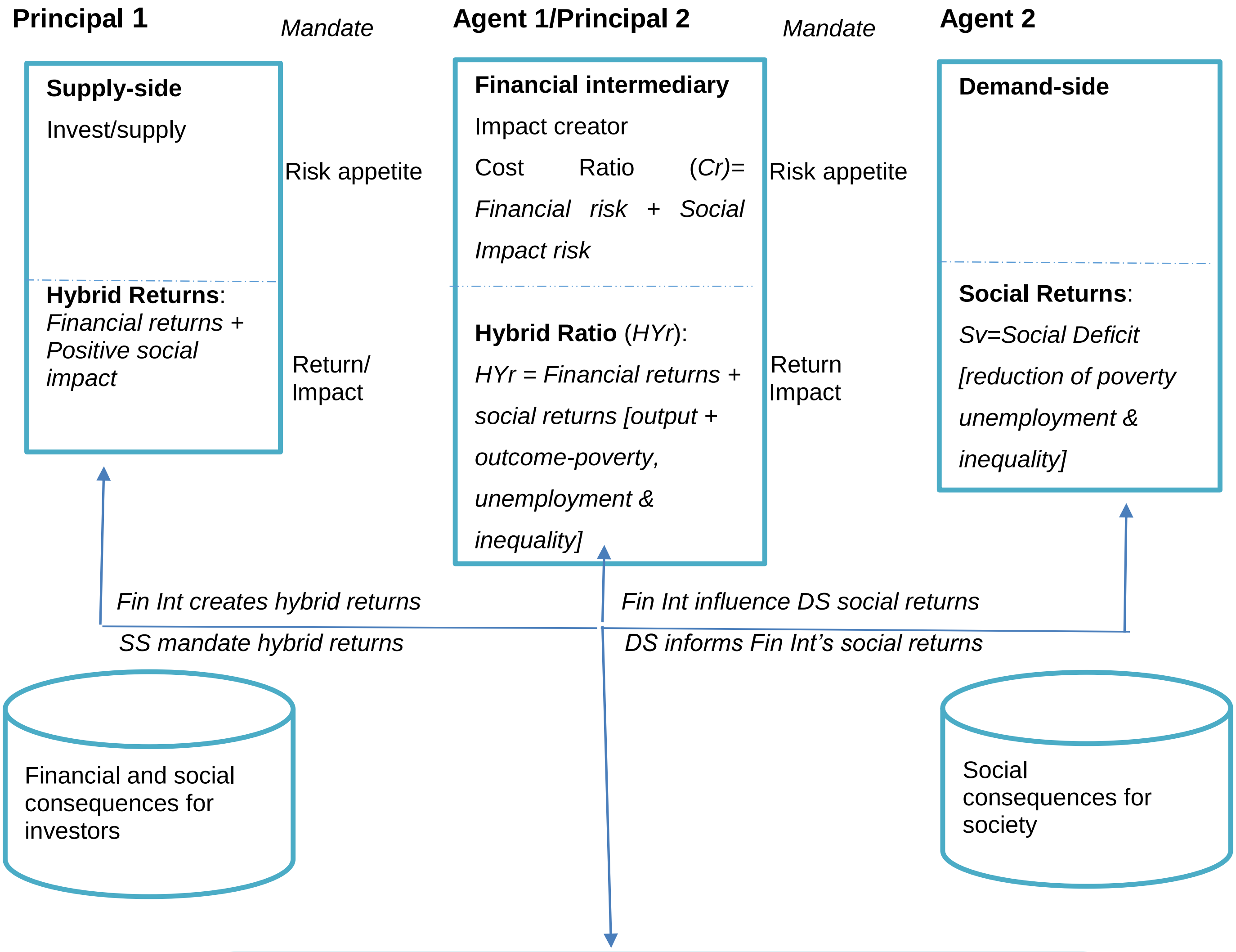
The supply-side prefer a social impact audit to ensure that reporting from the financial intermediary is properly assured so that business' social value creation can be audited. The social impact audit is viewed as a trigger to accelerate uptake of impact investment.

Commercial banks focus on cost ratio and hybrid returns whilst the demand-side focus on the social value returns. This ratio informs the financial intermediary's social return. The demand-side, especially NPO's, focus on social value from beneficiaries' perspective that focus on social deficit (reduction in poverty, unemployment and inequality) rather than the financial return.

However both social enterprises and private sectors that are on the demand-side of the ecosystem would be interested in the two ratios of cost and hybrid return.  Social value from financial intermediary cannot be defined without the input of the demand-side.

## 7.3.6 Emergent Financial Intermediary Social Value Equation Model

The study developed a financial intermediary social value equation model from cross-case synthesis of micro and macro perspectives and value chain perspective that depicts the measurement of social value.




**<u>Financial Intermediary: Measurement Ratios</u>**

$$Cr = Cost\ of\ Capital\ [product\ costs + fin\ risk + variable\ cost\ of\ context - based\ social\ metric\ [low/high\ impact/social\ risk]$$

$$HYr = Investment\ Returns\ [Fin\ returns = monetary\ benefits\ [repo + interest\ rate] + Soc\ returns\ or\ quantified\ social\ benefits\ [Output + Outcome - Poverty, Unemployment\ \&\ Inequality]$$

$$Impact\ investment\ returns = HYr\ [fin + social\ benefits] - Cr\ [financial\ risk + cost\ of\ social\ progress]$$

**Sustainable investment = economic growth + social progress**

Equation 24 Financial Intermediary - Measurement Ratios

Figure 100 Financial Intermediary Social Equation Model

**Summary of the measurement model**

Figure 100 depicts the Financial Intermediary social value equation model, which encapsulates the findings of the multiple case study analysis. It navigates and explains how the principal-agent relationship Impact Investing ecosystem inherently influence and inform measurement of social value by the financial intermediaries in South Africa.

The findings, captured in the model in figure 100, show that the social value equation of the financial intermediary is intricately inter-linked with the supply-side's hybrid returns as encapsulated in the principal's mandate and the demand-side social need.

Defining and describing measurement of the social value by financial intermediary is therefore inherently linked to the supply-side and demand-side. The model has two levels of principal-agent relationships depending on the type of impact investment transaction.

The study found that in the first level, the supply-side is Principal 1, supplying capital with proviso of hybrid returns – financial (internal rate of return) and non-financial (impact created) returns. The financial intermediary is Agent 1 that executes the mandate of Principal 1 by matching the supply-side and demand-side needs and expectations. Agent 1 unpacks hybrid returns by constructing the measurement ratio that caters for financial and non-financial return.

The study found that in the second level of principal-agent relationship, the financial intermediary is Principal 2 mandating the demand-side to deliver a project or programme that provides positive impact to the beneficiaries with social need. Principal 2 therefore defines the measurement ratio that matches the supply-side and demand-side expectations and needs. The demand-side is Agent 2 that details the social needs and informs the definition of impact. It defines social value. The financial intermediary (Principal 2) defines the social value equation based on Agent 2's definition of social value.

The study found two equations: cost ratio (*Cr*) and hybrid returns (*HYr*)

1. $Cr = Cost\ of\ Capital\ [product\ costs + \ financial\ risk\ +$
$variable\ cost\ of\ context - based\ social\ metric\ \ (low/high\ impact/social\ risk)]$

Cost ratio refers to the costs of capital ratio for an impact transaction that is inclusive of the product costs and quantified costs of context-based social metric. Traditional cost of capital covers finance required for investment and this often cover product finance excluding social costs because they were never part of the equation.

The latter is variable because the cost of social metric depends on the social and geographical context (for instance, the social cost of human settlements differs from one province to another) in which it takes place. An example of this on infrastructure bond:

Cr = Cost of capital [infrastructure costs + risk cost + social metric (jobs and training)]

Traditionally cost will cover infrastructure costs and risk jobs and training that will be part of the project were never accounted for nor part of transaction. Impact investment is altering all that approach when it includes measurable positive social impact that requires to be included in the costs because they have to be accounted for.

