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Constructing the Double Circulation of Capital and "Social Impact." An Ethnographic Study of a French Impact Investment Fund

Théo Bourgeron *

Abstract: *»Die Konstruktion der doppelten Zirkulation von Kapital und ‚sozialem Impact'. Eine ethnographische Studie über einen französischen Impact-Investitionsfond«*. Elaborating on a three-month ethnography of an impact investing fund called Impact Equity, this article aims to understand the mechanisms at work in the emergence of the impact investing sector. After presenting the case of Impact Equity (section 1), the article details the norms and devices through which impact investing is constructed in everyday financial work (sections 2 and 3) and investigates how impact investors mobilise moral beliefs and strategic motivations to navigate competing definitions of "social impact" (section 4). In doing so, this article outlines how the construction of the sector has involved the creation of channels enabling capital and "social impact" to circulate between institutional investors, impact investment funds, and "impactful businesses," and it highlights the historical tensions that this process has involved.

Keywords: Impact investing, ethnography, social impact, social value, social studies of finance, impact equity, France.

1. Introduction

Towards the end of autumn 2015, in a meeting room in a French Cistercian abbey converted into a seminar venue for companies, a "coach" specialising in the "*management libéré*" movement[1] asks Impact Equity members to sum up

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[1] The *management libéré* (liberated management) movement, inspired by French business school scholar Isaac Getz's book (2017) on the *entreprise libérée* (liberated company), promotes allegedly horizontal, non-hierarchised modes of management, which are supposedly more meaningful for employees and profitable for shareholders.

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their "project" for the fund in "striking" sentences, write this on coloured post-its, and "share" with each other. To describe her vision of Impact Equity's future, Emilie, one of the partners of the fund, writes on her post-it: "*activer l'impact*." With this pun (*actif* in French means both active and asset and so *activer l'impact* suggests both activating and assetising impact) she intends to underline two projects in which Impact Equity is involved. First (activation), the activist project of transforming the companies it owns in a social direction in order to generate "social impact." Second (assetisation), the project of establishing a conversion interface between "social impact" and financial capital in order to turn impactful businesses into profitable assets. In doing so, she involuntarily reflects a tension in the sector between alternative visions of "social impact" (a philanthropic one, focused on the generation of social value through activism, and a financial one, drawing an equivalence between impact and financial capital, focusing on the assetisation of impact through market mechanisms). This article highlights how impact investors deal with such competing directions while constructing the circuits of impact and capital in their everyday financial work.

1.1 Studying the Circuits of Capital and "Social Impact"

The impact investing sector emerged in the late 2000s in the US and Europe, aiming to generate "social impact" through financial investments (Oleksiak et al. 2015; Barman 2016). There are various kinds of impact investing practices, from investments in which financial actors try to produce a positive "social impact" while engaging in profitable investments, to practices in which "social value" is defined as a financial asset that investors (for instance, public institutions) should buy in exchange for capital.

The emergence of the sector relied on the construction of new capitalistic circuits at the margins of traditional finance. As in other cases of financialisation, in which new financial circuits are created,[2] this process requires the building of the channels through which capital can circulate between capital holders and economic actors – channels involving flows of financial capital in exchange for the generation of "social impact." Taken together, these channels constitute the emerging circuit of the impact investment sector.

In the case of the impact investing sector, the circulation of financial capital requires the simultaneous circulation of "social impact." When they invest money into "impactful companies," impact investing funds seek to make these companies "generate social impact." Indeed, in order to be entrusted with capital from institutional investors, impact investment funds have to circulate the "social impact" generated by their "impactful businesses" among institutional

[2] See, for instance, Ducastel and Anseeuw (2017) on agro-financial circuits and Benquet and Bourgeron (forthcoming) on the circuits of private equity finance.

investors. This circulation is different from the circulation of cash flows: "social impact" is not an appropriable asset that can be transferred between two financial actors. Rather, it relies on accounting devices aiming to materialise social impact in such a way that each flow of capital (and each investment by an institutional investor) can be associated with the generation of a form of social impact.

The channels of the double circulation of capital and impact are constituted by a heterogeneous set of socio-technical devices – including public regulations, metrological instruments, management devices, and moral norms. Building on the influence of science and techniques studies (STS), recent works have shown how the construction of financial markets relies not only on political orientation, but also on socio-technical norms and devices (Beunza and Stark 2004; MacKenzie and Hardie 2007; MacKenzie 2008). This approach has redefined capitalist institutions by turning them into a broader "institutional assemblage" or "arrangement" that includes not only legal regulations, but also social norms and technical devices (Callon 1998; Callon and Muniesa 2005). It has also been used to understand new forms of social finance through the study of financial and management devices (Chiapello and Godefroy 2017; Barman 2020, this special issue). Impact investors are engaged in the construction of the impact investing sector as they build the norms and devices that constitute its financial channels.

Despite focusing on impact investors, this article does not ignore the institutional dimension of this process. The role of the state is particularly marked in the context of my ethnographic observation, as public authorities became heavily involved in the structuring of the sector through regulations,[3] reports,[4] and direct action.[5] However, impact investors themselves take part in this institutional construction by actively engaging in lobbying and coproducing the regulations of the sector with ministries and public agencies. They also constantly interact with public financial institutions that provide them with capital and negotiate the way capital should be distributed and social impact accounted for.

