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ORIGINAL PAPER

Blended Social Impact Investment Transactions: Why Are They So Complex?

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Abstract
Blended social impact investment (SII) transactions, in which multiple types of capital are combined to support attainment of social impact, are a pervasive, yet not closely examined, feature of the SII market. This paper seeks to describe and understand blended SII transactions through the lens of institutional theory. Specifically, we use the institutional logics theoretical frame to shed light on the implications of combining several institutional logics in SII transactions. Consistent with other SII research, we find that parties to blended SII transactions combine financial/commercial and social welfare logics. However, in blended SII transactions, different combinations of these logics are enacted by different stakeholders in a multi-hybrid-logic structure. As such, we propose that blended SII transactions are *hybrids-of-hybrids*. We argue that it is this *hybrids-of-hybrid* characteristic that differentiates blended SII transactions from other forms of SII and increases the potential for significant logical misalignment and resultant conflict and contestation. From a business ethics perspective, blended SII transactions cast light on the critical and often unrecognized role that grants and concessionary capital frequently play in enabling SII in not-for-profit, charitable ventures. We speculate that this can distort understanding of SII with adverse implications at the transaction and field levels.

Keywords Impact investment · Institutional theory · Institutional logics

Introduction

Social impact investment (SII) in which investors intentionally seek to generate social and financial returns and measure the achievement of both (Freireich & Fulton, 2009) has emerged as a key investment theme in capital markets. Worldwide, there is an estimated USD 502 billion in SII assets under management (Mudaliar & Dithrich, 2019, p. 3).

However, underlying SII market growth, is complexity. Previous authors have identified that SII tends to take one of two forms: 'finance-first', in which investors seek to generate social impact and market-related financial returns; and 'impact-led', in which investors concede financial returns to enable generation of deeper impact (Freireich & Fulton, 2009). It is this finance-first SII segment that has driven the growth of the SII market, with products like green bonds, SII mutual funds and other indirect and pooled structures (Michaux et al., 2020). Conversely, at the 'impact-led' end of the SII spectrum, market activity has stagnated (Castellas & Findlay, 2018).

While this bifurcation in the SII market is increasingly recognized as a problem by practitioners—with increased calls for impact-led capital (Leijonhufvud et al., 2019; Mudaliar et al., 2018)—it highlights an enduring omission in scholarly research on SII: a dearth of analysis on how bifurcation of the SII market plays out at the transaction level.

We observe that in practice the bifurcation of the SII market and the consequent paucity of impact-led capital results in the development of blended SII transaction structures designed to enable SII to flow to social ventures otherwise unable to afford finance-first SII capital. Blended SII transactions blend the available finance-first capital with more concessionary forms, particularly grants, to accommodate the delivery of forms of social impact that otherwise impede venture profitability.

We suggest that institutional theory, and specifically the streams of literature on hybrid organizing (Battilana & Lee, 2014; Battilana et al., 2017) and institutional logics

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(Thornton et al., 2012) are a useful starting point to further develop a theorization of SII that investigates why some forms of SII appear more amenable to institutionalization (e.g. finance-first), while others do not (e.g. impact-led).

Scholars have suggested SII combines institutional logics—'sets of material practices and assumptions, values and beliefs that provides meaning and shapes activities within fields' (Hehenberger et al., 2019, p. 1675). It is widely held that SII transactions are hybrid structures that combine a social (sometimes called an 'impact' or 'welfare') logic with a commercial institutional logic. These logics can manifest in tension in SII (Agrawal & Hockerts, 2019; Nicholls, 2010), with the commercial logic ultimately emerging as dominant (Castellas et al., 2018), leading to a predominance of finance-first SII in the market.

Similarly, scholars have explored the mechanisms used by hybrid organizations to manage and mitigate logical tensions (Pache & Santos, 2013), including creating structures to compartmentalize different logics (Perkmann et al., 2019). Where multiple logics are present and depending on the nature of logical combination, these mechanisms can lead to different, and sometimes suboptimal, outcomes (Besharov & Smith, 2014).

This paper aims to document and characterize *blended SII transactions*; a form of SII that is often referenced as a useful instrument of SII (Bugg-Levine et al., 2012; Freireich & Fulton, 2009) or as a strategy for field-building by market and policy actors (Leijonhufvud et al., 2019), but remain underexplored at an empirical-level in the SII literature. Unlike other forms of SII examined in the literature, such as indirect investments (Castellas et al., 2018; Michaux et al., 2020; Mudaliar & Dithrich, 2019), blended SII transactions are differentiated by combining different categories of investors, such as finance-first social impact investors, impact-led social impact investors and philanthropic grantmakers, who look for no repayment of their gift, but seek to create social impact.

Through our examination of blended SII transactions, we also endeavour to expand the knowledge base of the developing field of SII—and multi-logic contexts—in general, by exploring how logical tension manifests in blended SII.

Due to the undersupply of impact-led SII in the market—a product of the bifurcation we note above—blended SII transactions are common in practice. In fact, we suggest that they make up a significant number of transactions, even if they make up a much smaller quantum of SII funds invested. Nonetheless, blended SII transactions have not received close attention in the academic literature, which has tended to focus on the field (macro) and fund (meso) levels, rather than the transaction (micro) level.

Specifically, we investigate how two Australian not-for-profit (NFP) ventures sought finance in the context of a bifurcated SII market. The first, then a fledgling NFP social enterprise, supports homeless young people. The social enterprise wished to scale its operations and impact through a business acquisition funded by SII. Our second case is a SII transaction designed to fund a homelessness intervention by a mid-size NFP welfare services provider. In both cases, a blended SII transaction structure was used.

Our analysis uses the lens of institutional theory to investigate these transactions and explore their characteristics. Furthermore, given that blended SII transactions are characterized by an increased number and combination of stakeholders when compared to typical SII transactions, notably indirect investments, we explore the implications of this greater 'institutional complexity' (Greenwood et al., 2011) at the transaction level, while considering possible consequences for the field. Through detailed analysis of two blended SII transaction case studies, we investigate how institutional logics are configured, the degree of logical alignment in each case and the implications of these factors at the transaction and field levels.

We find that, in both cases, the transactions are characterized by three (rather than two) institutional logics and that these logics also differ from the dual-logic (social and commercial) hybrid composition identified in other, previous SII studies (Agrawal & Hockerts, 2019; Castellas et al., 2018). Specifically, we find evidence to suggest that in blended SII transactions, different and multiple stakeholders each bring to the transaction their *own* hybrid logic, which are superficially similar but vastly different in their specific goals and underlying beliefs.

As such, we propose that blended SII transactions are a particular form of SII that is characterized by this 'hybrid-of-hybrids' form, and in which superficial alignment masks underlying misalignment of each contributory logic, which in turn leads to strategic and operational challenges. However, despite the difficulties that blended SII transactions present, the relative lack of impact-led SII capital and an abundance of finance-led SII capital at the field level, drives their prevalence as an opportunistic response to SII market bifurcation.

From a business ethics perspective, we suggest that unless blended SII transactions are understood as part of the broader SII landscape, investors, intermediaries and policymakers will continue to assume that a SII system dominated by finance-first capital is working for all parties. Furthermore, it serves to perpetuate the view that the relative paucity of impact-led SII in the market is due to deficiencies on the demand side (Freireich & Fulton, 2009; Mudaliar et al., 2018), rather than attributing it to inherent differences in the underlying hybrid logics of diverse actors.

Given this paper is based on two case studies, the findings need to be treated with caution. However, we tentatively suggest it makes a critical contribution by offering the first detailed, empirical analysis of an important form

of SII: blended transactions. Our empirically derived model of these transactions as a hybrid-of-hybrids provides an explanation as to why blended SII is highly complex and difficult to execute. Furthermore, the risk of conflict that hybrid-of-hybrids exhibit, due to logical misalignment being masked by highly superficial alignment in the desire to *create social impact through our operations* is a bellwether for other forms of hybrid organizing in which multiple, hybrid logics are combined. Thus, our hybrid-of-hybrids model provides a potential contribution as a framework to understand similarly precarious multi-hybrid-logic scenarios, such as social procurement (Loosemore et al., 2020) and international development projects financed by combining government, commercial and private capital (OECD, 2018).

This paper is organized as follows. We begin by positioning our paper in context by situating blended SII transactions in the global SII market. We then turn to the theoretical literature, exploring SII through an institutional logics perspective to arrive at our research questions. Next, we introduce the research setting, including the two cases that underpin our analysis and describe the nature of each blended SII transaction, before detailing our method to address each of the research questions. Our findings are then presented and we discuss the implications for SII theory and practice of the blended SII transaction form.

The Emergence of Blended SII Transactions in the SII Market

It has long been observed that social enterprises and charitable ventures face challenges in accessing capital (Brackertz & Moran, 2010; Lyons et al., 2007). In 2012, Bugg-Levine et al., (2012, p. 4) aptly described this as a 'financial-social return gap', which results from the cost of social value creation inhibiting access to capital markets due to the constraints impact generation places on financial returns. They proposed a solution to this gap labelled 'financial engineering', suggesting that if donation/grant capital is combined with financial investment capital, which expects market or near-market rates of return, 'enormous amounts of private capital could be mobilized for social enterprises' (Bugg-Levine et al., 2012, p.7). In effect, this solution describes blended SII transactions.

Cast forward to the present day, and the vast quantum of SII capital invested is 'finance-first', both globally (Mudaliar et al., 2018) and in Australia (Castellas & Findlay, 2018). For example, in Australia, by the end of 2019, of the overall SII assets under management of USD 14 billion, 87 percent was in 'green, social and sustainability bonds', with the balance (USD 1.8 billion) in social programmes, *all* generating market rates of return (Michaux et al., 2020, p. 9). Notable in Australian SII capital markets is the relative 'absence' of impact-led SII private market activity (Michaux et al., 2020, p. 45) and a strong investor preference for market rates of return (76%) (Michaux et al., 2020, p. 29).

This relative lack of available impact-led SII capital (Castellas & Findlay, 2018) necessitates many Australian social ventures to adopt Bugg-Levine et al.'s (2012) approach of 'financial engineering'. They combine non-concessionary, finance-first SII capital with grants, and any available impact-led concessionary SII capital, to afford the finance-first SII *and* deliver social impact. For example, a recently launched Australian work integration social enterprise that employs people experiencing mental illness, reports having 72 direct investors who run the gamut from finance-first SII to concessionary impact-led SII and grantmakers (Clear Horizon, 2019, p. 2).