*2.* $HYr\ =\ Financial\ Returns\ [monetary\ benefits\ (repo\ +\ interest\ rate)]\ +$
$Social\ returns\ or\ quantified\ social\ benefits\ [Output + Outcome -$
$Poverty, Unemployment\ \&\ Inequality]$

Hybrid returns ratio refers to the Impact Investing returns that is inclusive of financial and non-financial returns (as represented by social returns). Financial return entails monetary benefits that include repo rate plus interest rate, depending on the type and period of investment.

Social returns entail achieved social output, to some extent, the degree to which the outcome has impact on poverty, unemployment and inequality which are critical social challenges in South Africa. Output and outcome will have pre-defined targets hence their costs has to be included in the cost of capital. They will be measured by an independent valuator that is agreed before the conclusion of the transaction.

Therefore:

$$Impact\ investment\ returns$$
$$= HYr\ [financial\ +\ social\ benefits] - Cr\ [financial\ risk$$
$$+\ cost\ of\ social\ progress]$$

Social value is inherently part of impact investment returns; thus, impact investment returns consist of a hybrid financial and non-financial ratio minus cost ratio but inclusive of the costs of financial risk and social progress. Impact investment is a social conscious and sustainable investment that couples economic growth with social progress. Social progress uses social progress index to measure quality of social life. The required social progress index will highlight social dimensions that require improvement. Social costs for the social index that require improvement will be identified for instance do we require improvement on health dimensions? If this is the case social indicators to improve health will be identified and social cost assigned thus the aggregate social cost will become cost of social progress.

Impact investment is a social conscious and sustainable investment = economic growth + social progress.

### 7.3.7 Cross-case synthesis: Commercial Banks and Asset Management Companies[16]

The purpose of looking at the asset management companies is to look at the other types of financial intermediaries on how they have approached measurement of non-financial returns, particularly social returns.

The asset management industry has been involved in impact investment earlier than the banking sector, especially the commercial banks. Of particular interest was to understand how the sector defined and measured the social value and compare this with banking sector practices.

[16] Aggregated or combined responses of the two asset management companies

Table 33 depicts the cross-case analysis of commercial banks and asset management companies on research question 3.

| Question | Commercial Banks | Asset Management Companies |
|---|---|---|
| 3. Measurement | **Measurement formula:**<br>• **Cost ratio**: *Cr = cost of product + cost of social metrics*<br>• **Return ratio**: *HyR = Output [financial return + social return] + repo rate + interest rate*<br>• Inclusive price [product and social output costs]<br>• Measurement has to be conducted on a project basis.<br>• Impact criterion: low [impact to the intended beneficiaries is indirect] and high [designate sectors e.g. infrastructure investment + direct beneficiaries received the benefits].<br>• Challenges: old vs. social conscious mindset of investment, fixation with financial metrics, impact is felt after long time, determination of predictability. | **Measurement formula:**<br>• ***Social value****: Sv = social output metrics + impact rating [low-indirect and high-direct beneficiaries]*<br>• ***Social value****: Sv = social output + outcome/impact [rating criteria]*<br>• Market growth of impact funds: institutional market [uptake – early adopters] and retail market [slow – late adopters].<br>• Value is translatable into financial metric. [could be mathematical or non-mathematical formula]<br>• Social metrics should be pre-defined and informed by macro view of social metrics<br>• Measurement is at nascent stage – organically developed methodologies]<br>• Standardize approach and define ratios |

Table 33 Cross-case synthesis of commercial banks and asset management

## Commonalities

Asset Management Companies describe social value in terms of social output, outcome and the impact criteria to determine the value of the impact. This is similar to the banking sector that describe social value in terms of social output costs and benefits.

Of particular interest is that the Asset Management Companies' description is very similar to that of development bank because these companies work more closely with the development bank on infrastructure development investments.

The similarities of the definition of social value between the development bank and Asset Management Companies underscore the importance of inclusion of both principal and agent in the definition of social value and description of its ratio.

Both the banking sector and Asset Management Companies highlight the importance of having criteria to determine the impact. The criteria becomes the first building stone of putting financial value into impact. They both posit that any value can be translatable into financial metric [mathematical or not] and towards this determination of impact, criteria becomes essential. Both concur that the measurement is at nascent stage and organically developed.

Each Asset Management Companies develop their methodology based on the type of project and the context. So the banks are also doing the same to develop measurement approach. The social value equation model developed by this study would greatly assist in building an objective system of measuring social value and accelerate impact investment as a channel to meet goals and obligations of FSC, NDP and SDG.

**Peculiarities**

The social value ratio of the banking sector focus on hybrid returns with cost ratio focusing on the social cost and hybrid return focusing on financial return and social return or benefits:

$$
\begin{aligned}
Cr \ = \ Cost\ of\ Capital\ [product\ costs/fin\ risk\ +\ variable\ cost\ of\ context \\
- based\ social\ metric\ [low/high\ impact/social\ risk]
\end{aligned}
$$

$$
\begin{aligned}
HYr \ = \ Investment\ Returns\ [Fin\ returns \\
= \ monetary\ benefits\ [repo\ +\ interest\ rate]\ +\ Soc\ returns \\
= \ quantified\ social\ benefits\ [Output + Outcome \\
- Poverty, Unemployment\ \&\ Inequality]
\end{aligned}
$$

The banks factor in the social externalities by including social cost into impact investment transaction cost and social benefits into the hybrid returns of financial and social value that is translatable into financial metric. The commercial banks' focus is at social output level.

The Asset Management Companies' approach to social value is at the social output and outcome or impact level. The social output and/or outcome metrics are pre-defined and informed by the macro view of development at national level. Asset Management

Companies have embraced the measurement of social value as part of the infrastructure development investments.

*Sv = social output metrics + impact rating [low-indirect and high-direct beneficiaries]*
*Sv = social output + outcome/impact [rating criteria]*

## 7.4 Concluding Remarks

Step 5 summarised the thematic networks into three models as indicated in section 7.1. The three models captured by figure 94 (Impact investment concept: South African Banking perspective), figure 96 (South African impact investment ecosystem: SA Banking Sector as an impact investment creator) and figure 100 (financial intermediary social equation model).

The model on impact investment concept from South African Banking Sector perspective refers to impact investment as emerging field of sustainable investments with hybrid returns that provide financial returns and create measurable social value through reduction of social costs and increase in social benefits.

The model on South African banking sector impact investment ecosystem is embedded on double level of principal-agent relationship with the banking sector as impact creators that seek to improve the quality of life. A South African banking sector impact investment ecosystem equation grounded on principal-agent relationship model has emerged with more significance on the measurement of social value equation.

The financial intermediary social equation model is driven by the SA banking sector impact investment equation as represented by the impact investment returns which is equal to hybrid returns (financial and social benefits) minus social cost of social metrics thereby having sustainable investments that pair measurable economic growth and social progress.

These three models are represented in Figure 101 by sustainable investment with hybrid returns, principal-agent relationship and social value measurement equation.