Recent literature has focused on the role of the state in the building of the sector (Wiggan 2018; Williams 2018; Golka 2019), but few works have explored the role of financiers themselves (Chiapello and Godefroy 2017; Hellman 2020, this special issue). This article therefore complements the existing literature by providing the reader with an account of how impact investors

3 Such as the European Social Entrepreneurship Fund status (EU regulations 345-2013 and 346-2013), which gives a legal framework to impact investing funds in the EU.

4 Such as the French Comité Français (2014) and the European Commission (2018) reports.

5 Through public financial institutions that heavily fund the sector, such as the French Banque Publique d'Investissement, the European Investment Fund, and the British Big Society Capital funds.

become involved in the production of the socio-technical circuits that are key to the emergence of impact investing.

1.2 Competing Definitions of "Social Impact"

The emergence of the impact investing sector has engaged with a number of historical and political tensions. The construction of these circuits of capital is both a moral and a political activity (Ortiz 2013; Arjaliès et al. 2017). Indeed, in the same way that money is earmarked and framed by social meanings and norms (Zelizer 1994; Dodd 2014), these channels are embedded into social norms. The impact investing sector has relied on competing definitions of "social impact." Previous works have already noted the fragmented dimension of the impact investing field in relation to different definitions of impact and the attempts to unify these (Chiapello and Godefroy 2017). This fragmentation is organised around two main oppositions: on the one hand, an opposition between "quantitative" and "qualitative" ways of measuring impact and, on the other, opposition on the commensurability of social impact and financial return between "commensurable" and "non-commensurable" forms of impact (Barman 2016; Chiapello and Godefroy 2017). Reports on the emergence of the sector by the Rockefeller Foundation and JP Morgan (JP Morgan 2010) have included both qualitative (through the use of labels to define impact, such as Responsible Investment [RI] and Environment, Social, Governance [ESG], as shown by Barman 2016) and quantitative (through performance indicators) methods of impact evaluation, although impact was remaining incommensurable to financial return (it was not considered to be exchangeable at a determined rate against financial capital). More recently, actors such as the European Investment Fund (EIF) have promoted a definition of impact based on both quantitative evaluation and commensurability, aiming to "price social value" (Grabenwarter 2012) in order to know the financial price of a given quantity of "social impact."

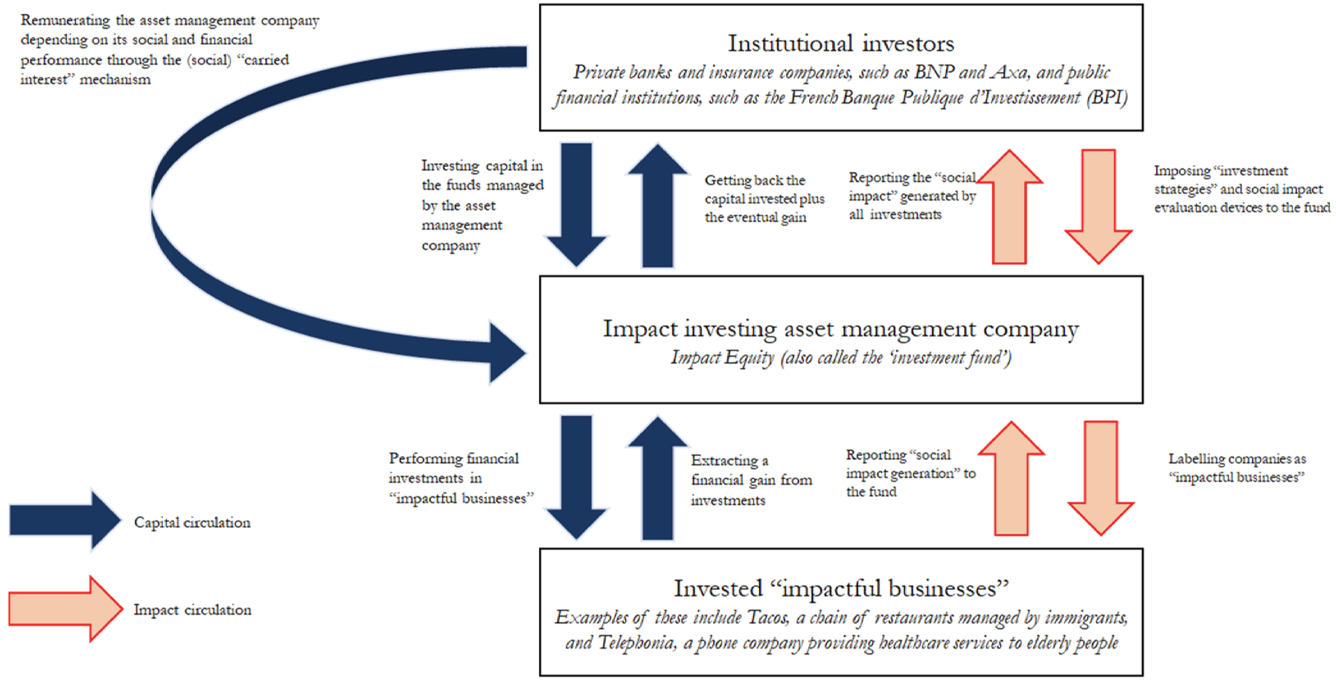
The definition of social impact interacts with the strategic and moral universe of impact investors. As they engage in the building of channels of capital and impact through the use of specific socio-technical devices, they position themselves with respect to the two broad oppositions at work in this definition. This article highlights how impact investors' moral and strategic motivations affect the way they interpret these alternative definitions of social impact and support some of them.