Despite being a relatively common solution to the capital-access problem, blended SII transactions have gained relatively little close attention in the SII literature beyond regular reference to 'blended' capital as a financing option (Bugg-Levine et al., 2012; Freireich & Fulton, 2009). However, this is not due to scarcity of examples, particularly when it comes to financing social ventures. Anecdotal evidence suggests that blended SII transactions constitute the majority of SII in charitable social enterprises in Australia and are equally common in comparable markets such as the United States (Leijonhufvud et al., 2019).

What is interesting about these SII transactions is that while they are regularly used as bespoke responses to the capital-access problem, no studies to our knowledge have closely investigated blended SII at the transaction level. This is despite the potential insights that can be gleaned from closely unpacking transactions that bring together multiple actors, parties, types of capital and ultimately, worldviews into a singular, bespoke artefact. We suggest that this phenomena is ripe for exploration using the lens of institutional logics.

Institutional Logics and Social Impact Investment

The institutional logics approach has emerged as one of the dominant theoretical currents in institutional theory for investigating the relationship between institutions, organizations and individuals within 'social systems' (Thornton et al., 2012, p. 2). As a metatheoretical approach it begins from a position that society is comprised of multiple domains or fields—the state, the market, the church, etc. (Battilana et al., 2017). Each domain is regulated by a set of 'material practices and symbolic constructions' (Friedland & Alford, 1991, p. 248)—or institutional logics—that guide and inform the behaviour of actors within a given field (Nicholls & Huybrechts, 2016). Actors use these 'sets of

assumptions and values' to 'interpret organizational reality' and 'what constitutes appropriate behaviour' (Thornton & Ocasio, 1999, p. 804) within these fields. Importantly, however, actors need not employ one distinct logic. Logics regularly overlap and actors 'draw on multiple logics within, not just across, social domains' (Besharov & Smith, 2014, p. 367).

Typical examples of field logics are those that set the parameters of the so-called commercial and social welfare worlds (Ocasio et al., 2017). For instance drawing on institutional logics, Pache and Santos (2013, p. 980) define a commercial (sometimes called a 'finance' or 'investment') institutional logic which is 'structured around a clear goal: selling products and services on the market to produce an economic surplus that can ultimately be legitimately appropriated by owners'. They suggest that commercial logic values efficiency, competition and 'high economic return' (Pache & Santos, 2013, p. 980). Conversely, Pache and Santos (2013, p. 979) also identify a social welfare (sometimes called 'social' or 'impact') logic, in which organizational resources, are valued as a means to address social needs and the legitimate use of profits is to achieve an organization's social mission.

Perhaps surprisingly, very few SII researchers have adopted a logics approach (Agrawal & Hockerts, 2019), despite the potential utility of this framework being self-evident in SII's bringing together of social and commercial aims. Moreover, taking cues from the broader new institutional theory context from which the framework evolved (Thornton et al., 2012), SII is a field in a state of emergence and in which logics are in flux (Nicholls, 2010). As such, we suggest it has great potential as a theoretical framework to assist scholars and practitioners to understand SII.

To date the limited research into the institutional logics of SII has focused on the presence of two logics akin to Pache and Santos' (2013) commercial and social welfare logics (Agrawal & Hockerts, 2019; Castellas et al., 2018; Nicholls, 2010). Two studies stand-out: the first looks at the logic implications at *field- level* (Castellas et al., 2018), and the second explores *inter-organizational* level (Agrawal & Hockerts, 2019).

In their study of the emergence of SII in Australia, Castellas et al. (2018) explored SII as a space of 'institutional complexity', a strand of research which focuses on how actors and organizations are shaped by the existence of multiple logics in their field (Greenwood et al., 2011). Using a mixed methods approach focused on *investors,* their study speculated that in the early phases of *field* development in Australia, SII has not led to the emergence of a 'distinct hybrid logic' nor reconciliation between competing hybrid logics (Castellas et al., 2018, p. 151). Rather, from the capital supply side, the SII field reflects an example of decoupling (Meyer & Rowan, 1977) or at most, selective coupling (Pache & Santos, 2013); impact investors prioritize the investment logic at the expense of an impact logic (Castellas et al., 2018, p. 151). The implication is that, in the main, SII will remain dominated at a field level by a finance-logic and, by extension, finance-first capital.

Agrawal and Hockerts (2019) explored logics at the *inter-organizational* level; examining how and why divergent logics persist and how these can be combined in SII. Their study of six social venture funds found that the logical gulf could be bridged by strengthening inter-organizational 'collaboration' between investors at fund-level and investees. They suggest a range of measures including tailored 'pre-investment' strategies concentrating on due diligence to ensure logic alignment, sector specialization to enable investors to hone knowledge of sector-specific risks and opportunities, and clarity of goals (Agrawal & Hockerts, 2019, pp. 17–18).

Thus, research has shown how the financial logic of finance-first actors (and their capital) dominates the SII field (Castellas et al., 2018) and that strategies can be deployed by actors to overcome ingrained institutional logics across the investment cycle (Agrawal & Hockerts, 2019). However, while both Castellas et al. (2018) and Agrawal and Hockerts (2019) are instructive in their identification that SII is a practice that brings together competing and divergent logics at the field and inter-organizational (fund) levels, this paper seeks to further build our understanding of the impact of enacting divergent, multiple logics by shifting the unit of analysis to the transaction level.

Are Blended SII Transactions Different from Other Forms of SII? Disaggregating Logics in Blended Transactions

We wonder whether existing SII research has explored, or at least adequately accounted for, the potential that blended SII transactions are distinctive from other forms of SII in the composition and manifestation of logics. We speculate that blended SII transactions might be more innately complex due to their multi-stakeholder nature, the number of parties to the transactions, the composition of different types of capital, and consequently, worldviews.

Figure 1 illustrates the capital flows and structural differences between blended SII transactions and an indirect, finance-first impact investment, such as a green bond. In the green bond structure, which is a debt-instrument that raises pooled capital for environmentally beneficial ventures such as renewable energy projects, financial returns and environmental impact are aligned. Green bond proceeds are invested into a portfolio of projects able to afford capital offered at market rates. By contrast, blended SII transactions bring together a multitude of investor types to enable a social venture to directly access SII capital it otherwise

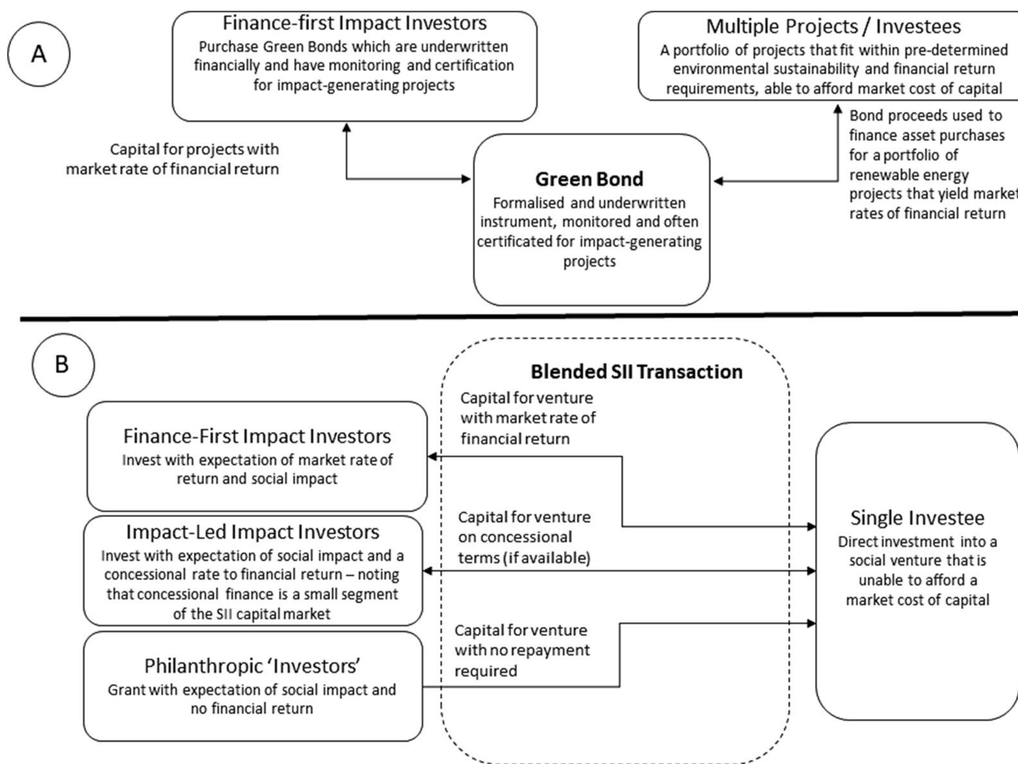

Fig. 1 Illustrates the capital flows and structural differences between a finance-first SII green bond (**A**) and a blended SII transaction (**B**)

could not afford—one party might receive a non-concessionary return akin to that of that provided by a green bond, another might receive a concessionary or below-market return, such as a low interest loan, and yet another might provide a grant. Each investor type has different values and expectations of returns, arguably introducing greater logical complexity (Greenwood et al., 2011).

In a green bond finance-first SII, there is very little logical conflict as social and financial value creation is positively correlated; the projects selected have increasing social impact when more renewable energy is created and sold. As such, there is little tension between the financial and the social logics hybridized in the green bond transaction because impact and profitability are positively correlated.

The logical alignment and relative simplicity of a green bond SII stands in contrast to the blended SII transaction. In the latter, different forms of capital, with different expectations of financial return, are combined (Fig. 1). We speculate that, reflective of their differing expectations of financial return, each of the stakeholders in blended SII transactions has somewhat aligned but differing motivations and expectations for the same transaction. As such, we suggest that blended SII transactions provide fertile ground to investigate the implications of transactions with an increased number and combination of stakeholders and their respective logics.

Multiple-Logics in Tension

Cognate streams of research in the logics tradition support this line of inquiry. While many hold onto the opportunities and benefits created by crossing domains and blending logics—'to develop capabilities not achievable by organizations rooted in a single logic' (Perkmann et al., 2019, p. 300) and to secure 'endorsement' from 'field-level actors *and…* achieve effective performance' (Greenwood et al., 2011, p. 352 italics in original)—a core theme of the literature on hybrid organizing is the potential for tension and conflict (Battilana & Lee, 2014; Battilana et al., 2017; Besharov & Smith, 2014). Not all instances of combining logics result in the 'hybrid ideal' (Battilana et al., 2012): a 'hypothetical organization [which] is fully integrated—everything it does produces both social value and commercial revenue' (Battilana et al., 2012, p. 52). Much empirical research suggests that combining institutional logics manifests as internal and external tensions, particularly with regards to organizational legitimacy (Battilana & Lee, 2014; Dart, 2004), with implications for human and financial resourcing (Al Taji & Bengo, 2019).

