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Feeling Good and Financing Impact: Affective Judgments as a Tool for Social Investing

Jacob Hellman *

Abstract: *»Sich gut fühlen und finanzielle Wirkung erzielen: Affektive Urteile als Instrument für soziale Investitionen«*. This article analyzes how moralized repertoires get linked to affective judgments to form the *early-stage* social impact investor, a financial subject who invests in startups for both profit and positive social impact. It draws on interviews with and observations of investors in San Diego, California. The financialization of social activities generally proceeds by quantification and commensuration. However, for startups, nothing yet exists to quantify. Instead, investors narrate ethical conversions, and evaluate through affective knowing and encounters with entrepreneurs. Simultaneously, they draw on financial skills, technologies, and disciplines to grow these startups. Startups must soon quantify their social impact to attract bigger investors, suggesting how affective and moralized forms of relation may persist, even when subsumed within larger financial flows governed by quantified reasoning.

Keywords: Social impact investing, Financialization, angel investing, affect, quantification, United States, social value.

1. Introduction

Following the 2008 financial crisis, as owners and stewards of capital increasingly wish to deploy their hoards[1] in ways consonant with their environmental and social values (Deloitte 2016), a new constellation of financial practices has coalesced under the mantle of *impact investing*. The term refers to the financing of ventures which generate both profit and social value, or impact. This article analyzes how moralized repertoires get linked to affective judgments to produce the *early-stage* social impact investor, a particular variant of this financial type. Most impact investing happens within the domain of institutional finance, e.g., large, professionally managed pension and private equity funds. There, what counts as "impact" is determined by diverse and disparate rating and ranking systems. A robust literature on market devices has detailed these

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[1] "Money," when not circulating, becomes "petrified into a hoard" (Marx 1976 [1967], 228).

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processes of abstraction, demonstrating how they borrow forms of expertise from finance in order to quantify the social value, or impact, produced by organizations and businesses (Barman 2016; Chiapello and Godefroy 2017; Archer 2019). Such scholarship has demonstrated how social activities previously funded by governments and NGOs are being opened to mediation by profit-seeking financial actors, through the rating and measuring of social impact produced. These studies have focused on institutional finance, a key research site given the concentration of capital there, and also given these studies' disciplinary roots in the sociology of scientific knowledge: techniques of quantifying, modeling, and abstracting in high finance resemble those of the laboratory. But in a less elite corner of finance, a set of individual investors in "startups" (early-stage companies pursuing rapid growth) are taking a distinct approach to what they, too, call impact investing. Here, because entrepreneurial ventures are nascent and possess nothing to quantify, these early-stage investors have classically relied on their "gut" – an affective way of knowing rooted in an unacknowledged class habitus (cf. Bourdieu 1990) – to judge and value *conventional* (non-impact) startups. As the vogue for *impact* investing trickles down from institutional finance, these investors continue to rely on their affective forms of judging, belying scholarly accounts of the quantified and statistical logics colonizing non-financial domains (Fourcade 2011, Chiapello 2015). Numbers and feelings, surely, are not contradictory categories for the social studies of finance. Emotions, for example, lubricate financial transactions under conditions of fundamental uncertainty (Pixley 2002); affect imbues apparently numerical calculation to stabilize markets (Zaloom 2009). But for the financial actors examined below, affect and its embodiment are explicit tools to sense and judge *social value*, rather than the unacknowledged underpinnings of an allegedly rational financial calculus. This article contributes to the understanding of financialization by analyzing how emotional sense-making can serve as an overture to capitalizing new domain through the norms and techniques of venture capital.

Social impact rating systems such as the Impact Report Investment Standards (IRIS) aim to help construct the impact investment market by commensurating qualitatively different social impacts, thereby "allowing investors to engage in comparison across firms and funds" (Barman 2015, 30). The "investor" imagined here by practitioners and critical scholars alike is of a particular type. It may refer to the "retail" impact investor – as yet more aspirational than widespread – an individual who scrutinizes numerical ratings in glossy reports advertising social impact funds, just as she would compare interest rates on conventional investments. Or it may refer to a professional fund manager, selecting corporate securities to accord with preferences of socially concerned clients. In both cases, the investment relation is thickly mediated by institutional finance, rendering the investment an unencumbered and abstract market transaction. But consider Robert, a retired city planner in California who calls

himself an impact investor, and has purchased equity in a Rwandan startup attempting to profitably turn human waste into biofuel. Robert scouted out this and similar investment deals himself, meets with the entrepreneurs, and monitors their growth. Unlike institutional impact actors, he knows impact viscerally when he sees it, and numbers do not aid his judgment.

The impact metric, then, functions not only as a commensuration device but also a "technology of distance," representing claims to social impact without the need for "intimate knowledge and personal trust" (Porter 1995, ix). When private equity firm TPG launched a $2 billion impact fund called "Rise" which uses a proprietary rating system, board member and musician-activist Bono emphasized its "rigor of metrics," contrasting this with "warm fuzzy feelings" guiding other impact investors (Sorkin 2016). Certainly, practicality is a factor here: it would be difficult for TPG, an institutional investor, to evaluate investees in the face-to-face manner of Robert, on such a large scale. One might therefore dismiss early-stage investors like Robert and others this article will examine as inconsequential for an analysis of the financialization of social activities: for one, the startups in which they invest lack a history (or "track record") of producing social impact *to* measure, and secondly, metrics and their corollary mode of mathematical reasoning are tools suited for larger securities traded on global financial markets, and not for startups, which are illiquid and long-term investments. Furthermore, financialization is understood as the turning of things – whether scientific knowledge or social activities – into tradable assets valued specifically through future-weighted modeling of risk and revenue (Birch 2016). Tackling social problems by funding startups, then, may seem more indicative of governments channelling civic aspirations into entrepreneurship (Irani 2019) than of an incursion by mathematically-based high finance. But it is the premise of this article that financialization, as a society-wide process, can manifest in unexpected forms in particular contexts. The affective approaches to small investing described below, I argue, arise as a distinct *moment*, or stage, within the broader *process* of financialization – a process which is only more easily visible in "colonies" of quantified reasoning and securitization (Chiapello 2015).