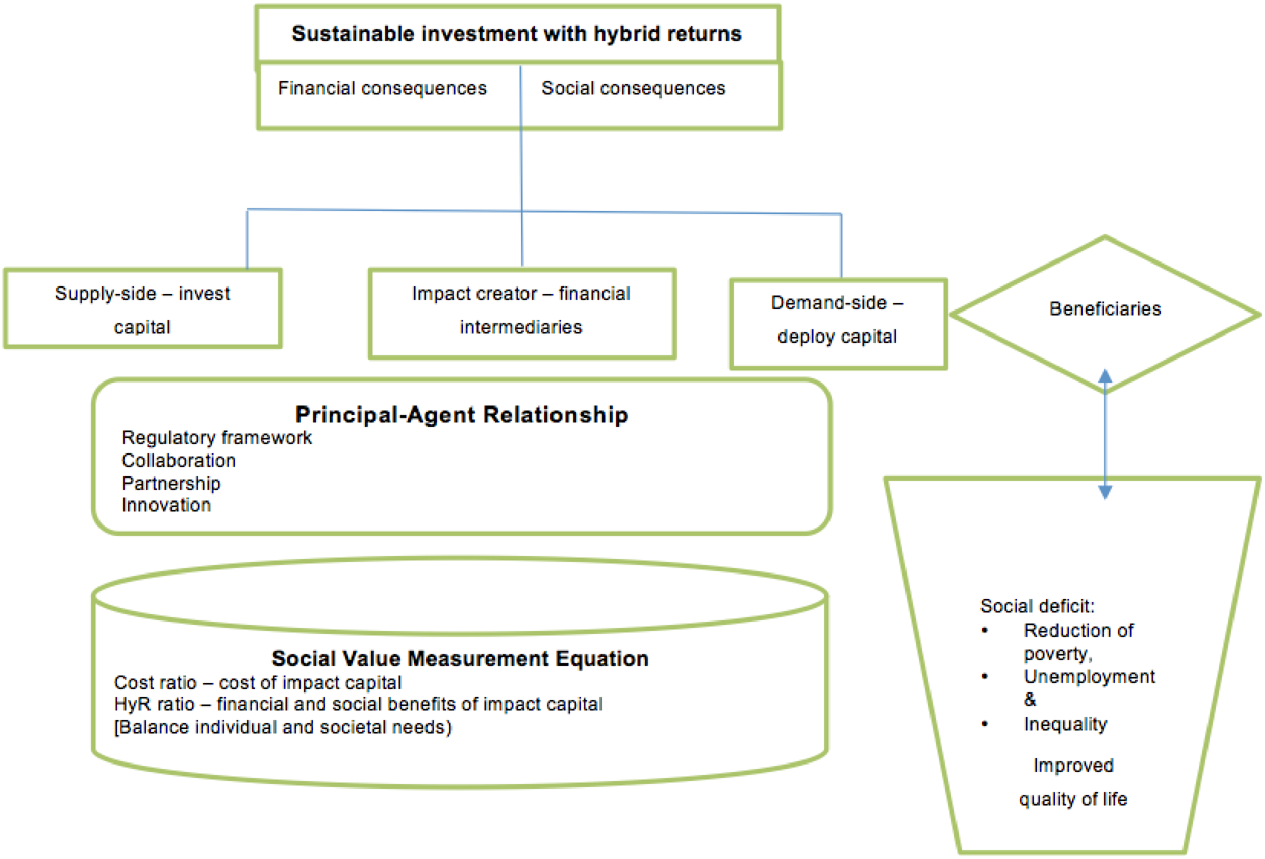



Figure 101 Summary of thematic networks - Step 5

# Chapter 8 Conclusion

## Introduction

Global social development challenges require more capital than private or public sectors could provide independently. Government funding is inadequate, while philanthropy is insufficient; however, Impact Investing can harness both these sources to achieve the development objectives (Addis, Bowden & Simpson, 2014; Social Impact Investment Taskforce Report, 2014; World Economic Forum, 2013; Zhou, Li, Bosworth, Ehiri & Lou, 2013). Direct business social value creation is inevitable if business seeks to create shared value by all. Bifurcation of value creation led to decoupling of the economic and social growth which has proven unsustainable.

Consequently the responsibility of the financial sector in emerging economies is greater than their counterparts in developed economies. Impact investment therefore has become a vehicle for the South African banks and the entire financial sector to drive the economic and social transformation whilst meeting the financial sector charter goals. South African banks as impact creators are accountable for the creation of indivisible value which consists of economic, social and environmental value.

This study was set out to investigate how the financial intermediaries of Impact Investing, asset and sustainability managers in the South African banking industry, measure social value created and its positive impact on social progress.

The general theoretical literature on this subject with particular reference to the emerging economies context is limited. There were three main sub-questions that the study focused on: South African Banking sector's conceptualisation of impact investment, nature of the ecosystem and measurement of social value.

The main empirical findings are chapter specific and were summarised in chapter seven under step 5 of the thematic network analysis. Chapter eight will synthesize the empirical findings using step 6 of the thematic network analysis.

The aim of step 6 is to return to the original research questions and the theoretical interests underpinning them, and to address these with arguments grounded on the patterns that emerged in the exploration of the texts (Attride-Stirling, 2001).

This study concludes that:

- *impact investments are sustainable investments with hybrid returns that have financial and social consequences;*

- *the South African banking sector impact investment ecosystem equation advocates for the placement of the impact capital that creates social value that seeks to reduce the social challenges through reduction of poverty, unemployment and inequality of the beneficiaries;*

- *the South African banking sector impact investment ecosystem is governed by two levels of principal-agent relationship model;*

- *measurement of social value has two ratios: cost ratios and hybrid returns ratios that are significantly informed and influenced by the mandate issued by the principal to the agent at two levels of the ecosystem; and*

- *targeted social value is guided by the Financial Sector Charter, National Development Plan and Sustainable Developmental Goals.*

This study responded to the research question some of the questions raised in the conceptual framework such as w*ho conducts the measurement and how can they be independently verified? What tools and techniques to use? Who determines the positive impact: is it investors, intermediaries or beneficiaries? How does one know the extent of the contribution towards social progress? What is the nature of measurement approaches of non-financial returns? Does one focus on a single indicator (a calculation and evaluation system) or a framework for indicators? How does one match investors' expectations and investees' needs?*

Thus the conclusion is further elaborated under the following headings which has been covered in the study:

1. *develop a definition*
2. *Impact Investing ecosystem model*
3. *impact investment measurement model*
4. *regulatory framework*
5. *recommendation.*

## 8.1 Develop a definition of impact investment

The concept of investing to achieve social outcomes is not a new phenomenon however the concept of impact investment is relatively new and as such a uniform definition of Impact Investing is absent (Hochstadter & Scheck, 2014).

Impact investment is a practitioner led field and it was important to establish a definition and understanding of the South African practitioners' on impact investment. One cannot measure without understanding the phenomenon under study. Impact Investing concept in South African Banking Sector refers to investments that have measurable hybrid returns of financial and non-financial returns (social and environmental) and this concurs with (Harji, Reynolds, Best & Jeyaloganathan, 2014; Darragh & Aman, 2012; Geobey, Westley & Weber, 2012).

The hybrid returns perspective advance beyond normal measurement logic therefore it requires a rethink in measurement phenomenon with particular reference to non-financial returns. These investments have financial and social consequences thereby coupling financial and development goals.

The banks in emerging economies therefore can pair their impact investment with their country's national development goals and the 17 Sustainable Development Goals. As alluded before in the conceptual framework there is a correlation between financial sector development and economic growth (Ahmed & Ansari, 1998), because the banking industry is the backbone of most economies (Maredza & Ikhide, Measuring the impact of the global financial crisis on efficiency and productivity system in South Africa, 2013)[1]. It plays a significant role and impact investments are crucial to do that.

Impact investments in South Africa is building on the infrastructure development investments and developmental investment concepts that the development bank, supply-side and asset management companies are spearheading and familiar. The concept of impact investment is more appealing to the commercial banks because it is broad and all-encompassing in terms of the types. Infrastructure development investment is one type of impact investment.

From South African banking perspective the concept and practice of Impact Investing is an emerging and evolving field that presents an opportunity for the banking sector to create blended value, comprising of economic, social and environmental. This supports Bugg-Levine & Emerson (2011) assertion that impact investment is driven by blended value proposition which argues that value is indivisible therefore every transaction has financial, social and environmental value. It has emerged as an alternative form of investment to the traditional investment that has been proven unsustainable by decoupling economic and social growth.