1.3 Argument of the Article

This article details the construction of the double circulation of capital and "social impact" in the impact investing sector. An overview of this is presented in Graph 1. The graph represents the channels through which capital is accumulated from institutional investors to investment funds, and from investment funds to “impactful businesses,” before being channelled back to institutional investors. It also outlines how at each of these steps, “social impact” is circulated by each of these actors through accounting and reporting practices. Each of the arrows on the graph represents socio-technical devices that enable the distribution of cash flows and the accounting of “social impact” in the real world.

This article makes two main contributions. Firstly, after providing the reader with a quick overview of Impact Equity’s case (section 2), it carefully follows the circuits of capital and social impact from the bottom to the top of Graph 1 and describes the building of channels that enable capital to circulate between, on the one hand, funds and “impactful businesses” (section 3), and, on the other hand, funds and capital holders (section 4). Secondly, it highlights the historical tensions over the definition of “social impact” that come into play in this process, as Impact Equity was pushed from its initial definition of impact (in which it was qualitative and incommensurable) to more recent definitions of impact promoted by institutional investors (who ask it to measure impact quantitatively and to make it commensurable to financial return). It emphasises how the devices that constitute the circuits of impact investing result from the heterogeneous set of moral beliefs and strategic motivations mobilised by impact investors in their exchanges with “impactful businesses” and institutional investors (section 5).

Graph 1: The Double Circulation of Capital and Impact in the Impact Investing



2. Presentation of the Empirical Material

2.1 Methodology and Data

This article is based on participant observation of a French asset management company specialising in impact investing (which I call Impact Equity – the name of the company and asset managers I observed have been changed, along with non-substantial details, to ensure anonymity). This participant observation took place during a three-month internship in the Impact Equity offices, during which time I was required to help the company in the ongoing reform of its "investment strategy" (i.e., the social and financial criteria that determine the capacity of the fund to invest in a company).

During this internship, I was able to record seven formal interviews with members of the fund,[6] discussing their previous careers, their personal understanding of their activities, and their past operations. I also attended numerous informal discussions between fund members, and between fund members and external actors, and I was able to attend several meetings with entrepreneurs, (future) competitors, and financial investors. I further participated in a two-day corporate seminar that set the new "investment strategy" of the asset management company. Finally, I was able to access most of the fund's internal documents, including the contract binding the asset management company to its financial investors and details of negotiations with investors and entrepreneurs.

2.2 The Case of Impact Equity

Impact Equity belongs to the broader "private equity" financial industry (and more specifically its "venture capital" subset, as it invests in small companies).[7] The asset management company raises money from institutional investors (such as banks, insurance companies, funds of funds, public financial institutions, pension funds, and family offices) and then invests this in private, non-listed companies that generate a financial profit and what the impact investors consider to be "social impact." It invests based on a set of financial and social criteria that are defined in the fund's "investment strategy" and translated into specific indicators during the investment process. After approximately five years, the company liquidates its investment and distributes the money from the

[6] I undertook interviews with each of the six fund members except Alice, the intern (who had started her job too recently). I interviewed Partner 1 (Emilie) and Partner 2 (Jean) twice each.

[7] In her thesis, Château-Terrisse (2013) also observed similar venture capital funds, focusing on the role of management devices.

sale back to the institutional investors, generally with a financial gain. Over the course of the entire investment period, the fund also reports to investors on the social impact that its “impactful businesses” have generated.

Impact Equity was managing approximately 100 million euros at the time of my observation, with a team of six[8] (see Table 1 below for a description of their social characteristics). Impact Equity was created in 2007 by the president of the fund, Henri, and Partner 1, Emilie, as an experimental asset management company. It raised its first two funds in the late 2000s and early 2010s (Impact Equity I and Impact Equity II, which amount to a combined €50m) from a set of private (mostly cooperative banks and insurance companies) and public (the French *Banque Publique d’Investissement*, BPI) investors. With these first two funds, Impact Equity was considered a small standard private equity fund with innovative social positioning. At the time of my observation, the company was raising its third fund (Impact Equity III, which amounted to €50m). As part of this, Impact Equity was hoping to get most of its capital from the large institutional investors specialising in impact investing that were emerging in the mid-2010s. It targeted the “impact” funds of funds recently set up by large banks, insurance companies, and public institutions (such as Axa’s Impact Fund or the European Investment Fund’s [EIF] Social Impact Accelerator).

Despite its seemingly modest size, Impact Equity was one of the first and largest French impact investing funds in its category. In 2018, the French private equity impact investing sector included 26 asset management companies (with around 700 companies), managing €1.6bn collectively (France Invest 2019). Among these, Impact Equity had achieved the most prestigious labels in the French impact investing sector. It was a leading member of France Invest’s “impact investing” working group[9] and it counted the two most prestigious public financial institutions for French impact investing funds among its institutional investors: the EIF and the BPI (receiving investments from the BPI is a sign of prestige in the sector of French investment funds; Bourgeron 2019).

To locate Impact Equity in the broader impact investing environment, the fund should be distinguished from other types of actors. Within the chain of impact investment capital, Impact Equity is located below institutional investors specialising in impact, such as impact investment funds of funds (e.g., the EIF Social Impact Accelerator, Axa Impact Fund, Big Society Capital, Rockefeller Foundation) that collect money directly from savers or governments through impactful or responsible investment schemes. As seen in Graph 1, Impact Equity receives its capital from these institutional investors. It is located

[8] These are referred to as “fund managers” or “fund members” in the article. Although the companies that Impact Equity has in its portfolio do have their own employees, Impact Equity relies exclusively on its six fund members.