The claim that "financialization" constitutively encompasses moments in which financial markets and quantified reasoning are not immediately present hinges, for this article, on the diachronic and developmental logic of startup fundraising. Early stage investors do not purchase equity (company ownership; stock) to reap small annual dividends from operating profits. Rather, they hope to rapidly grow and then *sell* startups, generating order-of-magnitude returns. Impact startups hope, additionally, to generate large-scale social value that can be quantified and rated – thereby making themselves legible, and desirable, to institutional funds like TPG Rise. This imperative to pursue growth and eventual quantifiability is felt by a small impact fund in San Diego, which has invested several million dollars in three startups there. At present, its director,

Naomi, can secure $50k investments from local individuals "after a twenty-minute conversation." But to grow, she plans to seek capital from institutional funds, and for that she understands that she must implement impact metrics. "If I could sell them on my own judgments calls, I would," she says, "but that only works for people who've known me for years." And institutional investors are interested in capitalizing these smaller entities as they grow, because the impact market, according to the Rockefeller Foundation, faces "a shortage of opportunities to invest […] and lack of innovate deal structure" (cited in Chiapello and Godefroy 2017, 166). The depth of financialization as "morphological transformation" of economies (Chiapello 2015) is revealed, therefore, in how finance allows affective and face-to-face forms of relation to persist, even as it subsumes them within larger capital flows governed by quantified reasoning.

This article illustrates how a particular type of social investment is advanced through sense-making which relies on emotions rather than quantified indicators. Even classical financial devices, it shows, can be employed within an affective frame. I first introduce the setting and approach to data collection. In section two, I present proponents' rationale for impact metrics as a device facilitating financial markets, and show why metrics do not work for early-stage investment. I then show how, in lieu of metrics, individuals narrate an experience of ethical "conversion" to impact investing. Following this change, I demonstrate, they assess social impact through embodied affect, a mode of sense-making embedded in a community of practice. Section three demonstrates that from within this new identity and practice, impact investors unproblematically continue to enact their previous professional habitus oriented toward financial growth. To do so, they rely on investment techniques borrowed from conventional venture capital, such as financial due diligence and equity-based contracts. Finally, I show how they derive satisfaction by imposing entrepreneurial disciplines on their investees and even on some fellow investors, performing the boundary between impact investing and (un-financialized) philanthropy.

1.2 Setting and Methodology

Given the face-to-face basis of much early-stage investment work, this study relies on field observations when possible. Like ethnographies of investment banks (cf. Ho 2009, Ortiz 2014), it attends to the way that financial techniques and theories become incorporated, so to speak, in bodies, emotions, and disciplines. The study also draws on close readings of subjects' narratives gleaned from interviews, as well as from their public presentations and published texts. I focus on San Diego, California, where impact proponents are working to build an "ecosystem" (as they call it) populated not only with investors and entrepreneurs, but also financial lawyers, wealth managers, tax advisors, and non-profit organizations willing to collaborate with private capital. This mid-

sized city affords a manageable scale for this study. I attended six presentations and networking events, and conducted fourteen interviews ranging from one half to two hours, between 2016 to 2018. I contextualize the data I gathered with analysis of recorded presentations from the leading U.S. impact investing conference, SoCap (Social Capital Markets), from 2014 to 2017.

Because the impact field is new, no purebred impact investors yet exist. Many have professional backgrounds in conventional finance. Four informants profiled below I classify as *early-stage impact investors* (see Table 1a). Qua "early-stage," their practice models itself on institutional venture capital (VC): on its financial strategy (rapidly growing risky startups), its language and ethos (enthusiastic and optimistic), and its devices (gut judgments, speculative valuations). Qua "social impact," this label is self-applied by them. Academic attempts to pin down the definition of impact investing (Höchstädter et al. 2015) yield only an inventory of practitioners' idiosyncratic meanings. Practitioners, meanwhile, unconcerned with essences, characterize impact as a spectrum: extending from maximum impact with low financial return – termed *concessionary capital* – to lower impact with higher return. The investors I examine occupy different locations on this spectrum. All have come to the practice because they find it meaningful, and because they have a ready-to-hand professional skill set. They hold in common the belief that they can do social good – however defined – by funding nascent businesses with their own capital. Three other informants have founded or manage intermediary organizations working to grow impact investing in San Diego (see Table 1b). Finally, I draw on interviews with managers of two small impact investment funds, or "boutique shops" (see Table 1c). Technically, these are institutional investors, managing others' money, but their scale of operation aligns with the independent investors on whom I focus. These various individuals will be introduced in turn below, but I provide a summary table here.

Early-stage investors, both impact and conventional, frequently call themselves "angel investors" or "business angels." I discard that label here to avoid confusion: "angel" does *not* connote altruism, and is not inherently linked to social investing.[2] The term has long been used in conventional for-profit investing, and marks two key characteristics. First, early-stage or angel investors supply the initial capital into nascent entities sometimes consisting of only an entrepreneur and an idea. Second, unlike VCs, they *invest their own money*. As such, angels are considered non-professional investors: they lack fiduciary obligations – the U.S. legal requirement for entities investing others' money to maximize profits – and thus need not justify their decisions to any other parties. Furthermore, they deploy relatively small sums of money and are generally

[2] "Angel investor" originally described wealthy individuals who personally financed early Hollywood films.

considered “unsophisticated” by VCs, who take over when startups grow and require bigger capital.

