



STEFANO ROMITO

VENTURES, FINANCE AND THE PATH TO SOCIAL IMPACT

**BUILDING THE ECOSYSTEM
FOR SUSTAINABLE DEVELOPMENT**

Preface by

CLODIA VURRO





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PREFACE

Clodia Vurro¹

This manuscript reflects a set of research interests that the author has pursued since the beginning of his career, focused on how interorganizational relationships shape the adoption, development, and diffusion of sustainable practices and innovations. In recent years, his work has particularly focused on the ties between firms and the actors in the financial ecosystem: how those ties are formed, how they influence managerial decisions, and under what conditions they enable both young ventures to achieve their sustainability objectives.

Consistent with this overarching focus, this volume makes a distinctive contribution by approaching sustainable finance and impact investing from the entrepreneur's point of view, that is, from the perspective of those who must translate purpose and metrics into organizational decisions, contracts, and outcomes. In doing so, it complements a literature that has often focused on the supply side of finance, offering instead a clear-eyed account of how entrepreneurs navigate, and at times reshape, the instruments and expectations imposed by financial actors. The demand-side lens adopted here allows for a more grounded understanding of where, how, and why alignment between mission and financial tools is achieved—or where it breaks down.

The broader context in which we all live renders this study especially urgent. As governments retrench from certain domains of social provision and as entrepreneurs grow more attuned to social value creation, the private sector is increasingly expected to generate scalable solutions

¹ Full Professor of Management, Department of Economics, Management and Quantitative Methods (DEMM), University of Milan.

to deeply entrenched societal challenges. Yet scaling these solutions requires more than intent, it depends on access to capital, legitimacy, know-how, and strategic networks. These are outcomes of a dense and dynamic set of interactions between entrepreneurs and the financial intermediaries, foundations, public institutions, and civic actors that populate the ecosystem. Understanding the structure and coordination of these interactions is thus essential for both scholarly analysis and effective practice.

The structure of the book reflects this ambition. The first section reconstructs the scholarly literature on enterprises oriented toward sustainable development, outlining the primary pathways through which these firms scale—whether by extending reach, deepening impact, or shifting institutions—and mapping the characteristic tensions of hybrid models. These include the trade-offs between mission and growth, the misalignment between impact timelines and market expectations, and the burdens of accountability and measurement. The second section charts the sustainable financial ecosystem itself, distinguishing between funding sources—grants, patient capital, equity, and debt—while highlighting their non-financial value: in selection processes, in reputational signalling, in mentoring, and in access to networks. These elements are carefully contrasted with those offered by traditional financial operators. The final section presents findings from an empirical study of young European ventures, yielding robust insights into their experiences navigating the financial ecosystem.

The results of the study show that ventures for sustainable development seek external capital with an intensity comparable to that of conventional firms, yet they often face structural disadvantages. Traditional investors tend to exhibit limited appetite for hybrid models, while specialist actors do not consistently bridge the gap. These patterns hold across both equity and debt markets, suggesting a persistent set of challenges that span financial instruments and are broadly shared across sectors and countries in the European context.

This book will be of clear value to scholars offering both a refined conceptual framework and careful empirical grounding. Practitioners and policy-makers, too, will benefit from the specificity with which the findings are translated into implications for selection, structuring, and

monitoring practices. By shifting the analytical lens from financial providers to entrepreneurs, the author recasts sustainable finance not as a static supply of capital, but as a relational and contested process. In doing so, he provides a sharper understanding of why misalignments persist—and what it might take to resolve them. I am confident this work will influence scholarly debates and policy conversations alike on how financial ecosystems can more effectively support sustainable innovation—not only to launch, but to scale, endure, and deliver meaningful impact.

INTRODUCTION

Climate change, biodiversity loss, social inequality, food insecurity, and resource depletion are no longer distant threats but urgent realities. Confronting these challenges demands not only policy shifts and technological solutions, but also new economic actors capable of reimagining how value is created and distributed. In this landscape, entrepreneurial ventures are increasingly seen as agents of systemic change able to develop, test, and scale innovations that address critical societal needs.

These ventures, hereafter referred to as *ventures for sustainable development*, sit at the intersection of entrepreneurship and sustainable innovation, operating with dual, or often multiple, objectives: achieving financial viability while generating measurable environmental and social impacts. Whether advancing clean energy, sustainable agriculture, circular economy models, or equitable access to health, education, and housing, they challenge the traditional divide between profit and purpose. Their models are mission-driven, yet they must navigate a terrain shaped by market constraints, institutional voids, and complex, often conflicting, stakeholder expectations.