[9] France Invest is a powerful lobby for French private equity funds, studied in Benquet and Bourgeron (forthcoming).

above impactful businesses (Impact Equity invests in these businesses) and other social impact intermediaries, such as social impact auditors (e.g., KPMG's specialised branch), to which Impact Equity sometimes orders impact reports. Finally, it is distinct from impact investors focused on other kinds of assets, such as those specialising in funding listed companies, bonds, or crowdfunding opportunities (e.g., social impact exchange traded funds [ETF], social impact bonds [SIB] and crowdfunding websites).

According to its "investment strategy," defined by the mandate it signed with its institutional investors, Impact Equity invests in companies based on financial and social criteria:

1) financial criteria: it invests in "small profitable companies," i.e., companies with annual sales lower than €30m and a positive or negative but growing profit;
2) social criteria: it invests in companies that match at least one of the following three criteria:
   - "impact through activity" for companies that engage in a social activity (this includes companies providing services to poor neighbourhoods or elderly people);
   - "impact through management" for companies that are managed based on social principles (this includes companies redistributing a portion of their profits to employees or hiring people who have been unemployed long-term);
   - the "impact through exemplarity" criterion for companies whose CEO is iconic (this includes companies managed by inspirational leaders, such as people from ethnic minorities, with a disability or with an impressive personal trajectory).

The "impact through exemplarity" criterion was considered by Impact Equity's members to be the most distinctive social criterion for the fund – as it was characteristic of the fund's "brand" for institutional investors. As an example of these investments, Impact Equity has invested in a small chain of Mexican restaurants managed by two self-made businessmen who are immigrants from North Africa, and a phone company that provides elderly people with connected healthcare services.

Table 1: Biographical Details of Impact Equity Members[10]

Rank	Education	Professional trajectory	Most prestigious profession of the parents	Activist and religious activities
President (Henri)	Trained in finance	Worked in the standard private equity industry for 10 years	Company-owner	Describes himself as centre-left, with no religious background
Partner 1 (Jean)	Trained in sociology	Worked in public administration, including in the cabinet of a French ministry	High civil servant	Comes from a Catholic background; has published a political essay promoting positive action
Partner 2 (Emilie)	Trained in finance	Worked in the standard private equity industry for more than 15 years	Medical doctor, immigrated to France from a Southern European country	Has a strong Catholic engagement; has been heavily involved in the caritative sector in the past
Investment Director (Antoine)	Trained in engineering and finance	Worked in the banking industry for 2 years	Unknown, immigrated to France from Africa	Unknown religious engagement; has under-taken significant caritative activities
Associate (Francis)	Trained in finance	Worked for 1 year in a merger and acquisition (M&A) bank	Unknown, immigrated to France from Africa	Unknown; has engaged in some caritative activities in the past
Intern (Alice)	Trained in social innovation	-	Local civil servant	Describes herself as passionate about NGOs and caritative action; no religious background

[10] The six fund members of Impact Equity are organised based on their seniority. Most senior members generally specialise in interpersonal relationships (meeting entrepreneurs and finding potential targets), while junior members specialise in developing spreadsheets and indicators about targeted companies, as shown in Bourgeron (2019).

3. Investing in "Impactful" Businesses, Constructing Financialised Social Entrepreneurship

Social activities are not spontaneously "investable" activities; impact investors are involved in their transformation into financialisable companies. Focusing on the bottom part of Graph 1, this section illustrates how impact investors struggle to invest their capital in "impactful businesses" by showing how they search for investable companies and label them "impactful."

3.1 Categorising and Identifying "Impactful" Targets

Impact investors are involved in the building of the "social impact" category itself. They build the criteria defining "impactful businesses" and apply them to economic activities, framing the targeted companies in a set of judgement devices (Karpik 2010) related to impact.

When a company is labelled as an "impactful business," this refers back to criteria defined in Impact Equity's "investment strategy." This is performed through a series of procedures, which begin with the reception of "investment opportunities." Companies seeking funding (or their merger and acquisition [M&A] advisors) constantly send "opportunities" to the fund (constituting what Impact Equity members call the "deal flow") in the form of PDF documents of around ten pages that outline the main characteristics of the company and its funding needs. When the documents are received in the fund's mailbox, Alice (the intern at Impact Equity) registers the "opportunity" in an internal database, filling in numerous boxes related to it: the name and a description of the company as well as boxes called "financial criteria" and "non-financial criteria" (meaning the "impact" criteria), and then her "opinion" after this initial selection phase. Alice therefore delineates companies that will not be investigated further by Impact Equity members and companies that will be considered potentially viable "impactful businesses" (investible for an impact investing fund). With regard to the "non-financial" box, Alice can categorise each company into one of a number of groups: "none" when she finds no impact at all (she then recommends not examining the investment case); "potential impact" when she is unsure about either the categorisation of the company; and the corresponding impact criterion when an impact criterion is clearly visible (for instance, "impact through exemplarity" when she thinks the company meets the corresponding criterion of the fund defined in its "investment strategy").