Impact investment in South African banking sector is at exploratory stage (early stage of development) and mainly driven by clients (pull market strategy) instead of being pushed to the clients (push market strategy) as a value proposition by the banks. It provides new business products and services whilst creating positive social impact.

The concept in South African Banking sector is evolving from variety of fields such as social impact, CSI/CSR, ESG, UNPRI, risk and sustainability. According to (Briand, Urwin, & Chia, 2011) integration of ESG factors into the investment process helps asset owners to reconcile disconnect between their long-term investments with short term behaviour of the agent, whilst asset managers better assess long-term risks or risk that have high impact but low frequency of occurrence.

The impact drivers of SA Banking Sector concur with Sonen's investment spectrum which highlight paradigm shift from traditional investment and pure philanthropy into Impact Investing (Sonen Capital , 2015), that is guided by the positive screening of opportunities to create positive social impact.  For South Africa, financial intermediaries as impact creators can use Impact Investing to reduce poverty, unemployment and inequality.  The conceptual model provides the origins, drivers and definition of impact investment of an impact creator in South Africa and/or emerging economies. This will assist to accelerate the uptake in impact investment which is essential in emerging markets. Impact capital can make meaningful positive social impact when it grows significantly.

## 8.2 Impact Investing ecosystem model

The study developed South African Banking Sector's Impact Investing ecosystem that cuts across its value chain and provides holistic view of the concept and its measurement. It is essential to understand the ecosystem because it plays a significant role in the determination of measurement of impact investment returns.

The ecosystem is richly informed by the conceptual understanding of impact investment. The prerequisite of a successful Impact Investing ecosystem are actors and the key success factors.  The ecosystem that run and synergise value chain is a two-level principal-agent relationship model. Bejarano cited Garner's definition of agency from a legal context, as "a fiduciary relationship created by express or implied contract or by law, in which one party (the agent) may act on behalf of another party (the principal) and bind that other party by words or actions" (Bejarano, 2008).

In the South African Banking Sector impact investment there are two levels of the principal-agent relationship. In level one the supply-side is principal[1] and the financial intermediary is agent[1]. The principal and the agent agree on expected return, associated risk and impact.  Thus supply-side inform and influence the measurement approach of the hybrid returns.  The agent (impact creator or financial intermediary) use Impact Investing channels and instruments to deliver on investor expectation.

In level two, financial intermediary becomes the principal[2] and demand-side is agent[2]. Level two depends on the type of impact investment asset or financial instrument often applicable with Impact Investing bonds.

The impact creator or financial intermediary provides financial support to social enterprise of an NPO that delivers expected social value to the investors (principal[1]).

The principal-agent relationship model underlies the relationship between Impact Investing actors across the ecosystem and value chain. These relationships in the Impact Investing ecosystem is governed by contracts and mandates where one party instructs and the other executes as per the instruction (source about relationship between asset owners and managers).

The South African banking sector Impact Investing ecosystem seeks to improve Quality of Life (QoL) as represented by the Supply-side (+intent to create social impact) + Financial intermediary [+intent to facilitate developmental venture or impact capital] + Demand-side [-reduce poverty, unemployment & inequality]. This ecosystem buttresses the role of the banks as impact creators that facilitates developmental venture capital to achieve corrective and additive objectives as indicated under section 2.3.

South African banking sector impact investment ecosystem equation therefore is:

$$Improved\ QoL\ [reduce\ poverty, unemployment\ \&\ inequality] \\ = Ss(+Isocimp)\ +\ Fint\ [+DvC]\ + DS[-pov, unemp\ \&\ ineq]$$

The financial intermediary's measurement of social value therefore takes place within the context of principal-agent relationship model. The financial intermediary cannot determine social value measurement ratio and approaches without mandate of the supply-side and social need by the demand-side. One of the essential building blocks of impact investment industry that emerged across the value chain is regulatory framework

## 8.3 Regulatory framework

The key success factors of the Impact Investing ecosystem resonates with the required impact investment infrastructure that include policy, regulatory framework, partnerships, collaboration and incentives.

In the (Impact investing for social and environment change: Design for Catalyzing an Emerging Industry, 2009), building an Impact Investing infrastructure entails setting industry standards for social measurement; lobby for specific policy/regulatory change; develop an Impact Investing network to accelerate the industry; develop risk assessment tools; coordinate development of a common language platform; create publicly available comprehensive benchmarking data; integrate social and environmental factors into economic and finance theory; and launch a targeted public relations campaign to promote demonstrated successes.

In South African Banking Sector, regulatory framework is an essential building block of impact investment infrastructure. There is a need to balance between prescriptive regulatory framework and voluntary industry codes, however, for South Africa or an emerging economy, prescriptive regulatory framework will accelerate uptake on impact investment and raise much needed impact capital to address social and developmental needs.

For the regulatory framework to successfully work it requires partnership between social partners (government, business and labour), trust, collaboration and innovation. Collaboration and innovation is required in the development of new impact investment products and services. There was however no consensus on the type of regulatory framework between self-regulation and prescriptive.

Taking into cognisance of social needs and challenges and the current pace of investment, a prescriptive legislation that directs the supply-side, intermediaries and demand-side is crucial. Prescriptive regulatory framework can also provide tax incentives to encourage participation and build momentum for the impact investment growth.

For more than 100 different organisations that operate in support of impact investment and social entrepreneurship in South Africa (Global Impact Investing Network, 2016) policy or regulatory certainty will be essential and platform to muster the momentum.

According to Fryer (2014) a stable and clear regulatory framework will accelerate impact investments momentum such that the private sector can improve the quality of life of citizens. The envisaged social impact bond policy will be one piece of a puzzle, however a suite of policies that support Impact Investment products and instruments are required to accelerate industry growth.

Trust however emerges as one of the key success factors that is required to maximise the outcome of the impact investment. For South Africa trust between business, labour and government is crucial.

## 8.4 Impact investment measurement model

Measurement of social value of Impact Investing cannot be separated from the financial returns because Impact Investing creates blended value which inherently has economic, social and environmental returns. The social value equation model has two measurement ratios; cost ratio and hybrid returns. Both ratios are inclusive (combined accounts) and uses standard social metrics from the IRIS.

**Financial Intermediary: Measurement Ratios**

$$\begin{aligned} Cr \ &= \ Cost\ of\ Capital\ [product\ costs + fin\ risk\ +\ variable\ cost\ of\ context \\ &\quad - based\ social\ metric\ [low/high\ impact/social\ risk] \end{aligned}$$

$$\begin{aligned} HYr \ &= \ Investment\ Returns\ [Fin\ returns \\ &= \ monetary\ benefits\ [repo\ +\ interest\ rate] \\ &\quad +\ Soc\ returns\ or\ quantified\ social\ benefits\ [Output + Outcome \\ &\quad - Poverty, Unemployment\ \&\ Inequality] \end{aligned}$$

$$
\begin{aligned}
&Impact\ investment\ returns \\
&\qquad = HYr\ [fin\ +\ social\ benefits] - Cr\ [financial\ risk \\
&\qquad +\ cost\ of\ social\ progress]
\end{aligned}
$$

**Sustainable investment = economic growth + social progress**

The findings of this study support (Saltuk, El Idrissi, Bouri, & Schiff, 2014) and (Laing, et al., 2012) that impact investment has combined accounts. The study reveals that social value measurement cannot be wholly separated from the financial risk and return.

Thus impact investment financial risk and returns are inclusive of social impact risk and return as alluded to under section 2.3. Clarkin & Cangioni (2016) cite Emerson (2003) who argued that social returns should be blended with financial returns and that the nature of investing and expecting returns from the investment is not a trade-off between financial and social interest but pursuit of value creation comprised of both interests. The impact investment returns has hybrid returns ratio which address the issue of hybrid return logics raised in section 2.3.