In this context, *scaling* takes on a broader meaning. It is not merely about growing revenue or expanding market share, but about increasing a venture's capacity to generate positive systemic change (Dees et al., 2004). Scaling ventures for sustainable development involves replicating or adapting successful models, building strategic partnerships, and influencing the broader institutional environment (Desa & Koch, 2014; Vurro & Dacin, 2022). Yet, this path is far from linear. Internally, ventures may face limited managerial capacity, challenges in codifying and transferring context-dependent models, and tensions between maintaining mission fidelity and pursuing growth. Externally,

they contend with weak regulatory frameworks, missing policy supports, and immature markets for sustainable products and services—barriers that inhibit resource mobilization, coalition-building, and access to long-term capital (Bloom & Chatterji, 2009).

Among these challenges, access to finance remains one of the most critical and persistent barriers. The hybrid nature of these ventures—positioned between profit and purpose—creates what scholars describe as a liability of hybridity in financial markets (Lo Mele et al., 2024). Their dual mission often makes them appear too risky or too low-yield for conventional investors, while at the same time too market-oriented to qualify for traditional philanthropic funding. This structural mismatch limits their ability to secure adequate capital across different stages of growth. Early-stage ventures, in particular, face the pioneer gap, a funding void in which they are too immature for commercial finance but too advanced for grants or donations (Koh et al., 2012). Even when financing is available, it often comes with conditions or time horizons that fail to align with the long-term nature of social and environmental impact.

In response to the persistent financing challenges faced by ventures for sustainable development, a specialised ecosystem of financial actors has emerged. These actors provide capital through three main channels—donations, equity, and debt—each addressing different needs across the venture’s life cycle. Together, they form a continuum of financial support mechanisms that go beyond capital provision, offering strategic mentorship, credibility, and access to networks. Through these combined financial and non-financial contributions, ventures for sustainable development are better equipped to grow, adapt, and scale their impact in complex and evolving environments.

This book explores how specialized financial actors and instruments interact to support the growth of ventures for sustainable development. We begin by laying the theoretical foundations of entrepreneurship for sustainable development, focusing on two categories of ventures that the literature identifies as having the potential to contribute to sustainable development: *impact-oriented ventures* and *sustainability-oriented ventures* (Chapter 1). The following two chapters examine these types

of ventures in depth, highlighting their specific characteristics as well as their points of convergence.

The second part of the book shifts the attention to the financial ecosystem that enables ventures for sustainable development to scale. Chapter 4 introduces the main challenges that these ventures encounter in accessing finance, setting the stage for the detailed examination of funding actors that follows. Chapter 5 focuses on donors and philanthropic funders, analysing their catalytic role in providing early-stage resources and non-financial support. Chapter 6 focuses on equity providers, including business angels, accelerators, incubators, and social impact venture capital funds, and discusses how they blend financial returns with impact objectives. Chapter 7 turns to debt-based finance, exploring both the limitations of traditional banking systems and the emergence of alternative and social banks tailored to the needs of sustainable and impact-driven ventures.

The final section presents the findings of the empirical study conducted as a part of the research project *Entrepreneurial Sustainability and Access to Finance*, carried out by the University of Milan in 2024 and funded by the European Union – NextGeneration EU (PNRR) under the MUSA initiative (Multilayered Urban Sustainability Action), Spoke 4 – Economic Impact and Sustainable Finance. The study investigates how European entrepreneurial ventures access external finance and how this process is influenced by their degree of sustainability and impact orientation.

CHAPTER I

ENTREPRENEURSHIP FOR SUSTAINABLE DEVELOPMENT

1.1. Reframing entrepreneurship as a force for sustainable development

As global challenges intensify, scholars and policymakers have turned their attention to the potential of entrepreneurial activity to generate economic growth and contribute to environmental protection and social well-being (Perrini & Vurro, 2006). This shift reflects a broader reconceptualization of entrepreneurship's societal role, from a profit-driven phenomenon to a transformative force capable of advancing long-term sustainability objectives (Hall et al., 2010). Entrepreneurship is thus no longer viewed solely as an engine of market dynamism, but also as an institutional and systemic agent of change that can reorient economic activity toward the Sustainable Development Goals (SDGs) (Schena et al., 2022; Schaltegger et al., 2018).

Academic literature refers to this broad phenomenon as Entrepreneurship for Sustainable Development (Johnson & Schaltegger, 2020), a term that captures the mobilisation of entrepreneurial resources and capabilities to generate goods and services that sustain both the natural and social environment, while creating value for a wide set of stakeholders (Dean & McMullen, 2007; Patzelt & Shepherd, 2011). Building on early reflections by Hart and Milstein (1999), sustainability began to be recognised not as a constraint on entrepreneurial activity but as a fertile ground for innovation and competitive advantage. In this view, entrepreneurs can act as catalysts for sustainable transformation by identifying market opportunities that simultaneously generate profit and positive (or at least non-negative) social and environmental impact.

Following this perspective, a growing body of research has examined how entrepreneurs translate sustainability-oriented values into action,

by redesigning products and processes to minimise negative environmental footprints (Choi & Gray, 2008) and by embedding ethical, social, and ecological considerations into their strategic and operational choices (Cohen & Winn, 2007; Dean & McMullen, 2007; Muñoz et al., 2018; Vedula et al., 2022). In doing so, they redefine what constitutes value creation in market systems, shifting the emphasis from short-term profitability to long-term societal and ecological resilience.

