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The role of governance in enabling the pursuit of dual mission in bank-based impact investing

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ABSTRACT

Impact investing, defined as direct investments into small- and medium-sized enterprises (SMEs) with intentionality to realize social impact and financial returns, simultaneously, has emerged as an attractive, alternative source of entrepreneurial finance in marginalized communities. In this paper, we focus on bank-based impact funds (BBFs), where impact investors and commercial bank partner to create different vehicles of impact investments (managed funds, grants/guarantees or co-financing BBFs) for financing SMEs. Through the theoretical lens of governance, as applied to bank-SME financing and the pursuit of dual mission in social entrepreneurship studies, we develop qualitative case studies in Ghana, uncovering how BBFs enable the pursuit of dual mission by SMEs. The findings are drawn upon to develop a theoretical framework that depicts a unique form of governance as constituting the (i) alignment of the incentives of impact investors and banks to resolve structural and dual-mission tensions in bank-SME financing; and (ii) pre-approval, control and monitoring mechanism necessary for the pursue of the dual mission of financial returns and social impacts in bank-based impact investing. The findings have implications for fund managers, SMEs and policymakers seeking to attract impact investments for private sector-driven development.

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Impact investing; governance; bank-based impact funds; dual mission; tensions; small and medium-sized enterprises; Ghana

1. Introduction

Impact investing, defined as direct investments into small and medium-size enterprises (SMEs) to generate, intentionally, pre-defined social impact and financial returns, is attracting increasing attention from academics and policy makers (Jones and Turner 2014; Hochstadter and Scheck 2015; Ormiston et al. 2015; Ngoasong et al. 2015). Existing research unravels i) the factors that underpin the label 'impact investing' (Hochstadter and Scheck 2015); ii) the types of impact investments (e.g. developmental venture capital, philanthropic venture capital and social venture investment) (Spiess-Knafl and Aschari-Lincoln 2015); and iii) the often contradictory mission of development finance institutional investors (Wood, Thornley, and Grace 2013), private equity fund managers and investee SMEs (Rajan, Koserwal, and Keerthana 2014). For instance, whereas development finance institutions prioritize social impact, private equity investors prioritize financial returns, while SMEs that traditionally prioritize private wealth creation are now required to achieve a dual mission of social impact and financial returns. There is a dearth of research on how different models of 'configuration and adoption' of impact investments (Bhatt and Ahmad 2017, 391) enable

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portfolio SMEs to pursue dual-mission objectives of social impact and financial returns (Siebold, Günzel-Jensen, and Müller 2019).

Examining the link between impact investing and dual-mission management addresses a significant research gap in the entrepreneurship development literature regarding the alignment of contradictory missions/intentions of investors that give rise to tensions and the associated trade-offs for both fund managers and investee SMEs alike. Limited entrepreneurship development research exists that discusses the mechanisms for frugal deployment of capital and tailored impact investments, intended to suit small brick and mortar businesses seeking to achieve social impact and financial returns (Bhatt and Ahmad 2017). Dual-mission management, 'the process of selecting, connecting, and intertwining dual missions', enables social ventures to pursue balanced growth, avoid mission drift and achieve social impact (Siebold, Günzel-Jensen, and Müller 2019, 711). Dual-mission management may differ between social ventures and commercial ventures because, in prioritizing social impacts, social ventures run the risk of neglecting the financial oversight that is at the core of commercial ventures' prioritizations of financial returns. In recognizing this difference, Siebold, Günzel-Jensen, and Müller (2019) call for empirical research that examines dual-mission management in impact investments.

The above research gap also reflects a long-standing call for research that uncovers how the governance agreed between impact investors can catalyse alignment for dual-mission aspirations through minimizing the tensions that underpin the very pursuit of dual mission (Battilana and Dorado 2010; Mogapi, Sutherland, and Wilson-Prangley 2019). Tensions exist at the level of the partners' missions. This is because impact investors, fund managers and portfolio SMEs are no longer seen as pursuing pure private wealth creation (financial returns) but are viewed as agents seeking to create social impacts through commercially driven activities (Siebold, Günzel-Jensen, and Müller 2019). Tensions also exist at a structural level. While private equity funds have ownership rights (equity stakes) and appoint boards of directors to provide direct oversight, banks are structured around reporting and debt repayment mechanisms and, therefore, have more of an indirect governance role because they cannot appoint boards on portfolio SMEs. The flow of investments from impact investors and banks into SMEs requires strong alignment to reduce the risk of failures (Gompers, Kaplan, and Mukharlyamov 2016) that can potentially undermine the role of impact investments in development. This study, therefore, addresses the key research question: How does the governance of impact investments enable the pursuit of a dual mission of financial returns and social impact by investee SMEs?