The findings highlight the two ratios that provide a comparative basis of impact investment transactions. This study findings seeks to ensure that social metrics are factored in the judgment of potential investments from an ex-ante point of view (Brandstetter & Lehner, 2015).

Furthermore the financial intermediary social value equation model responds to some of the issues raised under section 2.3 on the need for a measurement system that is objective, robust and quantifiable; identification of who determines the positive social impact, tools and techniques of measurement of social value; extent of contribution towards the social progress.

According to our results, social metrics are part of three-dimensional criteria (risk, return and impact) for measuring the impact investment transaction at output level. Thus impact investment financial risk and returns are inclusive of social risk and return. The study indicates the commonalities of impact investment ratios and the measurement challenges of social value.

There are commonalities of ratios within the commercial banks and in comparison with the development bank, the underlying reasons for this could be nature and characteristics of the hybrid returns. The common ratios *are inclusive cost of capital (product cost includes social costs) and hybrid returns (financial and social returns).* These two ratios provide a comparative basis of impact investment transactions. The commonalities around the measurement challenges of social value is putting financial metrics behind the social value/return.

The differences between the commercial cases is the driver of the impact investment's social metrics, there are various approaches such as risk, governance, sustainability and social responsibility perspectives and drivers. From macro perspective the study indicates the importance of Financial Sector Charter on defining social value and metrics. Thus the South African bank's social value cannot be defined outside of the financial sector charter goals.

## 8.5 Recommendations

*Contribution to theory*

The theoretical cases of measurement of social value generated through impact investment has been strengthened by three models developed in this study. It has developed three models that are essential building blocks of an impact investment industry and infrastructure with particular reference to emerging economies. For emerging economies, impact investment couples financial returns with national development goals and development investment.

This study performs the holistic micro and macro analysis of impact investment within the South African banking Sector, thus it contributes to the body of literature that analyse the measurement of social value practices at micro and macro levels.

The findings highlight the two ratios that provide a comparative basis of impact investment transactions. The findings of this study supports Saltuk (2012) and Laing et al (2012) of *combined accounts of impact investment*. The measurement challenges are consistent with issues raised by Chleu (2013), Bugg-Levine and Emerson (2011), Jackson (2012), Brandstetter and Lehner (2015), confirms challenges raised in putting financial value to social metrics and ensuring the traditional finance tools accommodate hybrid goals of blended value proposition. Brandstetter & Lehner's (2015) study attempted to ensure that social metrics are factored in the judgment of potential investments from an ex-ante point of view.

This study has consolidated body of knowledge in measurement of impact investments from an emerging country's perspective. The emergent theoretical propositions are recommended for further research and these are discussed under further research section.

*Implications for practice*

These models (definition, ecosystem and measurement) will be useful to impact investment practitioners for the banking sector as these could assist acceleration or increased impact investment appetite in the retail space. Impact investment has been growing in the developed economies and is slowly taking off in the emerging economies.

The issue of measuring non-financial value has highlighted as binding constraints of its growth. The South African banking sector as financial intermediary and impact creators has a critical role to play given the fact that it has been undertaking some impact investment transactions.

The aggregated social value ratios will provide opportunity to compare the products of impact investment transactions. Social value measurement has been an Achilles heel of impact investment growth. This study's emergent ratio could be used as a standard comparative ratios for social value of impact investment. The emergent ratios provides a tool that could be used in the retail space where impact investment growth is slow. They provide a reflection point for both practitioners and academics.

Capital investment portfolio could use the ratios to improve commercial banks participation in infrastructure funding. The ratios provide opportunity for the commercial banks participation in the social and/or development impact bonds; an increasingly growing space that addresses sustainable development goal of inclusive growth.

The fields that led to the evolution of impact investment within the banks are different and this implies that impact investment transactions would be approached from multi-sectoral/teams perspective. The impact investment in South African Banking Sector should include risk, governance, sustainability and social responsibility teams.

The banks should not approach impact investment from traditional mind-sets of financial approach but hybrid approach that couples economic and social progress.

This study affords the opportunity to review the financial sector charter goals and refine the social goals to ensure expected social progress is addressed.

The following recommendations are reflected for the SA Banking Sector:

- *adopt impact investment conceptual model that defines impact investment as an emerging field of sustainable investment that has hybrid returns to provide financial returns and create positive social impact through reduction of social costs and increment of social benefits;*

- *adopt the impact investment ecosystem model and equation that will drive it to meet Financial Sector Charter goals;*

- *research and lobby (through BASA amongst others) for the development of impact investment regulatory framework that includes prescriptive policies to guide development of impact investment industry in South Africa;*

- *adopt financial intermediary social value equation for measuring impact investment returns (financial and non-financial returns); and*

- *explore financial intermediary social value equation across the innovative social financing approach.*

*Limitations and further research*

The primary aim of this study was to investigate the current practices of measuring social value of Impact Investing and develop the theoretical constructs on how the financial intermediaries measure social value of Impact Investments. Specifically, this study explored the experiences of the financial intermediaries (asset and sustainability managers) in the banking sector to measure the social value of Impact Investing and its contribution to the society's social progress.

The study has developed models from qualitative data findings with particular reference to the South African Banking Context. The theoretical propositions from the study forms the building blocks of measurement of non-financial returns of Impact Investment and social finance broadly. The advantages of using case study in a theory construction, is that it generates new theories which are verifiable and empirically robust (Sato, 2016). These propositions can be applied in other parts of the world and broadly within the emerging social finance discipline.

Theory building from case studies is an increasingly popular and relevant research strategy that forms the basis of a disproportionately large number of influential studies (Tsang, 2014). Although there is an intricate relationship between theory building and theory testing, it is rare that a case study would aim to achieve both at the same time (Tsang, 2014). This study aimed at generating theory instead of testing.

Although there is agreement that the measurement of impact is a naturally important component of assessing an impact investment, actually doing this still represents a subjective and daunting task for most investors and their portfolio companies (Arosio, 2011). However this study's equations and ratios seek to minimise subjectivity and develop objective test of measure. Linking emergent theory to existent literature enhances the internal validity, generalizability, and theoretical level of theory-building from case research (Meyer, 2001) and this study linked the three models to existing literature where possible.

Further studies beyond South African borders and other innovative social finance mechanisms may use the following emerging theoretical propositions:

i. *Impact investment in South African Banking Sector (emerging economies) refers to the sustainable investment with hybrid returns that have financial consequences (economic growth) and social consequences (reduction of poverty, unemployment and inequality – social progress)*

ii. *In South Africa (emerging economies), impact investment evolves from social and environmental risk, social responsibility, ESG and sustainability fields.*

iii. *Impact investment ecosystem or value chain is predominantly driven by two-levels of principal-agent relationship, with the supply-side (first-level principal) as the catalysts of the expectations and measurement ratios.*

iv. *Impact investment ecosystem in emerging economies requires regulatory framework to drive impact investment industry and infrastructure.*

v. *South African banking sector impact-investing ecosystem seeks improved Quality of Life (QoL) as represented by the Supply-side (+intent to create social impact) + Financial intermediary [+intent to facilitate developmental venture or impact capital] + Demand-side [-reduce poverty, unemployment & inequality]*

vi. *Social value equation model of impact investment has two measurement ratios, cost and hybrid ratios. Cost ratio factor in costs of social value into product cost. Hybrid returns of impact investment posits indivisible financial and social value (output + outcome – poverty, unemployment and inequality).*

The study included micro and macro perspectives of the banking sector and its value chain and competition landscape and this enriched the findings such that the developed models can be applied across the Impact Investing value and goes beyond the financial intermediaries' space.

Further studies are needed to explore social metrics at outcome level, quantify outcome and couple them with the Social Progress Index in order to build a case of how positive impact contribute to the macroeconomic perspective.