Table 1a: Early-stage impact investors

Name	Professional background	Sample impact investments (self-defined)	Position on spectrum
Mai	Corporate investor relations at large pharmaceutical company	(1) local fruit wine brewer; residential solar marketing company, (3) platform for anonymous sexual assault reporting	Leaning towards market-rate
Samuel	Technology entrepreneur, real estate developer, and mortgage-backed securities	(1) startup app to help businesses track social impact metrics; (2) loan fund to help poor youth lease cars; (3) fair trade importer	Between market-rate and Concessionary (impact-first)
Robert / Solana Ventures	Public-private partnerships in urban land redevelopment	*In Rwanda & Kenya:* (1) biofuel-from-human-waste business, (2) wholesaler of crops from small farms; (3) drinking water distributor	Concessionary (impact-first)
Marco	Quantitative finance for hedge fund	multiple local agriculture and food businesses	Concessionary (impact-first)

Table 1b: Intermediaries

Name	Organization type	Function
Inflection Point (Nicholas)	San Diego-based, with national scope. Founded in 2010	Initially ranked social businesses. Transitioned to providing best practices and “convening” high-level employees to encourage corporate pursuit of social impact
Impact Investing San Diego. (IISD) (Naomi)	San-Diego-focused non-profit organization, founded in 2013	“Ecosystem” building. Encourages new impact investors, connects them to entrepreneurs and investment opportunities
Slow Money SoCal (*cf.* Marco)	Southern California chapter of federated international organization	Brings together wealthy individuals at private gatherings to encourage investment in local food and agriculture businesses

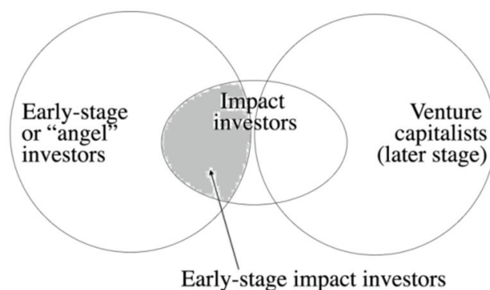
Table 1c: Impact investment firms

Name	Firm type	Impact instruments
Segel Capital (Fred)	Small impact-only investment firm with HNWIs and foundations as clients, based in San Francisco	Asset classes range from stocks indexes to equity in businesses. Uses proprietary impact rating system
Obvious Ventures (J. Joaquin)	Mid-sized venture capital firm, founded 2010	Invests in technology-based startups which it deems to be “world-positive,” distancing itself from the “impact” label. No rating system

The recent presence of *impact* investors in San Diego is due to the city’s active *conventional* investor network, which emerged in tandem with its strong tech-

nology and biotechnology sector – itself the outcome of decades of military contracts and government funding tied to research universities (Walshok and Shragge 2013). The commercial potential of that research spurred the development of a network of early-stage ("angel") and VC (later-stage) investors. Over the past two decades, as the cost of launching a startup has dropped, the global VC sector has segmented. Professional VC firms have turned to mature and higher-value startups, opening new terrain for individuals who are not professional financiers to invest in the proliferating startups at the bottom. This transformation is enabled in particular by the growth in high net worth individuals,[3] who find here a wide-open field to engage in an exciting activity – to wield a bit of influence, offer advice, and get close to the apparent heartbeat of innovation. Thus, despite their low station in the pantheon of finance, the angel i.e., early-stage investor is a social role which is presently *becoming generalized*, making it a particularly relevant object of analysis (See Figure 1).

Figure 1: Category map of investors examined in this article



2. Social Value Metrics and the Places They Don't Work

This section first maps the rationale of impact metrics, which are intended to signal to impact-maximizing market actors. Yet in practice, it shows, these actors do not always respond to the information as rationally as imagined. For early-stage enterprises whose projects are not yet ready to be measured, investors rely on affect and embodied judgments to make sense of their activities as socially oriented. They learn to do so, and to recognize and affirm each other, in a community of practice.

[3] The Securities and Exchange Commission designation requires individuals to have an annual income above $200,000, or a net worth of more than $1 million, to invest in private companies such as startups. Between 1982 and 2015, according to SEC data, the number of "accredited investor" households increased tenfold, from 1.5 million to 16 million (Eaglesham et al. 2018).

2.1 Social Value Metrics as a Market Signal

In relation to the lineage of projects to make capitalism more "caring," including Socially Responsible Investing (SRI) and Corporate Social Responsibility (CSR), promoters of impact investing distinguish it by the mandate to quantify and measure the non-financial, i.e., social value or "impact," that firms produce.[4] At least this is how it has been defined since The Rockefeller Foundation convened high-profile philanthropic, finance, and corporate actors in 2011 to create the Global Impact Investment Rating System (GIIRS), a standard to measure the "social value" produced by corporations (Barman 2016). GIIRS is not an epistemological undertaking. Its purpose is not fundamentally to assert the truth that certain qualities measured count as "social value." Its founders have a more pragmatic aim: a rating system, by establishing equivalency between diverse forms of social value, should create an efficient market which will direct capital to those who produce it best. The argument for metrics, then, cashes out in terms of fostering growth of the most effective social businesses.[5]