In this process, the categorising of companies into two groups (investable "impactful businesses" and other companies) is grounded on the criteria of Impact Equity's "investment strategy." For instance, Alice considered that the Tacos company (a chain of Mexican restaurants that Impact Equity has invested in) matched the financial criteria of the fund (as it was a small profitable company) and two of its three social criteria: "impact through management" (as it was recruiting its employees from disadvantaged neighbourhoods) and "impact through exemplarity" (as its two co-CEOs were self-made businessmen from ethnic minorities). Later, Alice's first judgement is discussed in the "deal flow meeting," an important weekly meeting with all the members of the fund during which time decisions are taken regarding these investment opportunities – they engage in the negotiation and investment process as they consider whether a company matches their investment strategy.

Therefore, the labelling of a company as an investable "impactful business" depends on these criteria that mix together heterogeneous categories, metrologies, and projects for impact investing (a "bazar of rationalities": Godechot 2000), through a bureaucratic labelling process.

3.2 Constructing and Structuring the Market of "Impactful Businesses"

To find such investable "impactful businesses," impact investors organise the market for "impactful businesses" based on their financial needs. The impact investing sector depends on the existence of such businesses, their openness to financial investment, and their contact with impact investing funds (for instance, through the emergence of intermediaries; Bessy and Chauvin 2013). The creation and shaping of the "impactful business" product is performed to a large extent by impact investors themselves.[11]

In the course of my observation, members of Impact Equity were worrying about what they tended to consider their main problem: the lack of available "investment opportunities," i.e., investable "impactful businesses." To prepare for the discussions in the Impact Equity company seminar, I was allocated (along with a partner, an associate, and another intern) to an internal workshop entitled "Amplifying the Qualified Deal Flow." Following the recommendations of this workshop, the fund developed an activist strategy focusing on corporate managers, described by Henri, the president, as the "roaming the backcountry" strategy. Applying his method, after contacting corporate managers through LinkedIn or contacts, Henri would often go to relatively remote places in the countryside to meet small-scale entrepreneurs that he had identified as interesting. These meetings were not designed to create an immediate investment opportunity, but it was hoped that "the day the manager thinks that he needs money to invest," they would eventually get back in touch with Henri. Therefore, the asset management company disseminates its own trademark as

[11] See Cochoy and Vabre (2007) for a similar process in the corporate social responsibility market.

well as the logic of financial investment in places where it has not previously existed.

Impact investors also structure the market for "impactful businesses" by setting up networks of intermediaries. Impact Equity members decided to actively involve themselves in supporting and meeting transaction intermediaries. In particular, they got in touch with merger and acquisitions (M&A) advisors (in the case of Impact Equity, small "boutiques" or even individuals), some of whom specialised in small or "impactful" companies. They attempted to identify all the intermediaries who were active in their market by looking at those that intermediated in the transactions of their competitors and getting in touch with them. They also developed a protocol of "courtoisie" meetings with entrepreneurs: when an entrepreneur was introduced to them by an intermediary they had identified as relevant (establishing an implicit hierarchy of intermediaries), they would meet the entrepreneur, even when their corporate project did not match the fund's criteria, in the hope that the M&A advisor would send them additional relevant investment opportunities later on. Impact Equity managers also got involved in networks of entrepreneurs as active participants and funders. For instance, Impact Equity's president became involved in the *Vive l'entreprise!* network, which was dedicated to companies involved in the "management of liberation" movement,[12] by giving a talk at the network's annual meeting. This involvement was understood as a way to meet the managers of companies that could potentially match the "social impact" criteria of the fund.

Finally, the construction and structuring of the "impactful business" market is also the product of an institutional arrangement. Public actors and legal norms are involved in the building of impact investing, as shown in the literature (Wiggan 2018; Golka 2019). Impact investors take an active role in the construction of these institutions. Impact Equity participated in several working groups organised by French ministries and the European Commission, aiming to define and legally frame impact investing and impactful businesses.[13] For instance, I saw Impact Equity partners attending a meeting in the office of the French *Agence Pour la Création d'Entreprise* (APCE), which was aiming to support small-scale entrepreneurs, and attending a working group at the ministry of Social Economy and Consumption. In these places, Impact Equity promoted a social entrepreneurship that was open to capital investments and external investors – in which impact investing funds played a central role.

[12] See footnote 1.

[13] For instance, it participated in developing the reports of Comité Français (2014) and the European Commission (2018) on impact investing.

3.3 Formatting Companies to "Generate Social Return"

Impact investors are further involved in making their portfolio of impactful businesses "generate social impact." The generation of impact is not limited to defining and applying "impact" categories to businesses; once a company has been categorised as "impactful," its "social impact" still needs to be objectified, materialised, extracted, and eventually made transmittable to actors external to the impactful business that "produces" it.

The generation of accountable "social impact" requires the transformation of the invested companies. This can be exemplified by the (failed) investment process of Business Academy, a company proposing to prepare undergraduate students for business schools' competitive examinations.[14] In the investment negotiation with Impact Equity, the company had no clearly defined "social impact." As a consequence, the fund members sought to create this impact by putting the company's future CEO in touch with a charity specialising in academic support, which they knew through personal networks. They thereby attempted to generate immediate "social impact" by hybridising the economic activity they wanted to buy with a charity. Similarly, Impact Equity worked with a consultant specialising in the "*management libéré*" movement. Impact Equity managers intended to turn Telephonia (a company they owned that specialised in producing phones for elderly people) into a "liberated company." This "liberation" operated both as a reality (the consultant engaged in managerial practices within Telephonia: he encouraged its CEO to create decision committees in which employees could discuss Telephonia's production processes in a non-hierarchical way[15]) and as a social impact label (considering Telephonia as a "liberated company," fund managers could apply the "impact through management" criterion of Impact Equity's "investment strategy" to the company).