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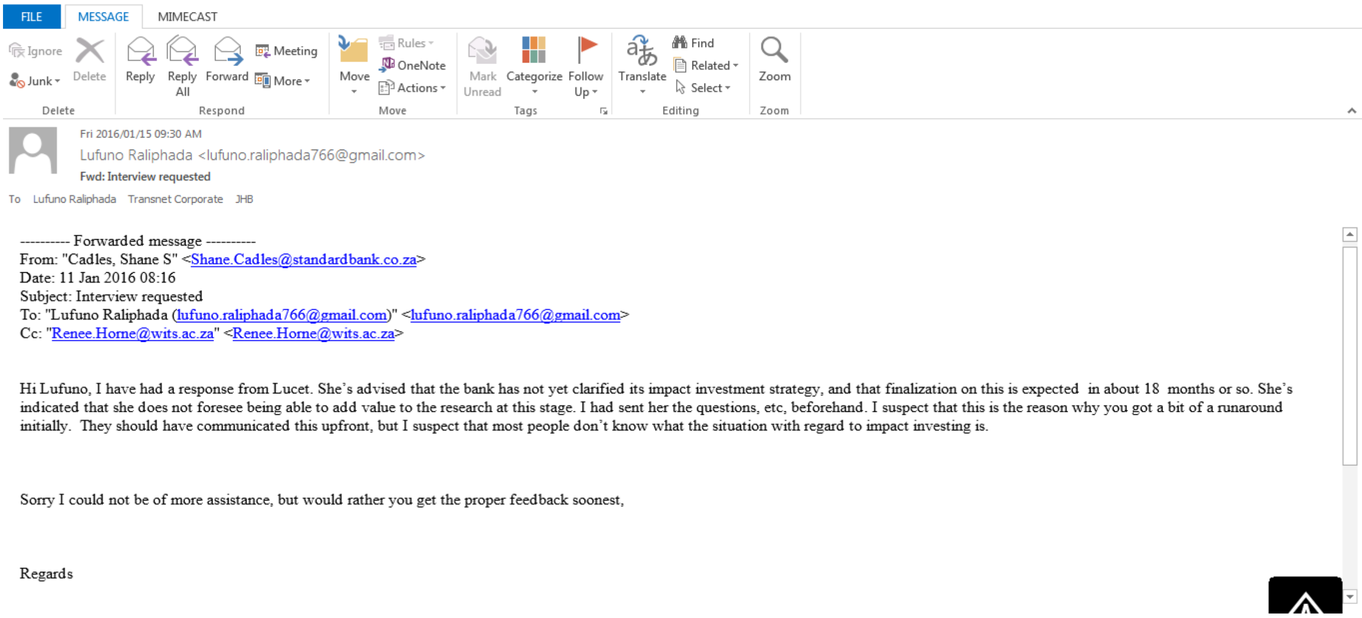
# Appendices

## APPENDIX A

### Bank 1




Fri 2016/01/15 09:30 AM
Lufuno Raliphada <lufuno.raliphada766@gmail.com>
Fwd: Interview requested
To Lufuno Raliphada Transnet Corporate JHB

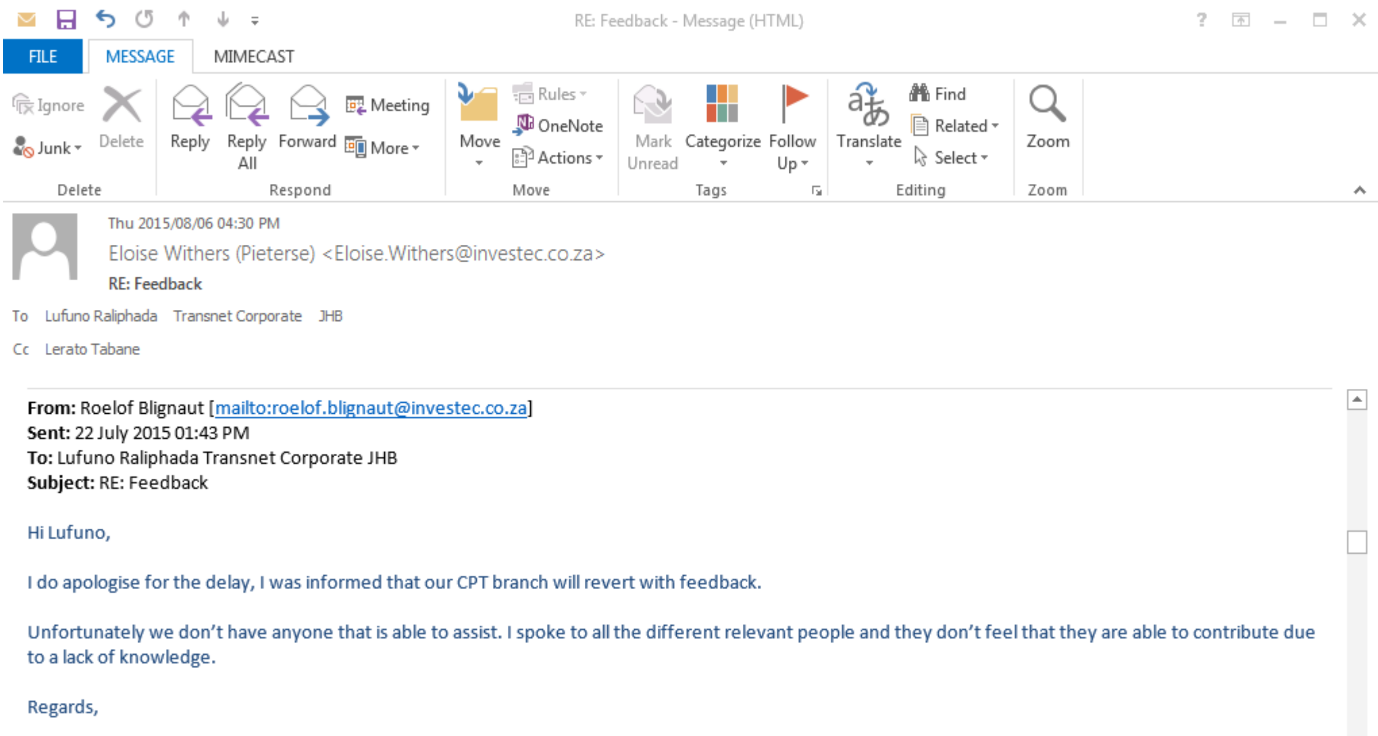
---------- Forwarded message ----------
From: "Cadles, Shane S" <Shane.Cadles@standardbank.co.za>
Date: 11 Jan 2016 08:16
Subject: Interview requested
To: "Lufuno Raliphada (lufuno.raliphada766@gmail.com)" <lufuno.raliphada766@gmail.com>
Cc: "Renee.Horne@wits.ac.za" <Renee.Horne@wits.ac.za>

Hi Lufuno, I have had a response from Lucet. She's advised that the bank has not yet clarified its impact investment strategy, and that finalization on this is expected in about 18 months or so. She's indicated that she does not foresee being able to add value to the research at this stage. I had sent her the questions, etc, beforehand. I suspect that this is the reason why you got a bit of a runaround initially. They should have communicated this upfront, but I suspect that most people don't know what the situation with regard to impact investing is.

Sorry I could not be of more assistance, but would rather you get the proper feedback soonest,

Regards

### Bank 2




Thu 2015/08/06 04:30 PM
Eloise Withers (Pieterse) <Eloise.Withers@investec.co.za>
RE: Feedback
To Lufuno Raliphada Transnet Corporate JHB
Cc Lerato Tabane

**From:** Roelof Blignaut [mailto:roelof.blignaut@investec.co.za]
**Sent:** 22 July 2015 01:43 PM
**To:** Lufuno Raliphada Transnet Corporate JHB
**Subject:** RE: Feedback

Hi Lufuno,

I do apologise for the delay, I was informed that our CPT branch will revert with feedback.