Besharov and Smith (2014) suggest that organizations combine multiple institutional logics in a variety of ways, and that the degree of organizational harmony that results is determined by two dimensions: *compatibility* and *centrality* (Besharov &

Smith, 2014). Compatibility reflects 'the extent to which the logics involved 'imply consistent and reinforcing organizational actions' (Besharov & Smith, 2014, p. 367). Centrality is 'the degree to which multiple logics are treated as equally valid and relevant to organizational functioning' (Besharov & Smith, 2014, p. 369). If logical compatibility is low and centrality is high, stakeholders have 'competing expectations about appropriate organizational goals and [are] lacking a clear guideline as to which goals should prevail' (Besharov & Smith, 2014, p. 371).

A related but smaller stream of research explores how some organizations attempt to overcome tensions between logics by establishing separate organizational sub-units. Rather than opting to combine logics throughout the organization as a blended hybrid, structural separation can be used to preserve the sanctity of each logic in contexts of 'institutional complexity' (Greenwood et al., 2011). Known as 'structural hybrids' these enable parties to compartmentalize different logics and avoid some of the challenges associated with hybridity (Perkmann et al., 2019).

In the main, research on multiple logics has focused on contestation between *two* established logics. Given that blended SII transactions, by their diverse stakeholder nature, are likely to comprise more than two logics, we suggest that they offer a rich site for exploration of instances of multi-logic contestation and its implications. They thus represent fertile sites of *institutional pluralism*—that is 'contexts where actors are confronted with a variety of institutional contexts that may be more or less complementary, enabling cooperation or competition' (Ocasio et al., 2017, p. 6). They are also sites of high *institutional complexity*—the higher the number of logics the greater the level of complexity facing participants (Greenwood et al., 2011).

As such, we seek to answer the following research questions by drawing on our case studies of two blended SII transactions:

RQ1 How are logics configured in blended SII transactions?

RQ2 To what degree are these logics aligned in blended SII transactions?

RQ 3 What are the implications of the logical configuration and alignment in blended SII transactions?

In the next section, we outline our method.

Method

In order to address our research questions, we used a multi-case study approach. The case study method is appropriate as SII remains a nascent field (Nicholls, 2010). The body of existing knowledge is limited particularly in the Australian context, and few studies, to our knowledge, have closely investigated blended SII transactions. Such exploratory research contexts lend themselves to a phenomenological approach (Miles & Huberman, 1994), while case studies also provide a bounded method appropriate for the descriptive nature of institutional studies (Stoker, 1995).

Case Descriptions

Our two cases are typical of the blended SII transactions we observe in the market. Both bring together disparate actors, reflective of their institutional field: a NFP social venture investee; investors with backgrounds in banking and finance, and actors that ostensibly transcend field boundaries, such as intermediaries and advisors. Both cases are also pioneering in Australian SII practice as each adopted largely untested SII instruments: equity and a hybrid legal structure (Case 1), and a philanthropic guarantee attached to a social impact bond (SIB) (Case 2). As is also characteristic of many blended SII transactions, they were bespoke, and not 'productized', unlike many finance-first investments.

Case 1 is a mid-sized NFP work integration social enterprise that provides employment/training and support to marginalized young people. In 2012, two years into its development, it had an opportunity to grow its operations by acquiring an existing business that included two cafes and a coffee roaster. In 2012, it could not access timely grant capital (its preferred funding) and had insufficient cash to purchase the business without external finance. On the advice of business mentors, it opted to raise capital by establishing a subsidiary proprietary limited (Pty Ltd) *for-profit* company to enable it to raise equity capital through issuing shares, while retaining the majority (50%) holding.

The subsequent business acquisition was financed by four private finance-first impact investors, with one share later sold to another investor. After the purchase, undercapitalization led the organization to leverage the charitable status of the NFP 'parent company' to access philanthropic capital, which effectively subsidized losses in the for-profit subsidiary. The blended SII transaction nature of Case 1 is illustrated in Fig. 2.

Case 2 is a mid-sized welfare services provider that, in 2017 looked to SII to fund a pay-for-performance contract (a SIB) with an Australian sub-state (provincial) government. The contract was for the delivery of a programme to transition long-term homeless people permanently out of homelessness. The ultimate structure of the financing model for delivery under the government contract was not a conventional SIB. Instead of raising capital from a range of different investors, as is typical of most SIBs, in this case,

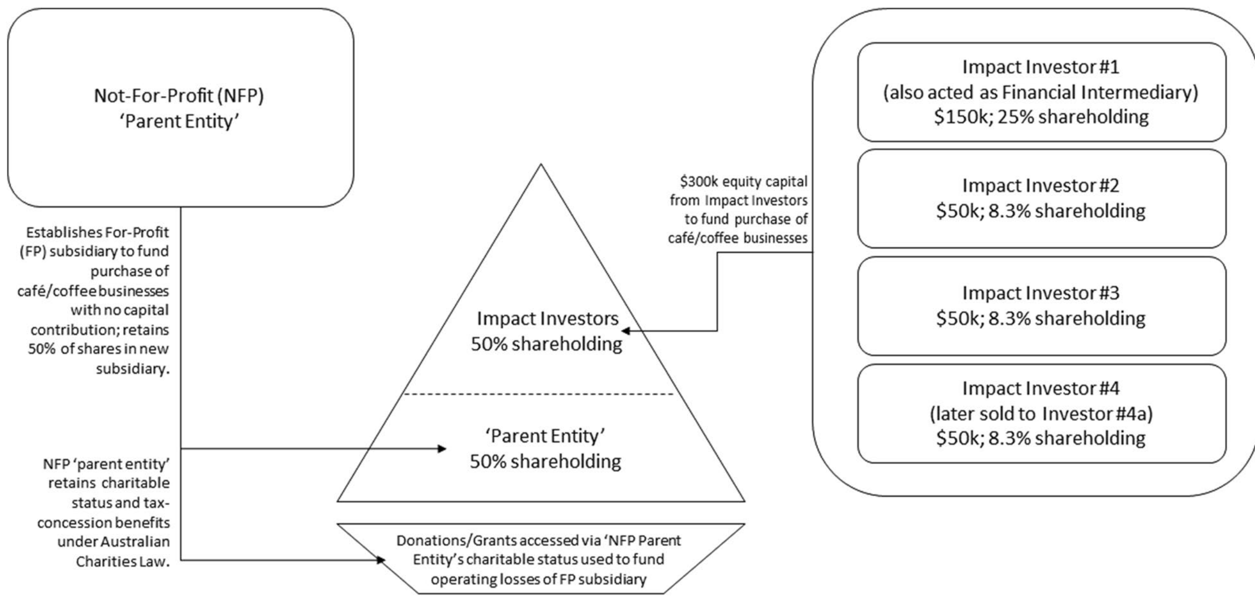

Fig. 2 Case 1—a subsidiary company was established to enable the NFP to raise equity capital from impact investors. The NFP retained majority ownership, its charitable status, gift deductibility and tax concessions. The figure illustrates the different forms of capital combined—blended—to execute the transaction

finance-first SII was secured from a single debt provider, a financial institution that serves the capital needs of a major religious denomination (akin to a community development finance institution). To lower the cost of capital to an affordable level, the SII transaction introduced innovative third-party philanthropic guarantees, which effectively underwrite Case 2's share of the program delivery risk. The resultant SII transaction structure (see Fig. 3) was neither a conventional SIB that would appeal to the finance logic (most SIBs are quasi-equity investments and in Australia generate solid market-based returns), nor was it a conventional grant (though it had grant-like characteristics) as the philanthropic guarantees would only be called upon if the program failed to meet its contractual outcomes.

Data Collection

Although the timing of the two transactions is separated by half a decade, retrospective data collection was conducted consecutively in 2018 (Case 1 followed by Case 2) by two chief investigators (CI#1 and CI#2).[1] The research projects were undertaken at the request of the executives of the NFPs (with support and cooperation of all parties to each transaction). The researchers had excellent access to participants and produced two primary public reports to provide lessons on a 'failed' SII transaction (Case 1) and an 'innovation' in SIB financing that was struggling to generate support (Case 2).

It was through the researchers' initial analysis of each case to produce the public reports that the phenomenon of blended SII transactions emerged as a subject worthy of investigation and theory building.

The data sources for each case are detailed in Table 1.

Case 1 The researchers conducted ten semi-structured interviews. Both researchers were present at each interview. With the exception of the original owner of the cafés, who initially retained a small share in the entity prior to on-selling it, the full universe of investors was interviewed. The CEO and COO of the NFP social enterprise, an advisor to the parent NFP from an intermediary involved in deal structuring as well as directors of the NFP were also interviewed. We also sought an external view in the form of a sector expert to provide comment on the transaction's impact given its high profile in the ecosystem.

[1] Two research assistants provided project management and administrative support but were not involved in the research programme.