Social value metrics are intended for use by institutional investors: financial professionals investing large pools of capital on behalf of, e.g., pension funds and wealthy individuals. An industry of consultants has emerged to do this work of quantifying businesses' social interventions. Ethnographers have provided accounts of how such rating labor gets done: by "value entrepreneurs" (Barman 2016) based in offices, reading reports, working with statistics, and translating techniques from financial valuation (Archer 2018). But three tendencies of practice challenge the narrative that these metrics, once generated, unproblematically disseminate information to rational investors who compare products prior to deploying capital: (1) despite attempts to unify the impact market with shared judgment practices (Chiapello and Godefroy 2017), multiple and competing rating systems have been introduced – not only by market intermediaries like GIIRS, but also by private funds – leading to an "arms race," as one fund manager put it, which negates the raison d'être of a common standard; (2) several of my informants suggested that anyway, many investors do not attend closely to quantified ratings because they come already committed to a particular social program, and (3) despite the existence of these rating systems – or perhaps as their very outcome – "greenwashed" finance products have made it to market: BlackRock, the world's largest asset manager, launched its Impact US Equities Fund, whose "Schedule of Investments" lists mining companies, major banks, and Domino's Pizza (BlackRock 2019). To-

[4] This differs from "Social Return on Investment," an accounting methodology whose metric is not social impact, but money; it measures social impact indirectly by monetizing estimated benefits (Hall et al. 2015).

[5] Social impact is also not equivalent to the "social enterprise" movement that emerged from the Harvard Business School in the 1990s: the latter taught business methodologies to non-profit organizations (Barman 2016, 63).

gether, these tendencies suggest that corporate social responsibility officers, rating intermediaries, and impact fund managers may form a self-contained circuit – producing, assessing, and consuming metrics – detached from the concrete work of the enterprises being rated. Indeed, such a situation has characterized the roll-out of Social Impact Bonds (SIBs). Interest in this new "pay-for-success" instrument for privately funding social services with government reimbursement comes *not* from lustful financiers scouring for unconventional investment opportunities. Rather, "the primary advocates of this model have been a diverse group of professional consultants and advisors" (Williams 2018). The various ways metrics fall short of the ideal of efficient market information point to the lacuna in studying financialization of social activities exclusively through the lens of institutional actors and their market devices.

As the field of institutional impact investing has congealed, it has inspired the small, independent investors who are the subjects of this article to orient their practice toward social activities. Although these early-stage investors do not employ impact metrics, they identify with the "impact" label, and listen in on that discursive universe: they read impact investing blogs and news sites, and attend its conferences. The next section elaborates how they recognize a "social" investment, and in so doing, recognize themselves as impact investors. Boltanski and Chiapello (2005), accounting for the ideological success of Fordist-era capitalism in securing the consent of its cadres, propose that an abstract justification based on the societal virtues of the free market did not itself motivate managers to go to work in regimented firms each morning. Similarly, I suggest, the rationale that quantification yields efficient (impactful) capital allocation may animate intermediaries like the Rockefeller Foundation who take a market-level perspective – but such an abstraction would not motivate early-stage impact investors, who instead relate affectively to their financial practice.

2.2 The Self as Somatic Barometer for Social Value

This section exhibits two forms of judging social value more fit than impact metrics for early-stage or "direct" investing, i.e., unmediated by financial institutions and markets. But before examining *how* these investors select impact startups and assess their progress, we should examine their *capacity* to know in this regard. For many, what authorizes oneself to become a valid judge of social value is undergoing a conversion they call an "*a-ha!* moment." Here the term refers not to a scientific insight, but to an ethical one. Frequently striking after a career in the private sector, it ties together a desire to *do good* via one's wealth, with the conviction that entrepreneurship – and not philanthropy – is the most effective means. At conferences and in publications central to the diffusion of impact investing, speakers frequently narrate their own *a-ha* moment, in a performative act which is crucial to making real their new hybrid

financial identity. For some, a personal crisis triggers the reorientation. Fred, the manager of boutique impact investment firm Segel Capital, presenting to a group of local philanthropists, introduced himself and his colleagues as "refugees from financial services." After reciting their pedigrees (one, a trader at Deutsche Bank; another, portfolio construction at Bank of America), he recounted his own cancer diagnosis: "it changed my outlook on my professional life. I thought about my skills, and what I could do with them [...] and found Segel, a perfect marriage of helping the world and my professional background." Thus while upholding a continuity of expertise with conventional finance, he simultaneously broke with its (non-)ethical orientation – and, evangelizing, implied his audience could do likewise.

For others, the *a-ha* moment was triggered by the 2008 financial crisis. Marco Vangelisti is a spokesperson for Slow Money, which helps its global members invest in their local food economies. In a TED talk, keynote addresses, and blog posts, he recounts how he worked for decades at a "glamorous" investment job while also identifying as a committed environmentalist. The highest performing company in the portfolio he managed also destroyed rainforests, and, in 2008, he says, "the cognitive dissonance became too great to ignore." First, he left his job. Then, he divested his personal assets from all conventional financial securities, and reinvested in local businesses whose effects he could directly perceive. Addressing his audience, Vangelisti layers an emotional appeal on top of financial advice, stressing that one must learn to "overcome concerns" and be comfortable when one's assets are no longer globally diversified and entrusted to big institutions (Vangelisti 2017). Thus the *a-ha* moment, by transforming one's emotional relation to risk, helps reimagine what a financial technique can do.

Having undergone this performative transformation, how do investors judge when an investment counts as impact? In lieu of rating systems, they may rely on sensations of physical and moral wellness to affirm that they are engaging with the right kind of startup. Mai was a corporate investor relations manager, retired early, and began to build a portfolio of equity in conventional startups in San Diego. Several years ago, one of these investments went bad. In the midst of being sued, Mai told me candidly, she developed a stress-induced facial tick. A psychologist encouraged her to "shift a bit of [her] investment effort and do something good for the world." She had recently met an entrepreneur pitching a for-profit software platform for anonymous sexual assault reporting. So, passing the psychologist's advice through her professional habitus, she called up the entrepreneur and committed to invest. Her facial tick disappeared that afternoon. "I just want to support what he's doing," Mai told me. "I said, 'I'm here as a sounding board for you – call me any time you want; we'll meet for coffee.'" Investment bankers, too, may speak of moral fulfillment derived from pro bono work managing an impact fund (Bourgeron 2016). But they are office-bound, supplying capital in absentia from the enterprise. Mai's sensuous

form of judging, in contrast, depends on mentorship relations with her investees unmediated by markets and rating systems.