Finally, the generation of accountable "social impact" requires the formatting of impactful activities through indicators. Fund managers seek to "materialise" the latent social impact of the companies in which they invest. In the case of Business Academy, this required the identification of indicators related to the social origins of the students. Francis, the associate of the fund, elaborated statistics about the number of students receiving grants (in France, grants are generally provided on social grounds, e.g., because of low parental income) within business schools and within the pool of students attempting to access

[14] The investment process finally failed, as the CEO that was expected to buyout Business Academy with the support of Impact Equity was put off by the consideration that framing Business Academy as an "impactful" company would be unappealing to students and thus negatively affect the activity of the firm.

[15] However, this committee had limited power in the case of Telephonia, as employees could not challenge the main financial decisions that had been negotiated between Impact Equity and Telephonia's CEO.

business schools. Then, Francis outlined a target (expressed as a percentage) number of such students to have access to Business Academy – either through changing the recruitment process or enabling Business Academy to provide grants (by waiving the tuition fees) to some of its students. The achievement of this target number of students receiving grants would then become a "social impact indicator," which would in turn determine the "impact" of the investment.

4. Attracting Capital from Institutional Investors, Constructing "Social Impact" and Money Circulation Devices

The emergence of impact investing requires new circuits enabling institutional investors (that collect savings and government money) to allocate it to the sector. Focusing on the top part of Graph 1, this section highlights how impact investors construct the circuits through which capital and social impact circulate between themselves and institutional investors, requiring legitimation practices and the elaboration of technical devices.

4.1 "Evangelising" Institutional Investors to Raise Capital

As Impact Equity members themselves acknowledged, impact investors are engaged in the financialisation process: as Jean told me, when setting up a new impact asset management company, they participate in "creating a new asset class." To create their own "asset class," impact investors have to develop their legitimacy to manage capital, both by recycling their legitimacy as traditional asset managers and by creating new needs for capital holders.

Impact investment fund managers accumulate legitimacy by displaying prestigious investment "track-records" (an inventory of their past operations and performances). In the context of Impact Equity, the attention given to past performance is evoked by the meeting between, on the one side, Henri (president of Impact Equity) and Emilie (partner at Impact Equity), and on the other, two women planning to launch a new impact investing fund and looking for advice. Henri and Emilie outlined how difficult it is to raise a fund for the first time: they explained that important public investors (such as the European Investment Fund) systematically refuse to participate in fundraising sessions for "asset management firms with no track-record." In a similar way, the first fund managed by Impact Equity was about to close (to be redistributed to its investors) at approximately the same time that they were trying to raise their third fund (Impact Equity III). When talking about this with an investor in the first fund, the investor explained that their ability to raise the third fund would above all be determined by the financial performance of their first: "if the IRR [internal rate of return, an indicator of financial performance] of [the first fund] is good, everything will be fine," he told them.

The construction of the impact investing sector also requires institutional investors to be morally converted to holding "social" assets. During their corporate seminar, Impact Equity managers explicitly referred to this conversion process and the way to foster it. Talking about the communication policy of Impact Equity, they agreed on the fact that, as a matter of principle, a standard investment fund should adopt the most minimalist communication policy possible. However, in the case of Impact Equity, they decided to deviate from that norm and adopt an active communication policy because "[they] still have to evangelise the market." This "evangelisation" process entails socialising with investors and trying to convince them through personal interactions: Impact Equity members aimed to attract institutional investors by frequently meeting them and organising annual meetings (the annual "investors' cocktail") with them. Impact Equity also experimented with new and popular financial devices. Evoking the project of launching a social impact bond (SIB),[16] in which the fund would participate either as a funder or as an intermediary, the members of Impact Equity remained sceptical about the financial return of such an operation. However, Emilie, a partner, asserted in a discussion that even if the SIB had a low chance of being financially profitable, they should envision it as "a kind of research and development expense." Henri, the president of the fund, added: "or even as communication expenses." Therefore, the activities of Impact Equity were designed to popularise impact investment among institutional investors.

4.2 Elaborating the Impact Fundraising "Business Model"

Impact investing actors also elaborate the formal structures that are in charge of managing capital and making it circulate. Building on the traditional formal structures of private equity funds, Impact Equity's managers tended to experiment with the form of asset management companies that allow capital to circulate, while at the same time conditioning this circulation to the generation of "social impact."

Reflecting on themselves in terms of the "business model," they attempted to find what they consider to be the optimal formal structure for operating impact investment transactions. During my observation, Impact Equity's managers studied a hypothetical alliance with a company called Philanthropia, which specialised in fundraising for charities. They studied the hypothesis of

[16] The SIB is a recent financial innovation, elaborated in the US and the UK, in which public authorities pay private funders a variable amount of money, depending on the achievement of pre-established social targets, enabling the private funder to make a profit if it successfully achieves these targets. Recent SIBs are detailed by Neyland (2017) and Tse and Warner (2018).

entering into a partnership with it in order to make their own fundraising activities easier (by attracting more philanthropic investors), thus envisioning a heterodox model compared to traditional asset management companies. Impact Equity members also planned to establish a partnership with other asset management companies that were similar to them (for instance, an investment fund specialising in education companies), in order to find "synergies" to mutualise a part of their costs (such as the rent for the office, administrative staff, accounting costs, etc.) and find co-investment opportunities on some deals (which generally require less time and involvement from both investors).