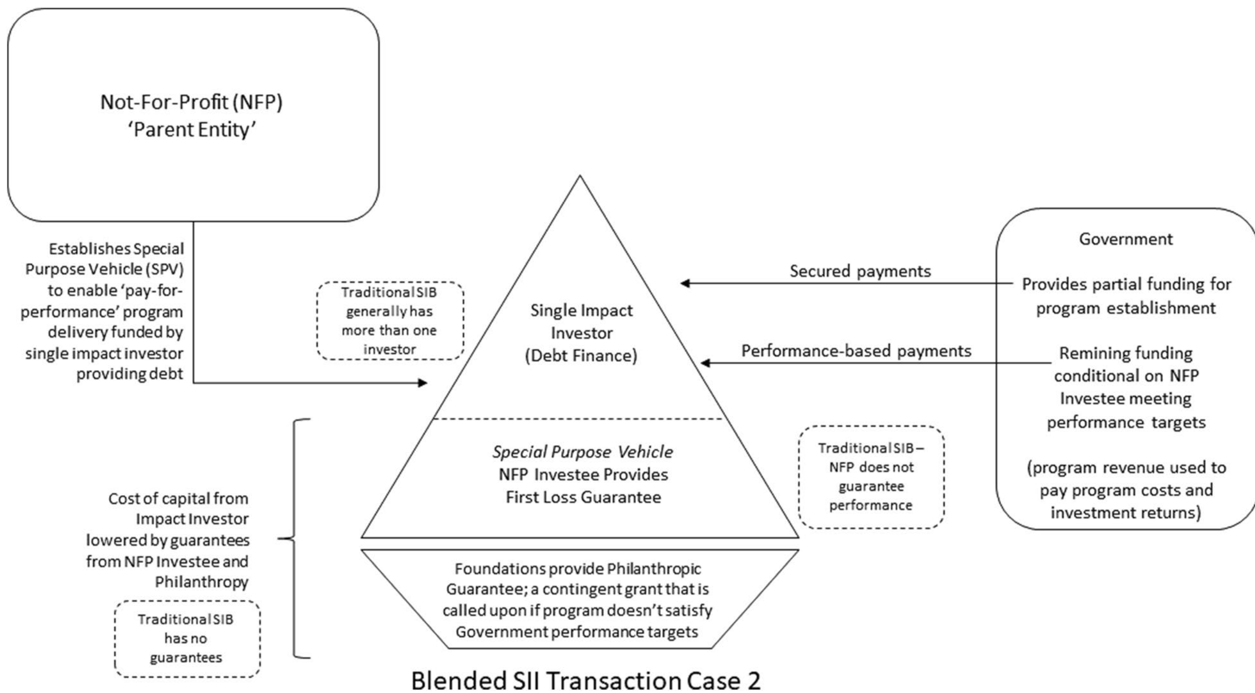

Fig. 3 Case 2 relies on a single debt provider rather than multiple investors. To lower the cost of capital, third-party philanthropic guarantees are introduced and only called if the program does not meet social impact targets for payment. The figure illustrates the different forms of capital combined—blended—to execute the transaction

Case 2 The researchers conducted seven focus groups and six interviews. With the exception of one focus group and one interview led by CI#2 both researchers were present at all data collection points. Focus groups were conducted with all parties to the transaction: the management team of the NFP (including its CEO); two sets of structurers—lawyers in relation to contract development, and government representatives in relation policy; the debt provider, and two groups of guarantors from philanthropy. Interviews were conducted with informants who elected not to participate in the SII transaction. A final focus group was conducted with a group of experts in SII.

Data Analysis

In the first phase of data analysis, the CIs analysed the transcribed interview and focus group data for each project. At this stage, coding was focused on producing public, grey literature reports for the commissioners. Both commissioners had similar objectives: to understand what went wrong with execution and implementation of the transaction (Case 1) and what was going wrong in transaction fundraising (Case 2). CI#1 inductively coded Case 1 using NVivo, while CI#2 coded Case 2. In both instances, we triangulated qualitative data by analysing archival materials such as Board minutes, communications to investors, audited financial statements and legal agreements.

Over the course of the data collection, analysis and report writing process, the CIs observed and noted the parallels that emerged from the respective open coding frames and at various points over the 12-month data collection. We had lengthy deliberations around how these novel blended SII transactions might contribute to SII concept development and theory building (Crane et al., 2016). Broadly familiar with, though sufficiently semi-ignorant of the literature on institutional logics (Friedland & Alford, 1991) to minimise 'confirmation bias' and take a grounded approach to our analysis (Gioia et al., 2013), we observed that in both cases, stakeholders had differing assumptions and understandings of the transaction. They appeared to view the transactions through their own lens and from within their own normative camp.

We then cycled back to the data exploring similarities and differences and developing empirical themes that had emerged from our initial project-focused coding. We further deliberated over whether the complexity and challenges faced by actors might be explored based on our own, albeit loose, understanding of the logics perspective (Thornton et al., 2012). This phase involved much exploration of how blended SII transactions resembled what we later learnt were

Table 1 Data sources

	Case 1 sources	Data label	Case 2	Data label
# of interviews	10		6	
# of focus groups (FG)	Not applicable (N/A)		7	
Participants by *role in transaction*				
demand side (NFPs)	2 NFP: CEO; COO I Director	CEO Case 1 N/A Director Case 1	3 NFP: CEO Manager Program Manager (FG)	CEO Case 2 Manager Case 2 N/A
Intermediation (transaction brokers and structurers)	1 Financial intermediary (also an investor)	Financial intermediary Case 1	1 Financial intermediary (major bank) 2 Lawyers (FG)	Financial Intermediary Case 2 N/A
Supply side (investors and potential investors)	4 Investors	Investor Case 1	3 from debt provider (specialist financial institution) (FG) 5 Guarantors —'private foundations' (2 × FG) 6 Non-guarantors — 'private foundations' (interviews)	Investor Case 2 Philanthropic Guarantor Case 2 Philanthropic Non Guarantors Case 2
Other	2 sector experts	N/A	5 bureaucrats (FG) 3 sector experts (FG)	N/A Philanthropic Sector Leader Case 2
Total participants	10		27	

known as structural hybrids (Perkmann et al., 2019) and we explored how they differed from more mainstream transactions including the dominant market type, finance-first.

In the final phase of the data analysis, we returned to the raw data to explore, recode and unpack it utilizing the Gioia method (Gioia et al., 2013). We developed a limited and more manageable set of codes—or first-order concepts. We then categorized these into second-order themes before settling on the aggregate dimensions (Gioia et al., 2013). What emerged from this investigation both illuminated the reasons for each case's difficulties and, by further deploying the principles of induction—a characteristic of qualitative research, led to a greater theoretical contribution informed by the complexity of the multiple logics at play at the transaction level.

The resulting data structure is shown in Fig. 4.

Findings

Figure 4 provides a consolidated picture of the first-order concepts, second-order themes and ultimately what emerged as the aggregate dimensions of our empirical analysis of the two blended SII transactions (Gioia et al., 2013).

The Logic Configuration of Blended SII Transactions

At the second-order level, our coding suggested the presence of a number of logics embedded in each transaction (see Table 2). Consistent with previous SII research, both cases suggested the presence of a *commercial/financial logic* and a *social/impact logic* (Agrawal & Hockerts, 2019; Castellas et al., 2018; Nicholls, 2010). However, our findings suggest important nuances in the way these logics are combined and also that these logics manifest differently among different actors. This is evident when compared to a typical finance-first transaction where we see a simpler binary configuration, with a commercial/financial logic generally dominant (Castellas et al., 2018). By contrast in the blended SII transactions both the number of logics—and the configuration—is more complex.

Commercial–Social and Social–Commercial Logics

Firstly, the data suggest a logic common to the investors and the financial intermediaries in each transaction. This logic, while commercially oriented, does not present as a 'pure' commercial logic (Pache & Santos, 2013, p. 980). Instead, our research suggests that in both cases, the impact investors, whom we would deem to be finance-first (Freireich & Fulton, 2009), operate under a logic closely resembling a commercial logic, but they also clearly express a desire to create positive social impact.

This observation is an important, if nuanced finding, as it suggests that both blended SII transactions contain a *modified* commercial logic, which differs to that identified by Pache and Santos (2013). In our blended SII transactions, the impact investors' modified commercial logic

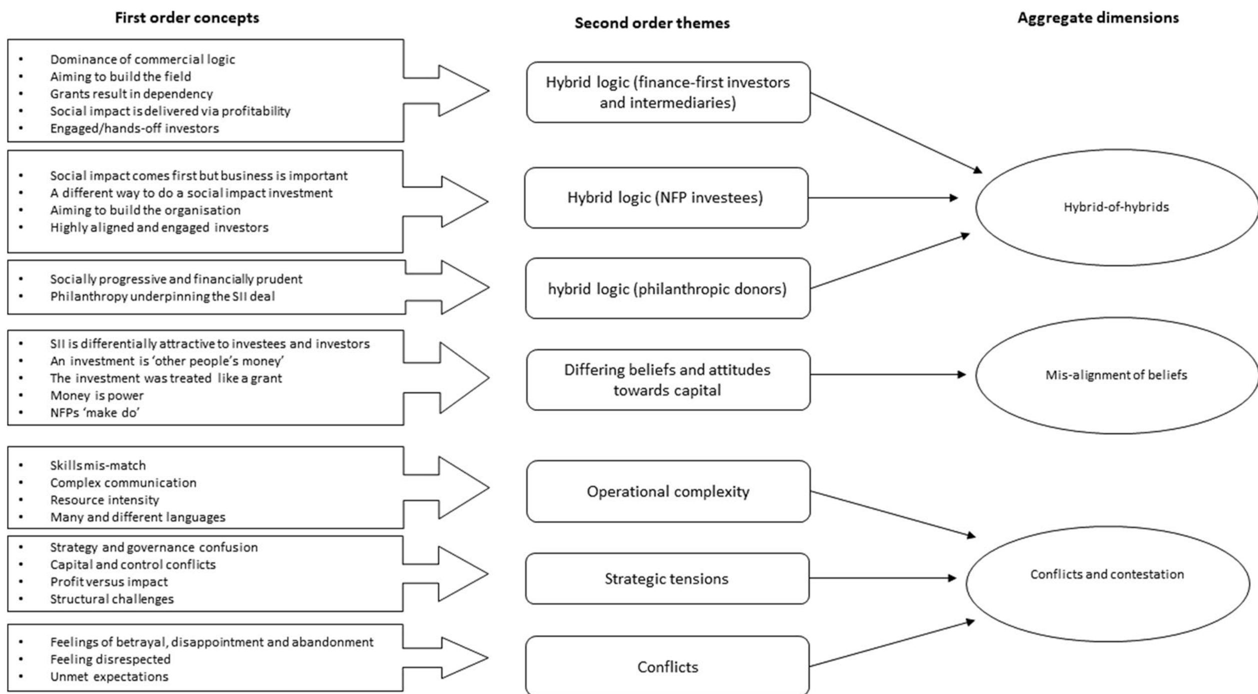

Fig. 4 The data structure from the final phase of the data analysis utilizing the Gioia method (Gioia et al., 2013), showing first-order concepts, which were then categorized into second-order themes before settling on the aggregate dimensions (Gioia et al., 2013)

privileges profitability and financial returns, but there is also a clear desire to create social change. As such, our analysis suggests that this modified logic is a hybrid '*commercial*-social' logic, in which financial returns come first, but social impact is also valued and assumed to be positively correlated with profit generation, which is evident in this statement from an Investor (and Financial Intermediary) in Case 1:

> …there's a genuine belief that you can do good and make money at the same time and that actually it's required for sustainable change and sustainable innovation, particularly in the social sector (Investor and Financial Intermediary Case 1)

This *commercial*-social logic was not only evident in the majority of investors in both cases, but also in the financial intermediaries who facilitated the transactions and are similarly socialized in the finance sector.