Unfortunately we don't have anyone that is able to assist. I spoke to all the different relevant people and they don't feel that they are able to contribute due to a lack of knowledge.

Regards,

**Bank 3**

Mon 2015/01/12 07:05 AM

African Bank Investor Relations <investor.relations@AfricanBank.co.za>

RE: Request for permission to conduct research

To Lufuno Raliphada Transnet Corporate JHB

Hi Lufuno

Many thanks for your email.

All our data is available on our website – www.abil.co.za.

Unfortunately as we are under curatorship, we cannot grant permission to conduct research on anything that is not already public.

Regards


**Chiquita Schram**
Investor Relations and Sustainability
cschram@africanbank.co.za
**Cell** 076 811 3288 **Tel** 011 256 9523 **Fax** 087 944 9359
Private Bag X170, Midrand, 1685
59, 16th Road, Midrand, 1685
African Bank

## Bank 4

FILE MESSAGE MIMECAST

Ignore Junk Delete Reply Reply All Forward Meeting More Move Rules OneNote Actions Mark Unread Categorize Follow Up Translate Find Related Select Zoom

Delete Respond Move Tags Editing Zoom

Tue 2015/01/13 02:32 PM

Nathan Motjuwadi (Human Resources) <NathanMotjuwadi@capitecbank.co.za>

RE: Request for permission to conduct research

To Lufuno Raliphada Transnet Corporate JHB

Hi Lufuno

You came through to the right person and the answer is unfortunately no. We do not do research with external students, but with our internal staff studying through our bursary scheme.

Best regards

---

**From:** Lufuno Raliphada Transnet Corporate JHB [mailto:Lufuno.Raliphada@transnet.net]
**Sent:** 22 December 2014 09:20 AM
**To:** Nathan Motjuwadi (Human Resources)
**Subject:** Request for permission to conduct research
**Importance:** High

Dear Mr Motjuwadi,

My name is lufuno a post-graduate student at Witwatersrand University, I am conducting research on measurement of impact investing and would like to obtain a permission to include Capitec Bank asset managers or fund managers who handles wealth clients portfolio in my studies. I would be grateful if you could direct me to the relevant office that handles requests for permission to conduct research in your company. The questions of the research will revolve around how Capitec measures non-financial returns of the investment portfolio of wealthy clients who often expect financial and non-financial returns. I will be glad to further unpack the purpose and scope of the research.

Regards,
Lufuno

## APPENDIX B

## Interview Schedule

**Measurement of business social value generated through Impact Investing: The Case for the South African Banking Sector**

**Interview Questions**

- ❖ How long have you been working as asset manager?
- ❖ Tell me about your experience as asset manager?

*Theory of Impact Investing*

- ❖ How would you define Impact Investing?
- ❖ As an Impact Investing financial intermediary, what is your role (as asset manager) in Impact Investing transaction?
- ❖ Impact Investing as an emerging industry require mutual ecosystem between supply-side, intermediary and demand-side, what is the nature of South African Impact Investing ecosystem?
- ❖ Impact Investing is underpinned by blended value proposition which advocate that value is comprised of economic, social and environmental value, how does it differ from traditional investing?

*Experiences of asset managers:*

- ❖ Impact Investing is the practice of intentionally investing for financial returns and a positive social impact, so how do you measure the positive contribution of social value to societal social progress?
- ❖ Impact Investing measurement tracks financial and non-financial returns, what is the nature of measuring non-financial returns with particular reference to social value generated through Impact Investing?
- ❖ Impact Investing is an emerging financing mechanism, what will the ideal method of measuring social value generated by Impact Investing that satisfies both the supply-side and demand-side of the capital?

# APPENDIX C

Asset Management: Request for permission to conduct research - Message (HTML)

Mon 2015/05/04 11:40 AM

Lufuno Raliphada Transnet Corporate JHB

Asset Management: Request for permission to conduct research

To ashburtonquery@investoradmin.co.za

This message was sent with High importance.

Message | 150305 Ethics Protocol Clearance Certificate.pdf (173 KB) | 141214 GENERIC CONSENT FORM 2015.docx (4 KB)

Dear Sir or Madam,

My name is Lufuno Raliphada a senior manager at Transnet and a PhD postgraduate student at Witwatersrand University. I am wondering if you can assist me with about my request for permission to conduct research at Ashburton Investments. I am to doing a research on measurement of impact investing with particular reference to non-financial returns. Impact investing generally refers to the practice of intentionally investing for financial returns and the creation of positive social impact (non-financial returns) and in the case of banking this is often done by foundation and wealthy clients. They normally invest to make financial and non-financial returns as such impact investing has three criteria risk, return and impact. We can measure risk and financial return but how do we measure impact (non-financial returns)? Measurement of social value created through these investment is important in improving social progress. The purpose of this study is to look at how banks measure social value (impact) created through impact investing capital.

I am attaching the Ethics Protocol Clearance Certificate giving me clearance to conduct the research. It was issued by the WITS Human Research Ethics Committee (Non-Medical) protocol number H15/02/36. I am also attaching the informed consent form. The research will take approximately 40 minutes at the place and time of your convenience. I would be grateful if you could give me the possible date for interviewing anyone who can assist me.

Regards,
Lufuno

## APPENDIX D

## EXCEL

| Thematic Data Analysis | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Coding Framework | | | | | | | | | | |
| Step 1 | | | | Step 2 | | Step 3 | Step 4 | | | |
| Case Study 1 | | | | | | | | Triangulation | | |
| | | | | | | | | Respondents quotes | Fieldwork | Document |
| Interview Question | Code | Label | Definition | Issues discussed | Themes identified (step 2) | Organising ther | Global Themes | Describe and explore the network | | |
| | 1 | Formalised sector | • Refers to influences of social impact discipline in South Africa | Knowledge of social impact as formalised sector<br>Social impact as formalised sector from outside the country<br>Countries and companies from beyond thinking about social impact in formalised | 1. Social impact as formal discipline with structures<br>2. Formalised social impact is influenced from outside of the SA | * Emerging discipline of social impact<br>* Impact investment spectrum [evolution]<br>* Social value of business product and service<br>* Social issues in the business enviroment | Emerging and evolving discipline in South African Banking sector<br>Social value of impact investment is responsive to social issues in the SA business environment | My feeling on this is, based on my little knowledge of social impact as a formalised sector; your research comes at a time where you are quite right. Anything that I read about social impact this and social impact that has been introduced from outside of South Africa. Its other countries and companies from beyond the borders that are thinking of this sort of | The bank use their loans as investment vehicle.<br>Loans are fertile for social impact<br>The banks look at the credit profile of clients and as part of this we include social and environmental criteria in liquidity profile/assessment | Our vision is to create sustainable value and superior economic returns for our clients and shareholders in Africa and beyond. |

## APPENDIX E

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Raliphada

| | |
|---|---|
| CLEARANCE CERTIFICATE | PROTOCOL NUMBER: H15/02/36 |
| PROJECT TITLE | Measuring the business social value generated through impact investing: the case of the RSA banking sector |
| INVESTIGATOR(S) | Mr LM Raliphada |
| SCHOOL/DEPARTMENT | Wits Business School/ |
| DATE CONSIDERED | 20 February 2015 |
| DECISION OF THE COMMITTEE | Approved unconditionally |
| EXPIRY DATE | 3 March 2017 |

DATE 4 March 2015 CHAIRPERSON (Professor T Milani)

cc: Supervisor : Dr R Horne

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10005, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

Raliphada
Signature

09 / 03 / 2015
Date

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

## APPENDIX F

## INFORMATION SHEET AND CONSENT FORM

***Measurement of business social value generated through Impact Investing:***

***The Case for the South African Banking Sector***

**Who we are**

Hello, I am *Lufuno Maxwell Raliphada*. I am *post-graduate* student at the Witwatersrand University and my student number is 580687.