Samuel judges impact in a different affective register. After successful careers in software entrepreneurship and then mortgage-backed securities, he chose to enhance his annual philanthropic giving by mentoring a foster care teenager. He volunteered at a nonprofit organization to which he also donates money, Youth Mentoring Network (YMN). The relationship between Samuel and the teen progressed from gifts of commodities (taking him shopping at Walmart) to the sharing of social capital (introductions to his professional network). "What's interesting is that I wound up becoming a better father for my own kids as a result of getting involved," Samuel reflected. And this transformation ramified beyond his own domestic relations. Normally, in such volunteer work, the nonprofit organization coordinates activity but is not itself fundamentally changed. But in this case, Samuel, significantly moved by his experience, began a multi-year effort to inject techniques of corporate finance into YMN's operations, enabling it to leverage private capital (see 3.3) – thus collapsing charity work into finance.

2.3 Ecosystem (As Evangelizer), Not Market (As Allocator)

A-ha moments and somatic experiences do not strike individuals in isolation, but are modeled by peers and reinforced through narration at gatherings within the "ecosystem," a metaphor borrowed from the conventional startup sector. The ecosystem encompasses amateur and professional investors, social businesses, financial lawyers, and other intermediaries, and as metaphor, indicates their interdependency. Metrics, as an ideal, supply information to buyers of investment goods on an anonymous market. The ecosystem, in contrast, is social machinery for converting individuals into impact investors, providing affirmation through community. My informants see San Diego's impact ecosystem as lacking in critical mass. Building it requires *networking labor*, which is affective as much as organizational. When Naomi of local intermediary IISD (see Table 1) returned from SoCap, the premiere North American impact investing conference, she held a webinar to debrief IISD's investor-members. After summarizing, she played a video clip from a conference keynote by a social activist poet. Someone on the webinar, echoing the poet's words, asked how she herself might "help more people to lead with their heart rather than their spreadsheets." Naomi replied by conscripting everyone listening into the project of ecosystem building: "convene small learning circles […] invest in individual conversations […] it's a long process."

Beyond generic networking events, ecosystems congeal through "convenings," a recent business locution denoting meetings of influential individuals

and a targeted agenda.[6] Inflection Point is an impact intermediary formed in San Diego by a disillusioned young business consultant, originally to profile and rate "[social] purpose-driven businesses" internationally. But after several years, the founder, Nicholas, saw that this strategy, implicitly relying on the ideal of efficient market information, was not effective. "I've pivoted," he said. "My focus is now finding people inside those companies who want to change dynamics in the economy – *doing high level convening*, helping those people trust each other, and then sharing the wisdom." This approach facilitates financialization not in the manner of a market device like a metric, but indirectly, via affective and relational work. The networking labor of "convening" and *inspiring* executives to make social and environmental activities constitutively part of normal operations helps their companies become legible to institutional impact funds and rating systems.

3. Venture Capital Methods Influence and Undermine the Pursuit of Impact

On the one hand, early-stage impact investors look to affective experience rather than quantified indicators, the latter being one tool by which finance reaches into new domains. However, these investors employ an alternative technique of financialization: they construe value always in terms of future revenue potential (Chiapello 2015, 17). This is visible in their concern for assessing and selecting businesses bent on rapid expansion, in their adherence to contracts structured to multiply their capital, and as they discipline entrepreneurs toward these ends.

3.1 Commercial Success as a Gauge of Social Value Production

The early-stage impact investor will encounter many entrepreneurs who promise to produce social value; discerning which are good *investments* draws on their prior experience with conventional finance. Venture capital methodology foregrounds a sensitivity to character virtues of entrepreneurs rather than to the product itself (cf. Shapin 2009, 270), and an orientation toward the potential for exponential growth. Thus while Mai hoped that the sexual assault reporting app "could bring justice to the corporate world" (see 2.2), she simultaneously brainstormed how it might "monetize" its users: perhaps inviting lawyers to advertise their services, or providing sexual assault prevention education to businesses. Here she invoked the centerpiece of VC logic: "I was interested in

[6] The term is preferred by the Trump administration: "First Lady Convenes Tech Companies to Tackle Cyberbullying" (*The New York Times* March 3, 2018).

[the entrepreneur] because he's *scalable* – it's a technology database with a marketing platform." Mai harmonized a judgment of impact by her facial tick (see 2.2), with a judgment of value by the potential for quick growth.

When an investor has become sufficiently intrigued by an entrepreneur's pitch, the parties enter due diligence, a process of verifying the latter's claims, such as employment history, patents obtained, and projected demand. Precisely because this procedure is native to conventional investing, impact investors emphasize that they conduct rigorous "diligence," to distinguish their practice as finance and not philanthropy. Thus Fred, presenting Segel Capital's impact fund (see 2.2), insisted that they "approach every investment with a healthy level of cynicism: it has to work as a business." Informants repeatedly stressed that "diligencing" an impact deal follows a process equally narrow in financial scope to that for non-impact deals. It involves legal searches to ascertain whether the corporation is properly formed, has a governance structure amenable to investors, and has bank accounts with established credit. One interviewee characterized Slow Money (see 2.2) as "a group of beginners who need [conventional investors] with experience, willing to do the diligence work." Lacking such expertise, they partnered with a private lender to conduct due diligence and service their loans to local food businesses. Diligence, then, is an epistemic procedure that bridges moments of affective judgment into financial circulation.