The above question is particularly significant to impact investing in developing countries such as those in Africa. In 2015, the inflow of impact investment into sub-Saharan Africa (SSA) was estimated to be above US$17 billion (GIIN 2015); while a recent investor survey revealed an estimated US $404 billion asset under management with 21% (US$84.4 billion) allocated to SSA (GIIN 2020). This implies that the supply of financing is increasing. However, the SME financing gap in the emerging market is estimated at US$5.2 trillion (Broome, Moore, and Alleyne 2018), of which US$331 billion pertains to SSA (IFC 2017). Access to bank financing is a major challenge facing SMEs, and the relationship between banks (supply) and SMEs (demand) is persistently labelled as constrained and characterized by high defaults (Fowowe 2017; Robson et al. 2013). This is a source of dual-mission tension because SMEs are viewed as agents of societal impacts at the same time as being considered to constitute a financing risk (in terms of financial returns) to banks.

In addressing the above question, the study makes two significant contributions. First, we demonstrate the importance of reconceptualizing the governance of bank-based SME financing at the intersection of capital market theory (Gompers, Kaplan, and Mukharlyamov 2016; Duarte, Gama, and Gulamhussen 2018; Bartoli et al. 2013) and institutional theory (Battilana and Dorado 2010; Duarte, Gama, and Gulamhussen 2018) for understanding dual-mission management. Our reconceptualized framework provides an improved understanding of the influence of governance on dual-mission management in bank-based impact investments by explaining (i) the alignment of the incentives of impact investors and banks to resolve structural and dual-mission tensions in bank-SME financing and (ii) the pre-approval, control and monitoring necessary to pursue the dual mission of financial returns and social impacts in bank-based impact investing. This is significant to bank-based impact investments because, whereas the capital market-based theory emphasizes ownership and control enforced through Boards of Directors (Kaplan and Strömberg 2009; Gompers, Kaplan, and Mukharlyamov 2016), commercial banks extend and recover loans to SMEs through a financial reporting structure (Bartoli et al. 2013). We show that achieving effective alignment and oversight at the investor-bank level depends on effective pre-approval and monitoring mechanisms at the bank-SME level.

Second, through qualitative case studies of distinctive models of bank-based impact funds (BBFs) in Ghana (namely managed funds, grants and financial guarantees, and 50/50 co-financing), we have uncovered the circumstances under which transaction orientation (Bartoli et al. 2013) can be combined with a trust-based orientation (Welter 2012; Jackowicz, Kozłowski, and Strucinski 2020) to improve investor–investee relationship management. Without effective investor–investee relationship management, dual-mission tensions arising from the contradictory missions of impact investors (Hochstadter and Scheck 2015; Siebold, Günzel-Jensen, and Müller 2019) can reduce the likelihood of SMEs successfully raising and benefiting from impact investments (Bhatt and Ahmad 2017). We find that dual-mission tensions are managed through i) pre-financing processes that already exist to address tensions between banks and SMEs; (ii) post-finance monitoring to ensure that achievement of agreed objectives; and iii) relationship building, for example, through the deployment of technical assistance facilities to improve human resource development and reporting structure. The first two are transaction-oriented (Bartoli et al. 2013), whereas the third is underpinned by trust-based theories (Welter 2012; Jackowicz, Kozłowski, and Strucinski 2020).

We suggest that dual-mission management is a useful way to achieve alignment of missions between multiple investors and investees while increasing the likelihood of SMEs successfully raising and benefiting from financial capital (Bhatt and Ahmad 2017). By linking impact investment funds to the structural and dual-mission tensions, and how these are managed through governance, we reveal the trade-offs associated with dual-mission tensions in impact investing (Mogapi, Sutherland, and Wilson-Prangley 2019). A review of the key literature is followed by the methods, findings, discussions and conclusions.