4.3 Negotiating the Legal and Metrological Mechanisms of "Social Impact"

Finally, the circulation of capital within impact investing requires the construction of legal, metrological and financial devices through which financial capital can circulate simultaneously with "social impact." In this respect, Impact Equity members are involved in negotiating the "carried-interest" device, which regulates the variable remuneration of Impact Equity's partners by institutional investors. Historically, impact investing funds such as Impact Equity are remunerated based on the "carried-interest" device used in standard private equity funds, the "2/8/20" carried-interest mechanism (Appelbaum and Batt 2014) through which the asset management company receives 2% of the overall amount of the fund (with some refinements) each year over the course of 10 years, plus 20% of the gain at the end of the period if the overall IRR of the fund is higher than 8%.

However, Impact Equity managers negotiated a new contractual device with the investors in the third fund, which formalised "impact" as commensurable to financial capital: "social carried-interest." Indeed, a new investor in the third fund (the EIF) required the implementation of a conditionality clause in the "carried-interest" device, in which the payment of the 20% performance bonus depended on the achievement of the social targets of the fund. This new device was contested by Impact Equity members, who feared that the new condition would mean they lost their personal (financial) interest in the success of the companies the fund owned. Indeed, if the social targets of the fund were not achieved, they would be no more incentivised to care about the financial performance of their invested companies, whilst the maximum amount of money they would receive if they achieved their social targets was not increased, resulting in their hostility to this new mechanism.

Through their "fundraising advisor" (a consultancy firm specialising in fundraising for asset management companies), Impact Equity's managers negotiated this "social carried-interest" device. In exchange for this new clause, they asked for a change in the numbers of the classical "2/8/20" carried-interest formula, which would take into account the particularly low financial profitability of impact investing (the formula would have become 2/6/20). They did not succeed in this request, but did gain agreement that the social condition would affect only half of the carried interest (the other half being independent from social targets).

The new contract binding Impact Equity to investors also noted the existence of a new metrological structure (the "impact committee") aiming to establish impact targets and calculate the "real" generated impact. This committee was designed as an independent third party (e.g., headed by an audit firm, although these details were not known at the time of observation) that calculated the achievement of the social objectives that condition the "social carried interest" payment. Therefore, this new device affected all aspects of Impact Equity's potential life after its third fundraising session: the fund planned to hire external consultants who would operate this committee as an "independent third party" and calculate the "social impact" generated by each company based on the standards of the emerging impact investing market.

5. Tension between Alternative Definitions of Social Impact and Devices for the Impact Investing Sector

Having shown how impact investors construct the circuits of social finance, establishing ties between their asset management companies, "impactful businesses" (section 3), and capital holders (section 4), section 5 emphasises the historical conflicts involved in this construction. Highlighting the role of impact investors' moral beliefs and strategic motivations, this section describes how Impact Equity was led to replace its originally qualitative definition of impact, considered as non-commensurable to financial return, with a definition of social impact as both quantitative and commensurable.

5.1 Contested Definitions of "Social Impact"

The evolution of impact investing in the 2010s illustrates tensions between alternative definitions of "social impact" on the two main dimensions previously discussed: impact as a non-commensurable quality of impactful businesses, and impact as a quantitative, financially commensurable asset. The opposition between these definitions is inscribed in the history of Impact Equity.

From its inception (in the late 2000s), Impact Equity marketed itself as an experimental private equity fund, aiming to achieve social return in addition to a standard financial return – clearly abiding by a qualitative, non-commensurable definition of impact. This strategy was linked to the context of the asset management company's first fundraising. At that time, most of Impact Equity's funders were private organisations (mostly banks and insurance companies) that considered their investment in Impact Equity as a relatively standard private equity investment. Impact was then considered a communication feature of funds in their relationship with institutional investors. For instance, at the beginning of the period, Impact Equity "materialised" impact through mostly qualitative criteria: it embodied "social impact" in rhetorical devices, seeking social labels, vaunting the "inspirational" aspect of portfolio companies and the "emblematic" personal trajectories of the CEOs of its invested companies, displaying pictures of them and their staff in their office and in newspapers.

However, reflecting a broader movement in the field, the composition of Impact Equity's investors changed in its third fund (mid-2010s). The company gathered funding from investors specialising in impact investing, but who considered social impact as something that should be accounted for quantitatively (reflecting a broader trend in the sector, as highlighted by Chiapello and Godefroy 2017), maximised, and increasingly made commensurable to the initial financial investment. One of these financial institutions, the EIF, funded Impact Equity as part of a broader project aiming to "structure" the impact investing sector in Europe by promoting impact envisioned as an asset. Impact was thus being seen as both quantitative and commensurable to financial return (the EIF's head of strategic development advocated the "pricing [of] social value" in a 2012 paper; Grabenwarter 2012). Consequently, the devices used to materialise "social impact" changed. New institutional investors such as the EIF asked Impact Equity to increasingly quantify its impact in order to be able to quantify the overall impact of the funds they invested in and to compare them with each other. In this approach, each new operation had to be followed by Francis, the associate of the fund, elaborating a set of *ad hoc* indicators (such as the proportion of grants provided to Business Academy students, as discussed in section 2) calculated before the buyout and updated each year during the operation.

