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Venture capital investments as an instrument of impact investing

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The global pressure on sustainability, adoption on the Sustainable Development Goals in 2015, has influenced the activities in both commercial and non-commercial sector and required the development of practices, consistent with social and environmental standards. Companies from various industries have to confront such challenges of globalisation as excessive consumption, environmental pollution, competition for raw materials and natural resources, etc. Consequently, they have to develop new business models, balancing commercial goals with sustainable development values [1, p. 29, 34]. Such models include new corporate forms (e.g., social entrepreneurship), financing instruments, innovations, stakeholders' consultations and inclusion as well as other solutions that would harmonise business activities with achievement of sustainability.

One of the financing instruments, created specifically to support social innovation in business, is impact investing – investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return [2, p. 5]. The Global Impact Investing Network estimates the current size of the global impact investing market to be $502 billion [2, p. 6].

The concept of impact investment is opposite to the view that social and environmental issues could be addressed only by charitable donations and gratuitous sponsorship, while refundable investments are concentrated solely in commercial sectors and limited to achieving financial returns. Correspondingly, impact investing market attracts various types of professional investors by providing opportunities to advance social and environmental solutions while achieving financial returns. Both individual and institutional investors allocate funds for social impact – high-net-worth individuals, family offices, private foundations, non-governmental organisations, investment companies, diversified financial institutions and banks, etc.

Venture capital investments, being a key model of investments to small businesses and startups with technological growth potential, represent a new perspective player in support of social innovations [3, p. 278]. The core characteristics of venture capital investments allow overcoming the difficulties arising for emerging social innovations companies at the initial stages.

First, venture capital investments are **directed to emerging high-technology companies** and consider specific financial needs of such investees.

In particular, technological industries need to concentrate their resources in research and development to reach their performance potential [4]. In this regard, venture capital investors perform a catalytic role in promoting innovations by translating research and development into commercial outcomes [4]. Furthermore, venture capital investors move towards increased specialisation within certain industrial and commercial sectors, which allows a more competent ownership involvement, coupled with increased technical understanding [5, p. 21].

Second, venture capital investments are **implemented within initial stages of the company's life**, which is named seed financing.

Seed financing implies investor's participation in favor of a business idea for which the legal entity has not been founded yet. Due to the high costs associated with technology development, most high-tech startups require more funds in the initial stages. That is why these startups could act as unprofitable for a few years, which prevents such investors as banks and financial institution from participation on early stages [6, p. 1]. The same is fair for social innovation startups, since the idea of the products, developed by such startups, initially may not imply any commercial profits. For this reasons, it could take even more time and resources to enter the market.

Third, venture capital investors are **more involved in the startup's activities** than other types of investors.

Venture capital investment implies that the investor will exit from the startup within 3–5 years. The need to exit within a tight timeframe turns venture capital firms into active investors and makes them participate in the management to expedite commercial maturity of the company [6, p. 6]. For the same reason, venture capital funds cooperate with the startup accelerators or provide acceleration services themselves, in order to combine financial resources with mentoring, educational components, business training and networking facilities. This combination of resourced creates the ecosystem, which boosts the growth of startups and ensures efficacy of investments.

For example, INCO Venture Capital, France-based fund, investing in startups and companies with strong social and environmental impact, combines investment instruments with access to its own acceleration programs and global digital platform INCO Network, uniting startups, incubators and accelerators across the world.

Hence, venture capital investments constitute an important and perspective opportunity for startups, creating innovations in sectors with high social impact.

Venture capital investments are concentrated on development of young companies, which, in fact, constitute a small team of individuals, inspired by an idea on finding the innovative solution to a particular problem. The perspective of acquiring the initial capital may create the starting point and empower these individuals to devote their time and abilities to realise the innovative potential of their solutions for addressing social and environmental challenges.

Furthermore, venture investors involvement appears beneficial for assisting social innovations startups to overcome their business difficulties. In particular, the combination of economic and social aspects in the activities of such companies requires creating new corporate structures and business models, which could adequately reflect the particularities of creation and development of social innovation. Whereas startups usually lack the individuals with professional business knowledge in their team, involvement of an investor or mentor with such expertise helps to develop the basic business strategy to support and secure social innovation from the commercial side.

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