Chapter 16
Exploring Philanthropic Foundations' Motivations and Managerial Model of Strategic Change from Grant–Making to Impact Investing

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ABSTRACT

Little scholarly research has systematically examined impact investing in the nonprofit realm. In the overview, the paper presents a case study of a U.S.-based private foundation that has transformed itself from a grant-maker to an impact investor, and the associated challenges of institutional entrepreneurial motivations, successful strategy for institutional adaptation, and the ensuing lessons for the field of impacting investing. The paper has two main objectives: to identify the motivation and enabling environment for such strategic change, and to analyze the issues and changes of the managerial model when evolving from traditional grant-making to impact investing. We argue that organizations that are mission-driven, entrepreneurial in spirit and structure, with embedded business/philanthropy principles acting as a source of change in the institutional field. However, it faces technical and legitimacy problems resulting from the new practice's lack of institutional saturation in the field.

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INTRODUCTION

The current philanthropy and nonprofit organizations environment demands an entrepreneurial spirit to tackle the ever-increasing social problems effectively. Some nonprofit organizations now increasingly resort to a business approach to address social problems; and some traditional private grant-making foundations are experimenting with mission-related investing, program-related investing and responsible investing. An umbrella term for the aforementioned investment activities that intend to generate both positive social and financial returns is impact investing. There is a growing interest among foundations in allocating more resources towards the achievement of their mission. Therefore, impact investment has emerged as a financial tool that allows foundations to achieve their mission through the use of endowments, and to generate social impact. Such activity also allows foundations to tackle social issues and generate social changes in a more sustainable way than is possible through grant allocation.

Private foundations have traditionally been the engines to fuel the nonprofit sector and social change since the early 20th century; and they are comprised of experts chiefly from the public sector. The shift from a purely charitable model to an enterprise model confronts many challenges from legal, cultural, and managerial perspectives. Clarifying the enabling environment/motivations and approaches to such strategic change(s) by philanthropic foundations would allow us to have a better understanding of how and why, as well as the keys to, successful organization change (Armenakis & Bedeian, 1999). The results of the study aim to provide a greater understanding of the strategic change processes carried out by an exemplary private foundation, which will broaden the theory related to strategic change. The practical implication consists of accelerating the implementation by foundations that intend to adopt impact investing as a new strategy.

Little scholarly research has systematically examined impact investing in the nonprofit realm. Based on an in-depth qualitative case study of the ABC Foundation (a pseudo name) in New York, a pioneering American grant-making foundation that has shifted its strategic focus to impact investing, this chapter has two main objectives: to identify the motivation and enabling environment of the strategic change; and to analyze the issues and changes confronting the managerial model when evolving from traditional grant-making to impact investing. This chapter consists of four sections, including an introduction, background and literature review, case description and analysis, and a conclusion.

BACKGROUND AND LITERATURE REVIEW

The term, *impact investing*, was coined by the Rockefeller Foundation in 2007. The Global Impact Investing Network (GIIN) defines impact investing as investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return (GIIN, 2016). The notion of a financial return in addition to social and environmental impact is key because of the implied strategic consequence associated with such investment, which we will discuss below. The current size for this market amounts to $60 billion and is expected to grow in the next two decades (Etzel, 2015).

Long before the term *impact investment* became popular, some organizations could arguably be identified as prototypes for impact investors. The most renowned example is most likely Ashoka. Since its establishment in 1980 by Bill Drayton, a former McKinsey Consultant, Ashoka has been involved

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