2. Literature review

2.1 Bank-based impact investments in small and medium-sized enterprises

A review of the growing literature enables a conceptualization of impact investing. In terms of definition, impact investing refers to 'investing that intentionally seeks targeted positive social impact as well as financial return' (Wood, Thornley, and Grace 2013, 75) or 'investments that are primarily made to create tangible social impact but also potentially financial return' (Clarkin and Cangioni 2016, 137). Both of these definitions are consistent with those given in the review of academic and practitioner documents (n = 156) by Hochstadter and Scheck (2015, 454), which identifies 'financial return and some sort of non-financial impact'. Other reviews of impact investing reveal investment strategies and investor motivations, and how these are defined, translated into defined types of investments and financial instruments, and deployed in developing countries (Hochstadter and Scheck 2015; Ormiston et al. 2015). We see two rationales that support a better understanding of how different models of 'configuration and adoption' of impact investments (Bhatt and Ahmad 2017, 391) enable portfolio SMEs to pursue the dual-mission objectives of social impact and financial returns (Siebold, Günzel-Jensen, and Müller 2019).

First, existing research on different configurations of impact investments has examined the financial capital dimension that focuses on developmental venture capital (Bhatt and Ahmad 2017) without accounting for impact investments into bank-based fund managers or into portfolio SMEs in the pursuit of dual missions. 'Impact first' and 'finance first' are two categories of impact investors that each have different risk-return and social impact expectations (Hochstadter and Scheck 2015; Ormiston et al. 2015). Whereas finance first impacts investors place a premium on the financial returns with a floor to the social impact (Hochstadter and Scheck 2015), impact first investors seek to maximize social or environmental returns while having a minimum required financial return (Ormiston et al. 2015). A review of literature from Bhatt and Ahmad (2017), Spiess-Knafl and Aschari-Lincoln (2015), Rajan, Koserwal, and Keerthana (2014), Scarlata and Alemany (2010), and Kaplan and Strömberg (2009) reveal three distinctive types of impact investing: i) impact first, capital market-based funds (venture philanthropy and social venture capital funds that provide grants, equity and debt); ii) finance first, capital, market-based funds (private equity and venture capital funds that use equity, debt and convertible debt); and iii) finance-first, commercial, bank funds (BBFs that use debt and guarantees).

Financial intermediation theory provides that, through relationship lending, banks utilize control and monitoring as fundamental governance mechanisms (Chava and Roberts 2008). As a relationship lengthens, the lender's (bank's) control is enhanced and their relationship with the borrower deepens; the borrowers retain control rights based on covenants in the original loan contracts, provided there is full compliance with those covenants (Chava and Roberts 2008). Elements of control include approval authority within the investment committee, a voice on critical social and financial decisions, and transaction termination or extension authority. Chakraborty and Ray (2006) assert that banks typically monitor firms to resolve agency problems, which makes bank financing expensive even if this does not ultimately eliminate agency problems (Chakraborty and Ray 2006). Audretsch, Lehmann, and Plummer (2009) note that a governance structure that aligns managers' interests with those of the shareholders can establish safeguards against contractual hazards.

Another reason for studying impact investing is the recognition that tensions and trade-offs between the missions of investors and investees can be exacerbated by scarce resources and financial constraints in the pursuit of dual-mission objectives of social impact and financial returns (Siebold, Günzel-Jensen, and Müller 2019). The impact investment literature has identified that there is a flow of funds into high growth, missing middle and established SMEs; these are seen as agents of universal change (Jones and Turner 2014) due to the developmental impacts they have in serving poor communities (Rajan, Koserwal, and Keerthana 2014; Oleksiak, Nicholls, and Emerson 2015). BBFs have been set up to realign the missions of banks and portfolio SMEs. Recognizing the attention being given to the role of impact investments in development, Geobey and Harji (2014, 275) call for the 'need to develop and strengthen governance mechanisms' considering that the impact investments to SMEs in developing countries are seen as having weak governance systems. We suggest that addressing this research need, first, requires uncovering distinctive configurations of impact investments (Bhatt and Ahmad 2017); and second, due to the extent to which the interests and expectations of investors and investees affect the development of investees at micro and meso levels (Siebold, Günzel-Jensen, and Müller 2019), requires a fresh theoretical perspective applied to empirical context, bank-based impact investments into SMEs.