Once an early-stage investor believes she has selected a business where social benefit is constitutively "baked in" to the product, then *financial* success becomes a proxy for social value. Indeed the ideal impact investor habitus fuses these two sensitivities to social and financial potential. Thus when asked by a presentation attendee whether Segel Capital identifies investible companies by first considering social impact, and then financial viability of the business, or vice versa, Fred claimed not to differentiate between the two – while in the same breath, insisting they prioritize financial soundness when selecting. This quasi-contradiction is made to disappear through a means-ends criterion which holds social mission to be folly if the business is unsustainable financially. Taken to the extreme, this logic negates impact's categorial specificity: socially oriented venture capital firm Obvious Ventures has banned the "i-word," as their director Joaquin refers to impact, because they believe clients, whose money they invest, associate the term with "concessionary" capital (lower returns in exchange for impact). Instead, they call themselves "world-positive investors." Joaquin says defiantly: "We don't measure social impact. EBITDA [revenue] *is* our measurement – *you don't need a separate measurement*."[7] But if revenue is a necessary qualifier, it is not sufficient: when pushed

[7] EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortization) is a proxy for revenue. It is used by venture capitalists to value startups which have not yet generated revenue.

on the point in an interview, Joaquin conceded that their analysts present research on potential investments to the fund's partners, who decide intuitively which are "world-positive." These equivocations between social and financial value are not disingenuous, but rather point to the historical contingency of the categories; even the idea that "value" means "future earning power" has not always been natural, but was the object of pedagogical labor in early 20th century business schools (Muniesa 2016).

3.2 Varieties of Contract Forms and How They Prioritize Financial Returns

Impact investors take contractual forms seriously, even when committing capital to "concessionary" projects where below-market returns are likely. Robert of Solana Ventures is a former city planner who inherited money. In his retirement, he wanted to make the world better using expertise he had acquired financing urban industrial zones (see 1.1). He is discerning in which countries he selects, but not based on impact need. Although Robert does not *say* he operates exclusively in "capitalist" environments, he articulated this choice more subtly and precisely: he loans out his capital only in countries with independent judiciaries which "respect the rights of investors" – that is, the property rights in money. For the Kenya biofuels investment, he and two co-investors formed a Delaware LLC[8] to purchase shares in the Kenyan subsidiary. This afforded tax benefits, and legal protection for their other personal assets. It also enabled one investor to easily sell his equity to a third party when he wanted capital for a different investment. Even when not undertaken for personal enrichment, impact investments remain fundamentally instruments for circulating and growing capital. "I want to be able to keep recycling [i.e., reinvesting] the money," Robert says. "When I'm in a wheelchair, then I'll just give it away." Were he doing philanthropy, neither the LLC nor the stipulation that courts uphold contracts would be relevant. While Robert knows a social impact investment by gut feel (see 1.1), he "financializes" by spreading western norms of contractual engagement.

Though firms may enter into a relationship with investors in various ways (e.g., by issuing a bond – essentially a loan), direct investments in social enterprises typically default to the sale of equity (ownership). This model has been normalized by venture capitalists over decades of financing conventional startups. Equity is risky for investors, who are repaid last (after creditors) if the startup fails, a statistically likely outcome. But if the startup grows, investors

[8] The U.S. state of Delaware has notoriously minimal corporate disclosure requirements and tax obligations.

can earn orders of magnitude more than a loan would yield,[9] by selling their ownership. Some impact actors, however, argue that equity-based funding sets up incentives which conflict with the pursuit of social mission: equity investors, qua shareholders, participate in company governance, and may prioritize financial growth in order to make the company attractive to buyers. This may strain resources and cause neglect of social mission. As Nicholas of Inflection Point (see 2.3) saw it, eager young social entrepreneurs often accept an equity structure because it has been made familiar through copious how-to blogs, videos, and workshops directed at aspiring (conventional) entrepreneurs. "They raise a round [of financing] and give away equity; they burn through that and give away some more. Then down the line there's this realization: '*oh*, how do we possibly deliver on that? We have to *sell the company.*'" Nicholas is haunted by the story of ecological soap company Seventh Generation. Despite registering as a Benefit Corporation – a new legal designation relaxing the fiduciary obligations required by equity financing (cf. Collins and Kahn 2016) – the company's founder was forced out when resisted investor pressure to grow. The distrust of equity mirrors critiques of the shareholder value movement: it imposes on all decisions a short-term accounting logic (cf. Lazonick and O'Sullivan 2000).

If intermediaries like Nicholas are suspicious of equity investors potentially "perverting" the relationship with entrepreneurs, these positions sometimes flip: "impact-first" i.e., concessionary investors may be more concerned than some entrepreneurs to design contracts which incentivize social return vis à vis financial return. In such cases, what assurances do impact-first investors have? *Conventional* early-stage contracts often specify quantifiable "milestones" for financial growth which are "not rough estimations […] but imperatives that must align with the investment's […] valuation rational" (Muniesa et al. 2017, 29). Unsurprisingly, then, those who reject social impact metrics dismiss the idea of contractually guaranteed impact "milestones." As "pay-for-performance" Social Impact Bonds in the public sector have demonstrated, isolating and assessing outcomes is always fraught, and ambiguities in assessment methodology quickly blossom into economic and political disputes (Warner 2015). Obvious Ventures' Joaquin bristled in an interview at the suggestion of contractually binding entrepreneurs to produce social value; he relies instead on his intuition for selecting "[social] value-aligned" entrepreneurs, and he prospectively attributes any shortcomings to exogenous factors. However, he did not leave impact expectations entirely uncodified: in 2017, Obvious published on their blog a template for what they called a "World Positive Term Sheet." Term sheets accompany VC contracts, specifying terms like the degree

[9] Venture capital's emphasis on exponential growth is not simple greed, but a function of their portfolio strategy which spreads the investment fund across many startups. The total returns often derive from one outsized success which makes up for other losses.

of control ceded to investors. As a speculative exercise, Obvious added a category of clauses pertaining to social impact: e.g., "We plan to make extra efforts, at some extra initial cost, to remove hidden bias from our recruiting process," and "We have removed all plastic bottles from our office kitchen" (Joaquin 2017). While this publicity grab incorporates no mechanism of guarantee, it does aim to (gently) question norms about what belongs in the term sheet, the cardinal document of venture capital deals.