Within this umbrella, two partially overlapping yet analytically distinct fields of study have emerged. The first is *impact-oriented entrepreneurship*, which centres on ventures whose primary purpose is to address specific social or environmental challenges, often through hybrid organisational forms that combine market-based approaches with the intent of creating a positive social or environmental impact (Perrini & Vurro, 2006; Vedula et al., 2022). The second is *sustainable entrepreneurship*, which focuses on ventures that integrate environmental, social, and governance criteria into their core value creation processes, aiming to mitigate harm and enhance systemic sustainability (Anand et al 2021).

In the early stages, the two academic fields developed mostly separately (Bonfanti et al., 2024) and scholars, with the intent of defining a clear research domain, focused on pointing out the differences between these types of ventures - especially how they each try to create positive change for society or the environment (Saebi et al., 2019). More recently, however, researchers have begun to reconcile the two domains, highlighting their common ground and shared strategic challenges (Bonfanti et al., 2024).

While heterogeneous in their objectives, legal structures, and strategic approaches, these ventures share a foundational ontological feature: they operate within an expanded value space, where economic, social, and environmental value dimensions are not only co-present, but actively intertwined and mutually reinforcing (Johnson & Schaltegger, 2020). As a result, an increasing number of studies has sought to identify commonalities between the two domains. One of the key aspects emerged regards the barriers these ventures face in scaling their impact.

CHAPTER II

IMPACT-ORIENTED VENTURES

2.1. Navigating hybrid goals

Across the globe, new types of ventures are taking on challenges once addressed primarily by governments or nonprofit organizations—delivering essential services in underserved regions, addressing environmental degradation, and advocating for marginalized groups. These ventures blend commercial logics with social purpose, aiming to achieve scalable and sustainable impact (Lo Mele et al., 2024; Vurro & Perrini, 2006). Often referred to as impact-oriented ventures, these organizations have multiplied and drawn attention from scholars in management and entrepreneurship, who investigate organizations that operate at the intersection of the for-profit and the nonprofit sectors (Cossanzo et al., 2015; Battilana & Lee, 2014).

Although interest from both scholars and practitioners has steadily expanded—evidenced by the growing number of dedicated studies and comprehensive literature reviews (e.g., Bonfanti et al., 2024; Hietschold et al., 2023; Saebi et al., 2019; Vedula et al., 2022)—there is still no universally accepted definition of impact-oriented entrepreneurship (Glasbeek et al., 2024). Rather, it is often conceptualized as a set of related concepts that include an entrepreneur (or team of entrepreneurs), a form of organizing, social innovation, a market orientation, and social benefits (Hietschold et al., 2023).

A direct consequence of the open and evolving definition of impact-oriented entrepreneurship is the significant terminological heterogeneity across both scholarly and practitioner communities. Commonly adopted terms include social ventures, hybrid organizations, social businesses, and impact-driven enterprises (Battilana & Lee, 2014; Doherty et al., 2014). Despite these terminological distinctions, these

ventures consistently share a defining feature: their dual commitment to financial viability and the creation of a positive social or environmental impact (Besharov & Smith, 2014).

However, terminological variety is only one layer of conceptual diversity. A deeper and more analytically significant source of heterogeneity lies in the conceptualization of social value creation. In their review, Hietschold et al. (2023) distinguish between *social value*, the perceived improvements in individual or collective well-being, and *social change*, referring to transformations in institutions, norms, or systemic structures. While related, these dimensions point to different levels of impact and mechanisms of change. Impact-oriented ventures contribute to generate *social value* by designing and delivering new products and services that meet unmet needs, particularly in contexts where traditional markets have failed. They may also provide financial, physical, or organizational resources to disadvantaged groups, enabling them to participate more fully in economic and social life (Wry & Zhao, 2018). A further mechanism lies in the cultivation of human and social capital, for instance by offering training opportunities, fostering inclusion, and empowering beneficiaries to co-create solutions (Ansari et al., 2012).

At the same time, impact-oriented ventures can contribute to *social change* by tackling the structural roots of societal challenges. They may reduce social and environmental costs by addressing negative externalities or by innovating business models that internalize such costs. In other cases, they generate and diffuse positive externalities that extend beyond immediate stakeholders, thereby influencing broader communities (Cohen & Winn, 2007). Social change can also emerge when ventures succeed in connecting supply and demand in ways that integrate marginalized groups into existing or new markets. Perhaps most importantly, these enterprises often act as catalysts, stimulating other market actors—incumbent firms, policymakers, or civil society organizations—to adopt more socially innovative practices (Dean & McMullen, 2007).

The catalytic role of impact-oriented ventures extends further into the institutional sphere. As Schaltegger et al. (2016) argue, impact-oriented entrepreneurs are not only market actors but also institutional entrepreneurs who shape behavior, influence consumer demand, and