> So that's been our focus over time and we're sort of thinking okay well this impact investing concept, which is simply an idea which says not only do we need a financial return from a transaction, but we also want to get some sort of social return as well (Financial Intermediary Case 2)

The value placed on financial returns by both the investors and intermediaries together with the belief that profit is not diluted by the cost of the social impact, stands in marked contrast to the views of the investees in both cases.

In our interviews, the investees expressed the belief that impact comes at a financial cost, as the CEO of Case 1 explained *'you're probably adding 20 to 30 per cent of operating overhead to do the social'*. However, they too demonstrate a commercial orientation that differentiates their thinking from a 'pure' social welfare logic (Pache & Santos, 2013), expressing the belief that social impact can be generated by using commercial approaches.

> Well our number one expectation was that we wanted to expand our reach and our impact, so that was number one. So we saw that…having the cafes and the coffee roasting would enable us to have more venues to attract other people. So that was always the priority, the reach and impact (Director [Investee] Case 1)

As such, the investees applied a logic that is strongly characterized by the goal of creating positive social value, coupled with a high appetite for innovation and risk, but a distinctly pragmatic belief in the application of commercial mechanisms to achieve social ends. There was also a suggestion in both cases of the investees prioritizing social value *over* profit maximization, somewhat akin to impact-led investor preferences (Freireich & Fulton, 2009).

Our research suggests that the hybrid logic of the investees in blended SII transactions is thus discernibly different

Table 2 Comparison of the three hybrid logics evident in layered transactions

	Commercial–social	Social–commercial	Philanthropic
Finance-first impact investors	X		
Impact-led impact investors		X	
NFP investees		X	
Financial intermediaries	X		
Providers of donation/grant capital			X
Superficial goal	To create social impact through our operations *there was this very strong shared desire in creating social impact, so that was the highest priority' (CEO Case 1)*		
Specific goal	To generate a market-rate of financial return and social impact *…we want to show that the investor can get return as much as the actual impact of what they're doing. Why? Because if you focus on the impact over the investors, this will be a once-off and it'll never happen again (Investor Case 1)*	To generate social impact using commercial market mechanisms *So those businesses have provided….well in excess of probably 40,000 h of training opportunities to young people. So the social impact of those businesses is unbelievable (CEO Case 1)*	Careful and stable growth of the corpus to support grantmaking aligned with charitable purpose *…it's been very much about managing the corpus to maximise returns, maximise cash yield, and to ensure the cash yield fund distribution and the value of the corpus in real terms (Philanthropic Sector Leader Case 2)*
Level of impact focus	The social objective is aimed at field-building for greater scale and impact *If that's successful, I'll be able to go to a few other investors and we can create -this is the whole model of impact investing, right? That if we can make it commercial enough, then we'll get other people in (Investor Case 1)*	The social objective is focused on specific beneficiary groups and strengthening the organization to serve them *Our two goals as an organization were highly impactful, we wanted to get to 1095 kids a year that we were working with. That was a kid a meal and also be completely self-funded through our business revenue (CEO Case 1)*	The social objective is predominantly focused on specific beneficiary groups *…most fiduciaries are still looking through a fairly linear lens, in the sense that it's making grants, and it's making grants within what we're required to do by the guidelines or, alternatively, by the trustee –the instrument that stipulates that we can distribute income or capital to main beneficiaries or – within discretion that's vested within us, to make that decision (Philanthropic Guarantor 1)*
Dominant institutional logic	Commercial logic is dominant over social *…it's actually easier when you're looking at the possibility of investment to be dealing with commercial people that have then had a conversion for want of a better term to social purpose than it is to deal with someone that's come out of a not-for-profit background and then help them develop the commercial smarts that means they're ready to take on capital investment whether it's a loan or equity (Investor Case 1)*	Social/welfare logic is dominant over commercial logic *I think we've always prioritized social impact probably over business sustainability. Yeah and that's why we kept on making I think non-financial decisions (CEO Case 1)*	No clearly dominant organizational logic, this hybrid logic is a defined by structural hybridity (Perkmann et al., 2019) in which a prudent financial logic is applied by the 'investment managers' and a social/welfare logic is applied by the 'grantmakers' *Ultimately, charitable trust, as a capital source for these sorts of deals, should be relatively straightforward and easy, because there's three fundamental roles and responsibilities. There's the trustee. There's the investment manager or advisor. And then, there's the grant advisory capability (Philanthropic Guarantor Case 2)*

Table 2 (continued)

	Commercial–social	Social–commercial	Philanthropic
Underlying beliefs: relationship between profit and impact	Profit and impact are positively correlated *I do think it's a failure because the business failed, it was meant to be a business. So it basically went bust, bought out for probably nothing, so hence that's a failure. Now it achieved [the] social mission, so I can see that it's not a complete failure, it achieved half of what it was meant to achieve, but as a – the model failed and the business failed* (Investor Case 1)	Social impact and profitability are often in tension *When we took it over, it wasn't making any money. It just never made money and it was about how much are we prepared to lose to have the best – it was the best training location [we] had when I was there; it was cosy, it was warm, the customers were really forgiving, it was just the right place to put kids particularly if they were anxious or whatever (CEO Case 1)*	Separation of opportunities into financial or social—not both – profitable investment of the corpus funds social impact through grantmaking *The difficulty for this specific example was that it fell between two stools – one being the extreme of having a grant, if you like, where it's a gift versus the other extreme being something that is investible on financial terms. And because of a number of elements and features of this transaction and because it fell between those two stools, it was difficult to evaluate the transaction as it was presented (Philanthropic Non-Guarantor Case 2)*
Underlying beliefs: attitudes to donation/grant capital	Donation/grant capital is inferior to other forms *So if you, as a result of me giving you some money, you become dependent upon that giving, and that's a bad outcome for me as a philanthropist because I've actually, by giving you money, created a problem, not fixed something. So I don't want to create a dependency problem (Financial Intermediary Case 2)*	Grants and donations are a legitimate source of capital to achieve social goals *There is zero return. So it's about a philanthropic effort. They're utilizing their corpus in order to do good. So it's increasing their capacity to make a contribution. So without those guarantees, this and pledges, this transaction wouldn't happen (Manager Case 2)*	Grantmaking is the ultimate purpose of the organization, supported through careful management of the corpus *The language of philanthropy is still very much about grants, with the idea of putting money to work (Philanthropic Sector Leader Case 2)*
Sources of legitimacy	Legitimacy gained by applying commercial thinking to create impact, including in traditional commercial structures and sources of capital *…it's a non-profit. There is no question we are just lending to a non-profit and you will not have the rigour and you will not have the intention that we are trying to bring which is making this a genuine, long-term, sustainable commercial model that means that investors come in (Investor Case 1)*	Legitimacy gained through innovative and novel approaches to social impact creation *there's no way we could have done a $2.5 million impact investment if we hadn't learnt a whole heap of stuff in a $300,000 impact investment that didn't go the way we wanted it to (CEO Case 1)*	Legitimacy gained through careful management and grantmaking *I think what charities and organizations looking to raise these products need to understand is that as part of our due diligence as a foundation we'll look at the financial side, but we also did a lot of work on the charity, and the particular project we were looking to fund specifically as well (Philanthropic Guarantor Case 2)*

Table 2 (continued)

	Commercial–social	Social–commercial	Philanthropic
Risk appetite	Risk tolerant *… we took the risk and we get it. The reason why we do that instead of philanthropy is because of course if it was philanthropy, we didn't have 300,000 in philanthropy. I said, I can give you 5000 and good luck, or I can invest 300,000 with the expectation I can make a 12, 15 per cent return (Investor Case 1)*	Risk tolerant *With the new businesses, so it was $500,000 of revenue to $1.5 million of revenue, so it was a really big scaling fast. (CEO Case 1)*	Risk averse and conservative *It's just, the whole structure of this is quite revolutionary and so interesting … – it's such a revolutionary idea, and so exciting, that my hunch is that those who sign up to serve in governance roles in philanthropies haven't signed up for something that's so racy. They're there thinking, "Is the grant $10,00 or is it $15,000? Is it this organization or that organization? Oh, my goodness! You've presented us with something that is so new. Let's let a couple of others try it first and see where it all lands". That's my hunch around what's been going on here (Philanthropic Sector Leader Case 2)*

The logical dimensions of goals, underlying beliefs and sources of legitimacy are reflected in the first-order concepts and second-order themes resulting from the coding of the case data as shown in Fig. 4

from the hybrid logic of the impact investors; the former preferencing financial return but valuing social impact, and the latter preferencing impact but pragmatically recognizing the role of commercial means to achieve their ends (Table 2).

Therefore, thus far in both blended SII transactions, we see evidence of two *different* hybrid logics—both combining elements of pure commercial and social welfare logics (Pache & Santos, 2013) but in *different* ways—applied by *different* stakeholders (Table 2).

While these hybrid logics *both* blend commercial and social welfare logics, they are quite distinct in their resultant belief systems, norms and values (Table 2). One logic, evident in the investors and intermediaries, is more commercially dominant, gives precedence and legitimacy to business-based approaches, it also assumes that profit and impact are positively correlated and views grant capital as inferior to other forms of social finance. We term this hybrid logic *commercial*-social. The other hybrid logic, evident in the investees, gives primacy to the achievement of social impact and views business as a 'means to an end'; it sees impact and profit as frequently in tension; we term this logic '*social*-commercial'.

A Philanthropic Logic

While in both Case 1 and Case 2 we found evidence of two distinct logics used by investors/intermediaries and the other by investees, the presence of philanthropic guarantors in Case 2 provided the opportunity to explore the logic used by these stakeholders. We subsequently found that this group, representing charitable trusts (private foundations), has values, beliefs and norms distinct from either the *commercial*-social logic or the *social*-commercial logic of the other stakeholders in the transaction, detailed in Table 2.

Our data suggest that trustees of private foundations do not easily fit within either the *commercial*-social or *social*-commercial logic camps; they have their own unique goals, values and beliefs, which manifests as prudent benevolence, not evident in the other stakeholders (Table 2). As such, a third *distinct* logic is evident that we call the '*philanthropic* logic', which is characterized by a strong emphasis on social outcomes—characteristic of a pure social welfare logic (Pache & Santos, 2013). However, in the *philanthropic* logic the social welfare logic was coupled with a value system that preferences prudent, risk-averse financial management of the endowment or corpus to support grantmaking. As such, this *philanthropic* logic is also a hybrid of Pache and Santos' (2013) social welfare and commercial logics, but it manifests quite differently from either of the logics evident in investors or investees (Table 2).