**What we are doing**

I am conducting research on the *measurement of non-financial returns of Impact Investing* and its impact on *growth of Impact Investing in South Africa*. I am conducting a study to find out how *asset managers as Impact Investing intermediaries' measure social value generated through Impact Investing capital*.

**Your participation**

I am asking you whether you will allow me to *conduct one interview with you about your knowledge and opinions of measuring social value generated through Impact Investing capital.* If you agree, I will ask you to *participate in one interview* for approximately *half* hour.

Please understand that **your participation is voluntary** and you are not being forced to take part in this study. The choice of whether to participate or not, is yours alone. If you choose not to take part, you will not be affected in any way whatsoever. If you agree to participate, you may stop participating in the research at any time and tell me that you don't want to go continue. If you do this, there will be no penalties and you will not be prejudiced in any way.

**Confidentiality**

All identifying information will be kept in a locked file cabinet and will not be available to others and will be kept confidential to the extent possible by law. The records from your participation may be reviewed by people responsible for making sure that research is done properly, including members of the ethics committee at the University. (All of these people are required to keep your identity confidential.) Otherwise, records that identify you will be available only to people working on the study, unless you give permission for other people to see the records.

I am asking you to give us permission to tape-record the interview so that we can accurately record what is said.

Your answers will be stored electronically in a secure environment and used for research and/or academic purposes now or at a later date in ways that will not reveal who you are. All future use of the stored data will be subject to further Research Ethics Committee review and approval.

We will not record your name anywhere and no one will be able to connect you to the answers you give. Your answers will be linked to a fictitious code number or a pseudonym (another name) and we will refer to you in this way in the data, any publication, report or other research output.

**Risks/discomforts**

At the present time, I do not see any risk of harm from your participation. The risks associated with participation in this study are no greater than those encountered in daily life.

**Benefits**

There are no immediate benefits to you from participating in this study. However, this study will be extremely helpful to me in that I hope will promote understanding of Impact Investing and its growth which will improve social progress.

If you would like to receive feedback on our study, I will record your phone number on a separate sheet of paper and can send you the results of the study when it is completed sometime after 2016.

**Who to contact if you have been harmed or have any concerns**

This research has been approved by the Witwatersrand Research Ethics Committee (REC). If you have any complaints about ethical aspects of the research or feel that you have been harmed in any way by participating in this study, please call the Wits Research Ethics Committee at 011 717 1231 (when phoned from a landline from within South Africa) or contact the Wits Business School Administrator, on Tel 011 717 or email Mmabatho.Leeuw@wits.ac.za .

If you have concerns or questions about the research you may call the project leader Lufuno Maxwell Raliphada *(011 308 1154 or 0832714538 and* lufuno.raliphada766@gmail.com *).*

**CONSENT**

I hereby agree to participate in research on *measuring social value generated through Impact Investing capital*. I understand that I am participating freely and without being forced in any way to do so. I also understand that I can stop participating at any point should I not want to continue and that this decision will not in any way affect me negatively. I understand that this is a research project whose purpose is not necessarily to benefit me personally in the immediate or short term. I understand that my participation will remain confidential.

**……………………………..**

**Signature of participant** **Date**:…………………..

## CONSENT FOR TAPE RECORDING

I hereby agree to the tape-recording of my participation in the study.

**……………………………..**

**Signature of participant** **Date**:…………………..

I understand that the information that I provide will be stored electronically and will be used for research purposes now or at a later stage.

**……………………………..**
**Signature of participant** **Date**:…………………..

## APPENDIX G

## CASE OVERVIEW

The study will use anonymous names for the banks as per the agreement with the participating banks.

| Four Banks | Case 1 | Case 2 | Case 3 | Case 4 |
|---|---|---|---|---|
| **Micro Perspective** | This case involves a corporate and investment bank that offers clients innovative, value-added advisory, funding, trading, corporate banking and principal investing solutions. It has funded infrastructure and resource finance projects, mergers and acquisitions, and infrastructure developments in its portfolios. | Case 2 is one of South Africa's largest banks with African footprint. Its strategic focus areas are client-centred innovation, to grow transactional banking franchise, optimise and invest, strategic portfolio tilt and Pan-African banking network. | Case 3 offers a range of retail, business, corporate and investment banking, and wealth management products and services. Its goal is to build not only a sustainable, trustworthy business, but a business which customers and clients consider as the first choice for answers and solutions – their 'Go-To' bank. | Case 4 entails a development bank which is a state owned entity with the purpose of accelerating sustainable socio-economic development and improve the quality of life of the people of the Southern African Development Community (SADC) by driving financial and non-financial investments in the social and economic infrastructure sectors. The investment in social infrastructure is aimed at addressing backlogs and expediting the delivery of essential social services to support sustainable living conditions and a better quality of life within communities whilst the economic infrastructure is aimed at addressing capacity constraints and bottlenecks in order to optimise economic growth potential. Its priority areas are water, energy, transport and ICT as its key focus areas. |
| **Macro Perspectives** | **Case 5: Banking Association South Africa** (**BASA**)<br>The BASA has a mandate to represent the banking sector and address industry issues through:<br>• Lobbying and advocacy | **Value Chain Perspective** | Case 6: Supply-Side (Institutional investor)<br>Case 6 included one of the largest and most successful investment managers in the continent. It delivers healthy returns for clients whilst | **Case 7: Demand-side (NPO)**<br>A Non-Profit Organisation (NPO) was chosen as part of the value chain (demand-side). The demand-side is given money to implement the programmes that create |

| | | | | |
|---|---|---|---|---|
| | • Policy influence<br>• Guiding transformation in the sector<br>• Acting as a catalyst for constructive and sustainable change in the sector<br>• Engagement with critical stakeholders<br>It facilitates the enablement of a conducive banking environment through stakeholder engagement with government and other relevant stakeholders. It works with its members to address transformation challenges prevailing in South Africa.<br><br>The Banking Association South Africa manages it work through several committees that advise the executive on issues pertinent to the sector. It leverages off the capacity of members of these committees, so as to bring the optimal resources to bear on pertinent issues. The Banking Association South Africa oversees several business forums, task groups and sub-committees, which are interim structures put in place to assist the committees in resolving a particular matter/issue at a given time. It was important to conclude BASA in the study because its views on emerging trends within the banking sector is essential. It provides a helicopter view of the banking sector and high level view which is critical. Whilst the individual banks provides micro view BASA provide a macro view. | | contributing to broader Socio-Economic Development. It invests funds on behalf of public sector entities, based on investment mandates set by each of these clients and approved by the Financial Services Board (FSB). Its goal is to exceed clients' expectations and shareholder's investment objectives through thorough research, careful risk analysis and stringent compliance practices. Institutional investor's view is crucial as part of the value chain (supply-side). This particular investors was chosen because of its dominance in the market place. | positive social impact in the communities. |

| | | | | |
|---|---|---|---|---|
| **Competitors/Industry** | **Case 8:**<br>Asset Management Companies 1<br>***Asset Management Company 1***<br>It has 20 year track record in the market and the development of the requisite skills set. The investment team constructs diverse portfolios that enhance returns, reduce risk volatility, and produce relatively stable outperformance over time. It is dedicated to the development and empowerment of South Africa and its people, with many of its investment offerings geared towards making a meaningful difference to its world. The company continually looks for opportunities that will contribute to society by delivering economic and social returns that really matter. | ***Case 9:***<br>*Asset Management Company 2*<br>This company is led by management team with vast experience of more than 15 years. It links asset owners with start-ups and other demand ventures that require funding. AngelList is where the world meets start-ups like FutureProof Capital. Passionate about sustainability and finding solutions to Economy 2.0. Spent the last 15 years in the asset management industry, managing funds, teams in Africa. | | |