This redefinition of social impact affected the hierarchies between impact investors as it enabled the elaboration of new benchmarking devices. Initially, Impact Equity was not evaluated by considering numbers based on its social performance – its performance was purely evaluated through the IRR financial indicator and its impact generation was considered a distinguishing "brand" for the fund. The new measurement devices, however, aimed to make impact investing asset management companies comparable in terms of social impact generation. For instance, as it required the social performance of the funds it invested in to be evaluated by an independent "impact committee" (as part of the "social carried-interest" calculation), the EIF was arguably able to calculate and compare the percentage of achievement of social targets by each of the funds it invested in.

5.2 Navigating Alternative "Social Impact" Definitions, between Moral Beliefs and Strategic Motivations

Impact Equity members navigated these conflicting definitions of "social impact." In 2015, Impact Equity attempted to reform its "investment strategy" to adapt it to the new definitions of impact that were promoted by the EIF and other specialised institutional investors in the mid-2010s. This reform took place during the corporate seminar I attended. Impact Equity's members asked themselves how they could transform their investment criteria and whether they could maintain or remove the criterion of "impact through exemplarity" that was increasingly considered too qualitative for investors.

In order to navigate these changes, Impact Equity's members mobilised both moral beliefs and strategic reasoning. During Impact Equity's corporate seminar, Henri and Emilie, the president and a partner of Impact Equity, were initially in favour of trying to conserve the qualitative criteria (in particular "impact through exemplarity") in the "investment strategy" of the fund, despite the new requirements of their investors. For seemingly moral reasons, they were reluctant to adapt their investment practice to the increasingly financially commensurable definitions of "social impact" that were promoted by the funders. Indeed, most of them saw their engagement in Impact Equity as a rupture with their previous trajectory in the financial world (see Table 1) and a way of exercising their skills "differently" in a "more meaningful" way. Working at Impact Equity was perceived as part of a broader caritative engagement for its members. In an interview, Partner 2 explained to me that he decided to join Impact Equity to "do what he does best [investing…] with a caritative scope." Emilie, a partner, expressed this more explicitly, explaining that for her working at Impact Equity was like "volunteering." The shift from the qualitative, non-financially commensurable definition of impact, to the quantitative, assetised one, provoked debates within the fund as this shift was initially felt to be opposed to the search for a more "meaningful" activity. In an interview, noting his opposition to the quantitative and commensurable definitions of impact, Partner 2 complained that "[he] has been fed [quantitative] models for 20 years," and he asserted that he did not leave the financial industry to participate in the quantitative assetisation of society in his new life at Impact Equity.

At the same time, Impact Equity managers were developing a strategic interpretation of how the new definition of impact could affect their position in the impact investing market. As social impact was redefined, Impact Equity members felt that the "brand" they had constructed through their previous strategy (largely based on the "impact through exemplarity" investment criterion) risked being devalued, resulting in the need to adopt new devices of "social impact" that were not "part of [their] DNA," such as quantitative impact measurement devices. In the discussions about whether to abandon the "impact through exemplarity" investment criterion, they were split into two main groups: those opposed to (the president of Impact Equity and Alice, the intern) and those in favour of (Partners 1 and 2) the removal of the qualitative “impact through exemplarity” investment criterion. The members of the latter group asserted that they no longer saw the point of their historical “impact through exemplarity” criterion, in particular because of the emergence of new investors; as investors require a quantitative “materialisation” of impact, the criterion seemed outdated to them. However, the president of Impact Equity considered it necessary to think about the “image” of Impact Equity for investors and the public. “We have to remember that the ‘impact through the exemplarity [of the CEO]’ criterion is our trademark,” he asserted. According to him, if the fund removed this qualitative criterion from its impact strategy, it would lose its identity for investors and, as a consequence, a portion of its historical legitimacy as an impact investor. More strikingly, the removal of this criterion was also described by all Impact Equity members as a threat to their ability to find sufficient “qualified deal flow” – as the criterion was quite broad and enabled them to label numerous companies “impactful.” Despite bringing them new investors, such as the EIF (a prestigious investor, which is why they finally decided to sacrifice the “impact through exemplarity” criterion), abiding by the new and more restrictive quantitative impact criteria would deprive them of many financially interesting investment opportunities.

Therefore, fund managers interpret the new definitions of social impact as both moral and opportunistic actors, evaluating how they can benefit from this or, on the other hand, how it could devaluate their position in the sector.

6. Conclusion

Impact investing has developed in the context of the financialisation of social policies (Dowling and Harvie 2014; Dowling 2016; Wiggan 2018; Golka 2019). This movement not only requires the creation of a favourable institutional arrangement and the supply of capital to the sector by public institutions, in which impact investors themselves actively participate. It also requires the reconfiguration of large parts of the social economy sector, on the one hand, and of the institutional investment sector, on the other, in order to make their actors adapt to impact investment.

The nature of financialised social policies thus depends on how this double circulation is constructed. It depends on the tensions between actors with regard to the definition of “social impact” (with two oppositions between quantitative/qualitative and commensurable/non-commensurable definitions) and the devices that constitute its channels. By showing the role of moral beliefs and strategic motivations (the quantitative turn being, for instance, curbed by impact investors’ fears of not finding enough corresponding investable “impactful businesses”) in this construction, this article outlines the social processes at work in shaping the channels through which capital and "social impact" are conveyed.

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