The basis of the *philanthropic* logic can be explained by examination of a private foundation's fundamental goal: careful and stable growth of the corpus (endowment) to support

grants aligned with charitable purpose. The prudent nature of philanthropic decision-makers and trustees can be attributed to their obligations as fiduciaries. These professional norms stem from a 'fundamental distinction at the heart of charity law' (Charlton et al., 2014, p. 24) between a charitable trusts' (private foundation) assets, which must be deployed to generate income, and the pursuit of charitable aims, generally through grantmaking. This shapes the worldview of trustees.

> It's hard, right? ….[W]hen someone decides to establish a foundation, or is appointed as a trustee of a foundation, you're typically going into it with the perspective that you're there to achieve the charitable purposes of the fund. And, usually, most fiduciaries are still looking through a fairly linear lens, in the sense that it's making grants, and it's making grants within what we're required to do by the guidelines or, alternatively, by the trustee – the instrument that stipulates that we can distribute income or capital to main beneficiaries (Philanthropic Guarantor Case 2)

Binary normative pressures thus characterize the *philanthropic* logic: operate with a disposition of financial caution *and* also pursue social outcomes.

> Obviously, nothing like this was ever anticipated in [the nineteenth and twentieth centuries when many foundations were established]. But, my guess is that [foundations] would be under some obligation around their overall corpus management, and how they'd carve out something, for a loan, let alone an indemnity that might carry with it a contingent liability – is not at all clear (Philanthropic Sector Leader Case 2)

Finding 1: Blended SII Transactions are Characterized by Three Distinct Logics, Each of Which is a Hybrid

In summary, and in response to *RQ1: How are logics configured in blended SII transactions?* our research suggests that in blended SII transactions, impact investors/intermediaries, investees and philanthropy each operate under different, hybrid logics, which combine elements of macro 'pure' financial/commercial and social welfare logics (Table 2). Yet, as Table 2 shows, there is sufficient nuance in the underlying goals, values, beliefs and intended focus of the social impact for each of these hybrid logics to render them distinct: a *commercial*-social logic, a *social*-commercial logic and a *philanthropic* logic.

In Blended SII Transactions, the Logics Are Not Well Aligned

The differences in the characteristics of each hybrid logic, detailed in Table 2, and the complex configuration of these logics, highlights areas of misalignment. For example, the *commercial*-social logic assumes a positive relationship between profitability and social impact, aims to create impact through field-building (that is, growing the SII market) and preferences commercial decision-making. In contrast, the *social*-commercial logic views commercial activity as a means to improve the lives of target beneficiaries and preferences their welfare over profit generation. This point is illustrated by this quote from Case 2 in which the Manager explains their decision to preference service delivery over investor returns:

> … so the other thing that was very important to us was that the [program] is three years of service delivery and if we were terminated we weren't going to drop clients. We actually – we were determined that they were going to get the full three years of service. *That again is different from other social impact bonds and that did have an impact on the way it was structured, particularly when it came to the termination payments and the amount of – the potential loss to the investor (Manager Case 2)*

Similarly, there is a misalignment between the *philanthropic* logic and the other hybrid logics with respect to the philanthropic risk appetite (Table 2) and also the *philanthropic* logics' operational separation of commercial opportunities and social impact generation, as one foundation manager from Case 2 explains:

> … from a point of view of our foundation … other than a shiny brand new financial structure, which lines the pockets of those that design it first and foremost, at least at the beginning, it's not very attractive (Philanthropic Guarantor Case 2)

Finding 2: There is Less Opportunity for Alignment Between the Logics Combined in Blended SII Transactions

Therefore, in response to *RQ2: To what degree are these logics aligned in blended SII transactions?* our research suggests that beyond the high-order goal of 'creating social impact', there is very little alignment between the three hybrid logics evident in both cases (Table 2). When we focus down to the values, beliefs and mechanisms by which this social impact is achieved, there is demonstrable misalignment between these logics.

The Implications of Logical Complexity and Misalignment

Structural hybridity presents challenges for the integration of multiple logics (Perkmann et al., 2019) and these challenges are most extreme when alignment is poor. Yet, as is the circumstance in both cases, the scarcity of more suitable capital renders all actors and their logics central to the transaction (Besharov & Smith, 2014). Our analysis at the second-order level suggests many instances of operational complexity, strategic tension and conflict (see Fig. 4). Which brings us to the implications of the number and alignment of logics instantiated in blended SII transactions—in this case, three poorly aligned logics.

Our analysis also reveals a large number of strategic tensions that relate to the differing interplay of the hybrid logics in each case. These strategic tensions manifest at the second-order level and included conflicts around capital and control, structural confusion and disputed governance and decision-making. These tensions were particularly evident in Case 1, when financial performance below expectations highlighted the trade-off between the immediate welfare of beneficiaries and the bigger-picture financial and field-building goals of the investors (see Fig. 4).

Ultimately, the complexity of each multi-hybrid-logic transaction, in which the logics of stakeholders exhibit a significant degree of misalignment resulted in what, in Case 2 could be regarded as disappointment that efforts to garner philanthropic guarantees fell well short of expectations.

> So we said then we've got to go for a traditional SIB and they [impact investor] were devastated. *They were like my God we've invested so much in this but okay (Manager Case 2)*

In the more extreme instance of Case 1, where the entity failed financially and had to be wound-up, disappointment grew into feelings of betrayal and abandonment from the investee.

> …when you're all in this together and you need to make improvements in the business, you come back and put the case to the investors for that money and you all open up your wallets and you're making those decisions together. But that didn't happen, which meant that [NFP] was always holding the can (CEO Case 1)

Matched by similar feelings of betrayal and disrespect from the impact investors:

> … that upset me a little bit because I was like, well f***, the investors are really second rate here and not - again, it's so hard to say this and it was hard because even when I say to [CEO], you're treating us like we're not as important and she'll be like, bloody hell you're not as important, are you serious? (Investor Case 1)

And frustration from the intermediary/investor:

> I'm sick and tired of meeting social entrepreneurs who are almost offended by the fact they might have to pay an investor some money. That mindset piece I think is really, really critical, that somehow 'I'm doing something good so you should just give me some money for it', it's just so unhelpful (Investor and Financial intermediary Case 1)

As a result of the unusually high levels of conflict and confusion that the Case 1 transaction introduced, all actors demonstrated a lack of organizational systems and processes designed to navigate such conflict. Instead there was the assumption that parties' logics were aligned when they were not, exacerbating confusion and frustration.

> I genuinely thought [that] was where everyone was headed, but from the outset of the term sheet, became a little bit like, whoa, maybe we're not quite heading there, but they're saying they still are, they're just saying it was a quirk of the term sheet (Investor Case 1)

A Hybrid-of-Hybrids? The Legitimacy Challenges of Multiple Constituencies

Unlike SII transactions commonly researched in the SII literature, our research suggests that blended transactions are a distinct SII form that present a greater degree of complexity. They are, if you like, a 'hybrid-of-hybrids' in which each of the constituent logics evident in the transaction is itself a hybrid.

Like hybrids generally (Battilana et al., 2017), both cases illustrate that, as hybrid-of-hybrids, blended SII transactions face legitimacy challenges when attempting to communicate with external audiences. In our cases, as a result of the complexity of the institutional logics at play, we see evidence of a shifting emphasis on a particular logic in the framing of the transaction, depending on the audience. For example, in both Cases 1 and 2 there is evidence of fluidity in use of the logic depending on the context and audience: internal communications emphasized and preference the *social*-commercial logic while external communications with investors and potential funders were dominated by the *commercial*-social logic. This behaviour is consistent with the legitimacy challenges that have been observed in other hybrid forms. For instance, Pache and Santos (2013) found that social enterprises struggle to balance the divergent expectations of their respective business and NFP stakeholders, which manifests in communication challenges.

However, in blended SII transactions, the absence of any single, dominant field logic common to all stakeholders, can be seen to exacerbate legitimacy challenges, the burden of which was most heavily borne by the investee organizations. For example, in Case 2, guided by the belief that a major bank's involvement would bring legitimacy to the transaction, the investee deferred to their financial intermediary's *commercial*-social logic in discussions with potential philanthropic funders. The investee called on the intermediary to explain the transaction structure and its benefits at meetings with potential philanthropic supporters, de-emphasizing the social impact benefits, despite its importance in the *philanthropic* logic, and also despite the investee's strong organizational capability in philanthropic partnerships for their core (non-SII) operations.

This strategic and shifting deployment of a logic dominant to the investment context but *not* dominant internally for the investee organization is consistent with legitimacy challenges experienced by hybrid organizations (Hsu, 2006). Because these types of transactions transcend established boundaries and attempt to appeal to diverse audiences they risk confounding their constituencies, which adversely affects resource acquisition (Battilana et al., 2017).

In Case 2, the initial ill-founded emphasis on a dominant *commercial*-social logic with potential private foundation supporters was corrected after the surprisingly low level of support for the transaction, which promoted phase one of this research. As is common in hybrid organizations generally (Battilana et al., 2017), the confused messaging did not appeal—or have legitimacy—in the eyes of the private foundation decision-makers: it fell between their binary logics of prudence and benevolence.

In Case 1, deference to the financial intermediary's *commercial*-social logic, resulted in the investee producing overly optimistic financial forecasts that underestimated the cost of social impact delivery. Consequently, the impact investors were disappointed in the NFP's internal decision to preference social impact over investor returns.

> I'm quite disappointed actually. So I think socially it's done everything, so fine on that front, but it was meant to be a financial investment as well (Investor Case 1)

These tensions are not unusual for social enterprise practitioners (Al Taji & Bengo, 2019; Pache & Santos, 2010). Reflective of their *social*-commercial logic, managers of social enterprises are adept at selectively and strategically adapting their communications and operations to opportunistically partner with business, government and philanthropic funders to further their goals. However, in blended SII transactions, with multiple institutional logics at play, all actors are subject to conflict that is 'extensive and intractable' (Besharov & Smith, 2014, p. 371).