Distrust of equity-based contracts and reluctance to set hard impact targets has renewed interest in a quotidian approach to financing in which the startup takes a loan, to be repaid out of operating profit. The model, termed revenue-based financing (RBF), proposes to more closely "align" interests of the investor with the entrepreneur's social mission. Investors receive a percentage of the enterprise's revenue up to an agreed maximum gain on principal. But, Nicholas of Inflection Point stresses, RBF holds little appeal for investors habituated to equity deals, where each is a (risky) bet that "the company goes public and everyone makes like a hundred million dollars." Nicholas laughed uncomfortably. Even a highly successful RBF-funded enterprise will be less profitable to investors than if funded through equity. The RBF in an instrument which materializes a moral proposition: extract less value. The point is not that investors with "concessionary" inclinations are out there, waiting to be found. Rather, RBF advocates hope this contract structure will help provoke into being (Muniesa 2014) a new kind of investor-subject.[10] And they understand it will require supportive social context. At "convenings" (see 2.3), Nicholas and other intermediaries do the affective work of coaching both conventional investors and the philanthropically-inclined wealthy to re-frame their own norms about what an investment contract ought to look like.

3.3 Affective Financialization: Deriving Satisfaction From Disciplining Entrepreneurs

The impact investors and intermediaries profiled here seek to intervene *in* but also *through* the private enterprise system. As such, they aim to infuse social activities with skills and behaviors distilled from the world of conventional entrepreneurship, and they find satisfaction in doing so. Their work may be understood as *disciplinary*, in two senses: as policing divisions between domains, and as cultivating mastery of a technique. Here, their disciplining targets two classes of actors: first, social entrepreneurs and nonprofit organizations,

[10] Of my informants, only Samuel has used an RBF in his own investment. Robert's use of equity in his East Africa investments testifies to the cultural entanglements of venture capital financing (where equity is the norm) and entrepreneurial innovation as mechanism of national development (cf. Irani 2019).

and second, other funders – philanthropic donors and professional peers being (re)formed as nascent impact investors.

As a direct investor into social enterprises in East Africa, Robert of Solana Ventures enjoys making first-order interventions, rather than pursuing his values vicariously through the intermediation of an impact investment fund. We might gloss his work as the disciplining of aspiring entrepreneurs. Traveling to small business conventions in the global south, he finds that many entrepreneurs' business plans fall below standards for presenting to a commercial bank, and offers to coach them. "The entrepreneurs in those countries are not up to speed," he says, "and you have to be patient." Robert invests in the most promising ones, and provides what guidance he can from a distance. Although after five years, one of his eight portfolio companies is failing, and none have returned principle, it would be incorrect to therefore call his practice philanthropy masquerading as investment. This distinction is performed through both stick and carrot. On the one hand, Robert is scrupulous in holding his investees to private-sector financial norms: "we loaned [one entrepreneur] $80,000 at 12%, which is about market rate. I don't want to lend to him at a concessionary rate. I want him to think this is *not* donated money." But he also assists his investees in performing competency. Consider that while early modern double-entry bookkeeping was rife with technical errors, merchants were nonetheless able to "take advantage of the legitimacy conferred on their activity by the practice of mathematical skills" (Chiapello 2007, 272; Carruthers and Espeland 1991). Robert, by coaching his investees to make their financial statements professionally presentable, enables them to signal their financial legitimacy. As he puts it, he is "exporting the American culture of entrepreneurship" – and derives meaning and satisfaction from doing so. And in all this labor, Robert is doing one small part of prepping East Africa for the tentacles of bigger (impact) capital to come.

The second target of disciplines are philanthropists and socially-minded investors themselves. In rock-star Bono's concise formulation, at a press conference announcing the $2 *billion* "Rise" impact fund by private equity firm TPG Growth, "there is a lazy-mindedness that we afford the do-gooders" (Sorkin 2016). This statement reflects anxiety among impact promoters after an initial wave of ventures either failed to return money, or failed to create much measurable impact – thus leaving them no claim to differentiation from either charity *or* conventional investments. The same moralizing attitude can be found even among early-stage investors who do not use metrics. At an entrepreneurship conference I attended, a former research scientist and successful investor announced her new project, The Next Wave Impact Fund, a network of 100 women jointly investing in social impact startups. "This is *not* not-for-profits," she said, her voice rising in emphasis. "You can have social impact *and* actually make some money." Indeed this rhetoric is two-tiered: professional impact investors impose disciplines on soft-hearted philanthropists to, in turn, disci-

pline their investees. Thus in his presentation to San Diego philanthropists, Fred of Segel Capital explained that "it's important in this space to have *investment discipline* […] and not fall in love with the narrative of a social entrepreneur." He emphasized that impact investors must assess the financial viability of the business opportunity on its own terms. "People often say, 'oh we love the entrepreneur so let's just give him [*sic*] some money.' But if they're not running the enterprise well, they won't be around in a year and it won't make any impact."

Above, I described how Samuel, after mentoring a foster youth, pushed the nonprofit YMN to reconfigure its financial structure according to his own professional worldview (see 2.2). His experience running a $300 million mortgage fund and developing real estate taught him to integrate private capital with government funding (homeownership subsidies). With this knowledge of "blended capital stacks," he guided YMN to establish a "creative auto[mobile] financing" loan for youth in their program. Previously, the nonprofit had solicited donations to subsidize youth who took market-rate car loans from a private lender. Samuel recounts: "I said 'why don't we get a bank involved, and get some leverage.' [YMN staff] said, '*ooh*, what?'" His proposal exceeded both their technical familiarity, and their norms about which financial instruments a nonprofit ought to use. But, he convinced them, and engineered a loan pool from three sources of capital: (1) the nonprofit YMN; (2) local impact investors; and (3) a private bank. Initially, the bank had been unwilling to loan to the youth at less than 16%, even with YMN contributing collateral. But with several impact investors supplying an extra layer of risk protection, the bank agreed to lower terms, and lent at a leveraged rate of 3:1 – making available three times as much capital for loans as YMN and the impact investors contributed. Achieving this required affective, relational labor: "*it was a freaking nightmare*," Samuel said. "With a nonprofit, you have to deal with the board of directors. Then the board wants to funnel it off to a committee; the committee's gotta consult with the subcommittee. That deal took two years to put together. If I were doing it privately, I'd have had it done in three months." Organizational culture stood as a barrier between a conventional state and a financialized state of the nonprofit, which Samuel carried the knowledge and the will to overcome. The deal counted as "impact" for him not only because it provided financing for an in-need constituency – automobility in a suburban environment makes marginalized youth employable, and thus affords class mobility – but also because it structurally transformed the nonprofit organization. Now, Samuel emphasized, the donations YMN received could be earmarked for those more purely philanthropic programs unable to leverage impact capital. But it also represents one of a thousand small cuts into the category barrier between finance and social services.

"Blended" public-private financing is not new. I highlight the above case because it exemplifies a will to financialize which is reducible neither to the

altruistic pleasure of helping in-need populations, nor to monetary gain captured through financial intermediation (cf. Golka 2019). Samuel evinced a profound affective *satisfaction* in herding the staff and board members of a traditional nonprofit toward the orbit of private finance. Though their pace frustrated him, it simultaneously presented an enjoyable challenge for his professional identity and skills – and the social impact only sharpened, but did not fundamentally *underlie*, that pleasure. Samuel has also made three investments himself which he characterized as "impact." One involved an entrepreneur developing an app to help companies track their social value metrics. She had a PhD in information management, and had previously worked for nonprofits. Samuel was initially reluctant to invest because the entrepreneur had offered him equity (high risk, high potential return), while Samuel wanted a secured loan.

> I said to her "Look I'm not going to fund a startup, but if you want to take a loan on your house, I'll tell you what – I'll write you a creative note [the loan document]. I'll give you a low interest rate as long as you're working on the app; if you decide to end it, it goes back to market rate." And that's actually what happened. She worked on it for two years. She wound up selling the code to someone, but didn't get enough to return my loan. And now she just makes payments. She's refinancing her house and she'll pay me off. So my exit was – I wasn't looking for a big win. It was fairly low risk for me, because she had enough equity in the house.

It is notable here that Samuel did not choose to forgive the loan. He is wealthy, and the loss would not have materially impacted him. Samuel evinced no moral ambiguity telling the story; to the contrary, he was self-satisfied that the failed impact investment had not retroactively become a donation. His response exemplifies the *pleasure* of imposing financial disciplines. This is not masochism, but rather derives both from his reverence for the *risks* of entrepreneurship, however they may fall, and from exercising the white-collar skills which he had developed over his career as a capitalist. Samuel's practices count as a particular version, and vision, of financialization: not the creation of markets for social activities, but the creation of entrepreneurs out of individuals who were previously subjects of need, recipients of handouts. And a similar transformation marked his work with YMN: nonprofit managers no longer rely exclusively on donations, but are made attuned to the affordances of financial intermediation.

4. Conclusion

This article began from the consensus among researchers that social activities – conventionally the domain of governments and NGOs – are undergoing financialization, and becoming terrain for "social impact" investment. One inquiry into this transformation has focused on how social impact gets quantified and

rated, allowing the underlying activities to be capitalized and traded – and, presumably, altered in the process. I have shown how this quantifying approach to appraising social impact is not suited for the domain of startup investing. One reason is pragmatic: startups have not yet produced anything to measure. The other concerns the way these early-stage investors make sense of and narrate their activity. They come to know "impact" through embodied and affective evaluation, by working directly with their investees, and within a community of peer investors. Simultaneously, however, they adhere to conventional investment techniques aimed at the growth of the business and of their own capital. This hybridizing of cultural repertoires, I have shown, interpellates individuals with diverse professional backgrounds *as* impact investors.

The independent investors described in this article deploy relatively small amounts of capital without sophisticated mathematical methods, and so may appear inconsequential in comparison to billion-dollar impact funds. But the financialization of social activities involves not only capture and redirection of monetary resources by large, institutional financial actors. I have argued that it also involves these smaller actors who, by spreading entrepreneurial disciplines, prepare new tracts of human activity for institutional investors further up the chain of intermediation. "Financialization," then, should be understood as a society-wide *process* which encompasses distinct *moments*: both those dominated by the affective modes I have analyzed, as well those based on quantitative and probabilistic techniques native to high finance, foregrounded by other scholarship. Like the history of another financial innovation, insurance, which can be told both as Swiss farmers pledging mutual support in case of loss, and as gamblers near London wharfs betting on ships' returns (Albert 1993, 87) – this article has offered, a supplementary strand in the genealogy of the emerging practice of impact investing.

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