This degree of conflict and contestation is not the norm for the investee NFP organizations and in both cases actors from the investees expressed confusion and, at times, distress resulting from their contested-hybrid situation. This ranged from an inability to appreciate why private foundations could not see the value of their proposal in Case 2, to high levels of anxiety stemming from the need to deliver on incompatible investment motivations in Case 1. As many of the other actors in both Case 1 and Case 2—intermediaries, impact investors and philanthropic guarantors—operate, in dual-logic organizational contexts this compounded the level of institutional complexity (Greenwood et al., 2011). Such contestation between the institutional logics at play in both blended SII transactions exceeded all actors' standard organizational experience.

Finding 3: The Hybrid-of-Hybrids Structure of Blended SII Transactions Results in Tension, Confusion and Conflict

In response to *RQ 3: What are the implications of the logical configuration and alignment in blended SII transactions?* our research suggests that blended SII transactions combine three distinct, hybrid institutional logics; they are in fact a hybrid-of-hybrids. Furthermore, the constituent hybrid logics in each transaction are not aligned in their underpinning goals, values and beliefs. This lack of alignment leads to confusion, contestation and risks 'extensive and intractable' conflict between stakeholders (Besharov & Smith, 2014, p. 341), attributable to the hybrid-of-hybrids nature of the blended SII transaction form.

Discussion

Blended Social Impact Investment Transactions: Why They Are So Complex

Case 1 and Case 2 represent highly complex structures in which each logic is bifurcated, contingent upon and relative to the actor, who remains (physically and mentally) in their respective organization: the investees remain at the strategic and operational helm of the NFP; the impact investor contributes capital into the structure; the intermediary sits as an advisory within their own organization, and the private foundation manager makes a grant on behalf of their trustees.

While each sought to formally separate then combine the different parties' field logics, in both cases when the logics were combined they remained distinct and non-integrated. This contrasts with many other empirical examples of blended hybrids (Battilana & Lee, 2014; Pache & Santos, 2013; Perkmann et al., 2019). The respective parties—investees, investors/intermediaries and philanthropic

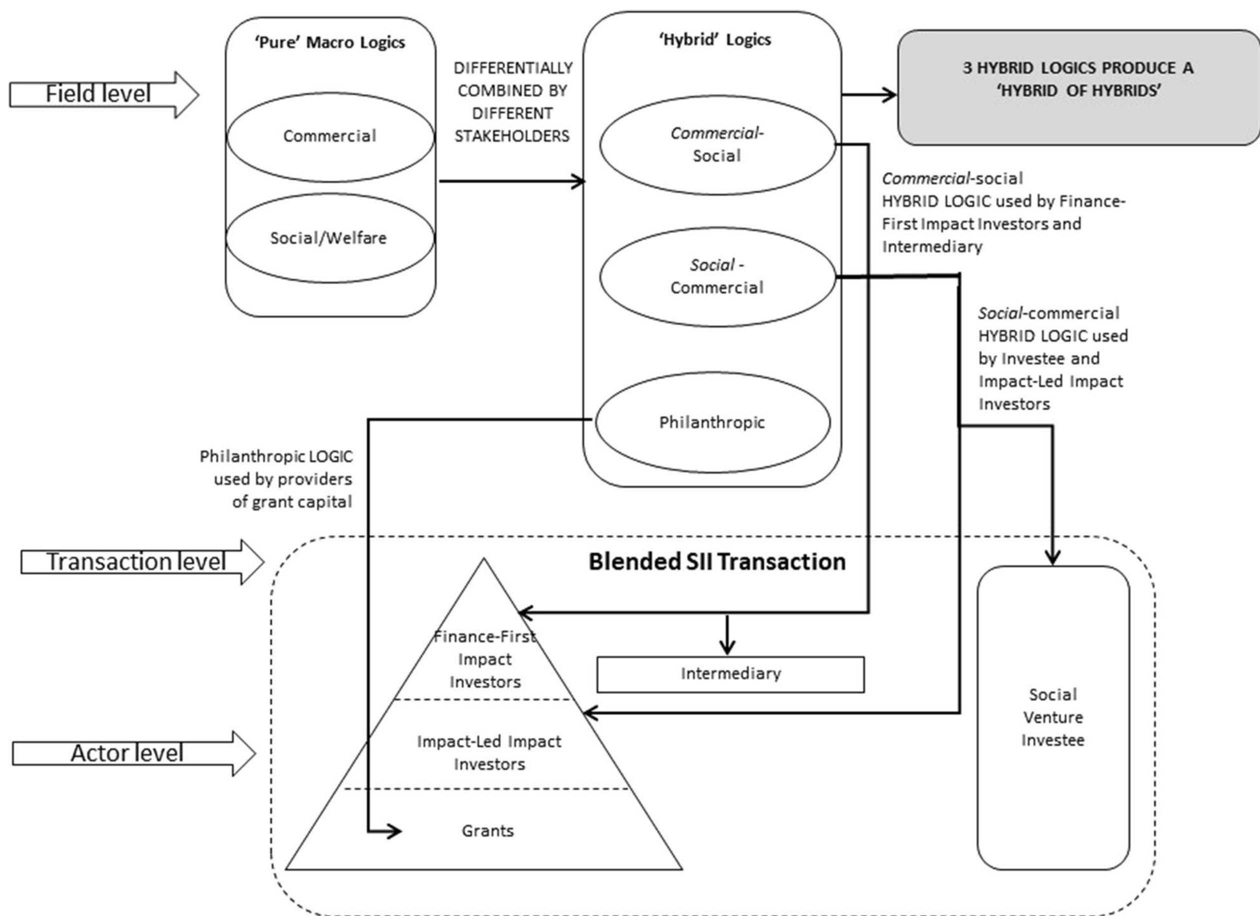

Fig. 5 A proposed conceptual model showing the relationship between the multi-hybrid logics constituent in blended SII transactions demonstrating the hybrid-of-hybrids structure

grantmakers—did not arrive at a point of agreed and harmonious logic integration.

Although the blended structure acted as an artefact around which participants with differing (and somewhat competing) logics coalesced to combine resources, each party continued to view the transaction through the lens of their *own*, hybrid institutional logic. They did not arrive at a point of stable alignment and integration; instead disappointment, contestation and, particularly in Case 1, conflict ensued.

Thus, informed by our analysis, we propose an empirically derived model of blended SII transactions (Fig. 5) that illustrates the relationship between the three hybrid logics combined in blended SII transactions. Each of these hybrid logics is derived from differential mixing of two 'pure' macro or field logics—commercial and social. However, unlike other SII institutional logics research (Agrawal & Hockerts, 2019; Castellas et al., 2018), our analysis suggests that, beyond a most superficial alignment at the overarching level '*there was this very strong shared desire in creating social impact*' the specific goals, beliefs, values and practices evident are different enough to suggest separate hybrid logics (Fig. 5, RQ1).

Furthermore, there is evidence of fundamental contradictions between these hybrid logics (Table 2) that suggests a significant degree of misalignment (Fig. 5, RQ2). Figure 5 shows how these hybrid logics are then applied by the various blended SII transaction stakeholders, rendering it a hybrid-of-hybrids, as it combines three hybrid logics into its blended form: the *commercial*-social logic of the finance-first impact investors and the intermediaries, the *social*-commercial logic of the investee and the *philanthropic* logic of the providers of donation/grant capital. These logics are brought together by the blended SII transaction, driven by resource scarcity and cemented by alignment of the superficial goal, yet the weaknesses in the alignment between logics (Fig. 5, RQ3), risks the viability of the transaction due to excessive conflict and complexity. Our model suggests this complex layering thus embodies 'a series of narratives and discourses that are open to multiple interpretations corresponding to the differing dominant institutional logics of

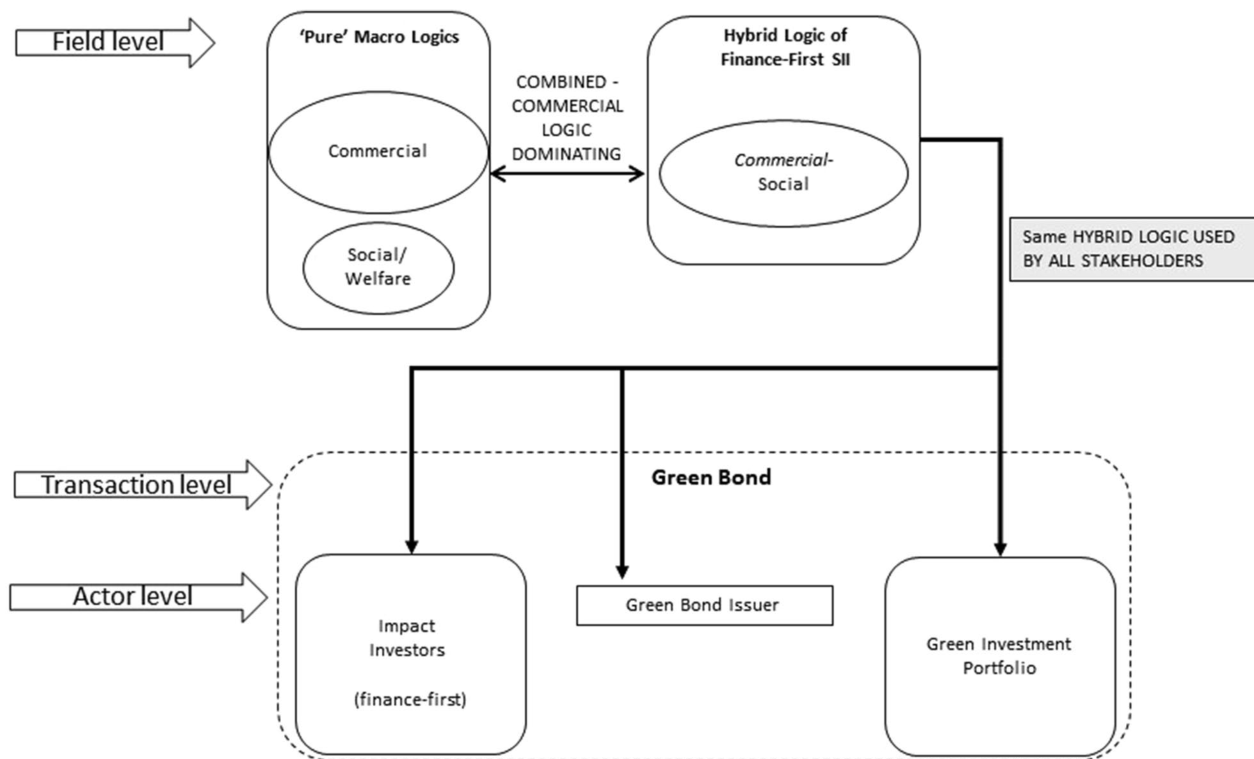

Fig. 6 A proposed conceptual model showing the relationship between the logics that manifest in green bonds demonstrating the singular-hybrid nature

each partner organization' (Nicholls & Huybrechts, 2016, p. 700).

We further posit that blended SII transactions are a distinct form of SII that are distinguished from other types of SII by the relative breadth of institutional complexity (Greenwood et al., 2011). We argue that not all transactions exhibit the same level of institutional complexity and some may in fact be characterized by a higher level of compatibility between institutional logics (Besharov & Smith, 2014). In Fig. 6, we show that the relationship between the field-level logics are drawn on by actors in a green bond, illustrating that there is less institutional complexity.

In the green bond, as returns and impact are aligned there is little trade-off required and although the commercial logic remains dominant the two logics are more easily combined. The agreed sense of the dominant logic at play in for example a green bond, and greater alignment around interests and goals, thus mitigates complexity by enabling a singular, hybrid logic (Besharov & Smith, 2014). By contrast, blended SII transactions bring together a multitude of investor types each with different values and expectations of returns, introducing greater complexity.

We further posit that as blended SII transaction structures are highly complex sites of high contestation (Besharov & Smith, 2014) this leads to operational complexity, strategic tensions and ultimately conflict. We suggest that the logic-based weaknesses of the blended structural hybrid are exposed and exacerbated as a result of the *hybrid-of-hybrid* structure. This finding is of particular relevance to practice, where blended SII transactions are relatively common in number of transactions (though not in scale) in response to an undersupply of more appropriate forms of SII for some venture models (Leijonhufvud et al., 2019; Mudaliar et al., 2018).

Furthermore, analysis of blended SII transactions through the lens of institutional theory provides a rigorous framework in which SII practitioners can appreciate the complexity and risk of engaging in a blended SII transaction. It also highlights the transaction costs of developing a bespoke 'structural hybrid' (Perkmann et al., 2019), which requires a higher degree of tailored contracts, professional services and negotiation relative to the scale of the transaction (Muir et al., 2017) compared the dominant finance-first form. In Case 1, a new hybrid legal structure was developed. In Case 2, a unique adjustment to the standard SIB model added further complexity to these already complex arrangements (Muir et al., 2017). In both instances the various parties—from NFP executives and directors to lawyers to investors—were required to collaborate, confer and coalesce around the structural hybrid in an attempt to compartmentalize complexity (Perkmann et al., 2019).

Field-Level Implications of Blended SII Transactions

This paper thus provides a novel contribution to theorization of SII in that it broadens existing SII research to describe and explore the consequences of SII market bifurcation at the macro or field level when examined at the micro or transaction level. To our knowledge no studies have examined blended SII transactions in this way. In documenting blended SII transactions, this paper makes a contribution to SII theory and practice by highlighting the non-homogeneous nature of a market dominated by finance-first transactions. Specifically, we posit that blended SII transactions are a result of a resource-constrained context due to the undersupply of impact-led SII.

Due to their prevalence, more compatible (i.e. non-blended) SII transactions (e.g. green bonds) are developing as archetypal SII structures in the minds of investors, investees, policy-makers, philanthropy and intermediaries. We suggest this helps explain the mainstreaming of finance-first SII we are witnessing in global capital markets (Michaux et al., 2020; Mudaliar et al., 2019). This might also explain the contradiction between the rapid acceleration of some forms of SII, such as finance-first indirect investments, and the floundering of other types such as concessionary, blended and patient SII (Castellas & Findlay, 2018; Leijonhufvud et al., 2019; Mudaliar et al., 2018; Phillips & Johnson, 2019). It may also help explain institutionalization at macro level (Findlay & Moran, 2019) as 'investor activity is broadening and deepening' and even beginning to penetrate public markets (Michaux et al., 2020, p. 8). By contrast, institutionalization is not occurring in the impact-led area of the SII, where NFP investees such as those in our two cases would naturally reside (Phillips & Johnson, 2019).

Legitimization and a Structure Hidden from View?

Despite the strategic and operational challenges that this research suggests is present in blended SII transactions, the relative lack of impact-led SII capital and an abundance of finance-led SII capital in Australia and elsewhere, is driving some organizations—particularly NFP social enterprises and other charitable ventures—to develop blended transactions to access the SII capital available. In this way, blended SII transactions are an opportunistic response from a hybrid organization (Mair et al., 2015; Pache & Santos, 2013) to secure resources by appealing to new audiences (Battilana et al., 2017) and to build investee legitimacy by signalling that the investee is sophisticated enough to participate in the SII market (Quinn & Munir, 2017).

The lack of documentation of blended SII transactions, in SII research and practice, means that at a field level, the central role of the concessionary and/or grant capital that underpins the finance-first component (and its consequent returns) is hidden from view; many in the SII field assume the transaction has taken a more archetypal form.

From a business ethics perspective, we suggest that unless blended SII transactions as a form of SII are explored and understood, the SII field will continue to develop with a growing chasm between the finance-first end of the spectrum and more impact-led capital. A failure to recognize the existence of blended SII transactions as part of the broader SII landscape runs the risk of investors, investees, intermediaries and policy-makers assuming a system dominated by finance-first capital is working for all parties and perpetuates the view that the relative paucity of impact-led SII in the market is due to deficiencies on the demand side (Freireich & Fulton, 2009; Mudaliar et al., 2018).

It is arguable that legitimacy issues are the reason that stakeholders continue to deny (or ignore) the blended form of SII transactions and the role played by concessionary capital and grants. Investors—particularly institutional investors—and financial intermediaries seek to strengthen their legitimacy through the 'halo effect'. Philanthropic participants seek to strengthen their legitimacy by demonstrating social innovation and investees seek to demonstrate financial nous. Ultimately, to external eyes, we see commercial logic dominate over social logic, as stakeholders scramble to ensure investors can continue to yield returns that meet their expectations and fiduciary obligations. Yet it is not acknowledged that the financial returns and the social impact generated are underpinned by the very same grants that our research suggests some investors and intermediaries regard as 'inferior capital'.

While performing these contortions does, in many instances, ensure access to capital, this paper highlights the adverse implications at the organizational and field level, of actors struggling to execute blended SII transactions, which this paper conceptualizes as complex hybrids-of-hybrids, complete with competing demands and logics. Alternately, increased availability of more appropriate forms of capital for charitable ventures that promise of high social benefit but lower financial returns, such as concessionary and patient loans and repayable grants, may diminish the need for blended SII transactions and their associated complexity and risks.

Conclusion

This paper argues that blended SII transactions are a distinct form of SII, differentiated from other forms by the number of logics and by the very nature of the logics themselves. We offer a tentative definition of this phenomenon as SII transactions in which multiple forms of impact investment and social finance are structured, thus combining different categories of investors in a single transaction. We further

suggest that blended SII transactions are a hybrid-of-hybrids, in which the misalignment of the specific goals, values and beliefs of the stakeholders results in operational complexity, strategic tensions and conflict.

While problematic and complex to implement at the transaction level, the risks presented by blended SII transactions also threatens to destabilize at the field level. Both cases in this paper exhibited a degree of underperformance, with the extreme case of financial failure in Case 1. The dual forces of the healthy supply of finance-first SII and the inadequate supply of impact-led capital at the field level, coupled with the drive for legitimization through participation in SII is likely to propel growth in blended SII transactions despite their complexity and risks. In Case 1, we saw a creeping scepticism from investors about SII and NFPs more broadly that is likely to grow.

If blended SII transactions, with all their nuance and challenges, are not recognized, they will either continue to be labelled more generally under the SII umbrella and/or mislabelled as finance-first investments. Thus, the adverse implications of blended SII transactions will remain unaddressed and a less than ideal SII system will be perpetuated. From an ethical perspective, the interests of some investors, will continue to be privileged over philanthropy, the investee organization and beneficiaries, as the true costs and benefits are subsumed by the dominant financial discourse and logic. In some cases, this can compromise social impact, if deals are structured to disproportionately and opportunistically respond to the needs of the dominant (finance-first) capital supply rather than the needs of the demand side that generates impact.

Given these adverse consequences, perpetuation of a narrative that does not highlight that the developing SII system is not working for a large segment of NFP and charitable organizations that deliver much of society's social impact. We ultimately argue that the SII field and social impact itself would be better served through the identification of blended SII transactions as a specific SII form, thus casting light on the role that grants and concessionary capital frequently play in enabling SII in NFP organizations and the consequent generation of social impact.

Limitations and Future Research

There are a number of limitations associated with this research. First, our case selection was by convenience, at the request of each case's investors and investees. As with case study research generally, we recognize that it's not prudent to infer too broadly beyond the particulars of our cases. Our speculation that hybrid-of-hybrids is a phenomenon is thus limited to these case studies and our model may not be generalizable.

While recognizing these limitations we suggest there are potential avenues of future research. First, research could explore our tentative proposition that blended SII transactions are commonplace. A more comprehensive survey of the field might explore a given market to determine the breadth of blended SII transactions, the composition of capital, and the extent to which they represent a form of SII that is more widespread than generally recognized.

Second, researchers might explore the application of our model, which conceptualizes blended SII transactions as a hybrid-of-hybrids to other research settings and contexts that present a similar multi-hybrid logic scenario. These settings possibly include the emerging field of social procurement in which a company supply chain is leveraged to also deliver social impact and in which recent research suggests presents risks 'to vulnerable people if they [social procurement policies] are introduced without sufficient support and regard for an industry's culture, structure and capacity to deliver' (Loosemore et al., 2020, p. 552). Are social procurement contracts also hybrid-of-hybrids and does this present risks for execution?

Similarly, the hybrid-of-hybrids construct may be informative in understanding the complexity of blending and deploying corporate, private and government capital to fund international development projects that support the attainment of the Sustainable Development Goals in an approach that the OECD calls (coincidentally) 'blended finance' (OECD, 2018). Are the challenges presented by this form of development finance (OECD, 2018) attributable to a multi-hybrid-logic constitution?

Third, another related line of inquiry might relate to institutionalization. Our study has tentatively speculated that the complex configuration of logics in blended SII transactions stymies execution, which has implications at field level. A future research program might explore in a more sustained way whether this is hindering institutionalization of the field, particularly at the impact-led of the spectrum, and thus accounts for the divergence between growth in the wider market and stagnation of impact-led investment.

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