2.2 Theoretical background

To uncover how gaining an understanding of the governance of bank-based impact investments enables a better understanding of the role of impact investing in the pursuit of dual mission by SMEs, we draw on capital market-based theory and institutional theory to generate a fresh theoretical framing that links governance, tensions and the pursuit of dual mission in bank-SME relationships. This is summarized in Figure 1. Both theoretical perspectives are the starting point for understanding governance (left-sided boxes), conceptualizing the configuration of bank-based impact investment and the management of dual mission (middle boxes) as our theoretical framing of how the governance of bank-based impact investments enables and challenges the pursuit of dual mission by investee SMEs (right-sided box).

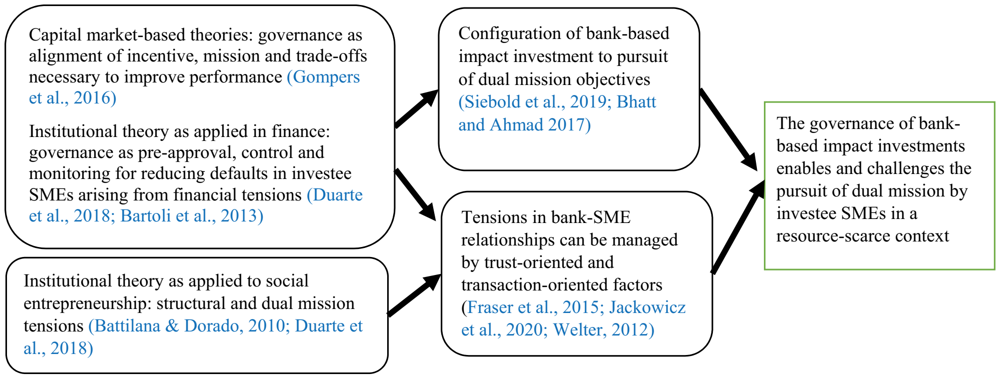

Figure 1. Different theoretical perspectives for analysing the governance of bank-based impact investing.

Taking each in turn, we first consider the capital market-based perspective in studies of SME financing, which we see as useful for uncovering the sources of tensions in the configuration of investments into SMEs. One strand of this literature integrates capital trade-offs (Myers 1977), the theory of the firm (Jensen and Meckling 1976) and the leveraging of private equity to improve the performance of investee SMEs (Kaplan and Strömberg 2009). Taken together, these studies introduce governance as a useful concept for uncovering how the structure of external funding sources available to SMEs can give rise to tensions that require trade-offs between fund managers and portfolio SMEs to resolve. Gompers, Kaplan, and Mukharlyamov (2016) propose financial and governance engineering to describe actions by private equity fund managers intended to create structures for reporting transactions and decision-making that align their incentive, mission and/or strategies to those of portfolio SMEs, thereby, providing the oversight that limits opportunistic behaviour.

Whereas the governance of private equity involves ownership structures that include the appointment of Boards of Directors (Kaplan and Strömberg 2009; Gompers, Kaplan, and Mukharlyamov 2016), commercial banks extend loans to SMEs through a financial reporting structure that does not require Board of Director oversight at the bank-SME level (Bartoli et al. 2013). However, the aim of this study is not to compare bank-based versus capital market-based financing (Chakraborty and Ray 2006). We see our paper as complementing a capital market perspective in seeking to understand the influence of governance in the management of tensions where the relationship is informed by financial reporting as against Board of Director oversight. Informed by institutional theory (Stiglitz and Weiss 1981) applied to the study of mutual loan guarantees to Italian SMEs, Bartoli et al. (2013) introduce financial tensions as 'the extent to which a firm is using at least 70% of short-term credit from loans granted by the banking system and if this leads to a worsening of its situation' (Bartoli et al. 2013, 75). High financial tensions, they argue, indicate a higher potential of default. From this perspective, financial tension is depicted as transactional in nature and arises from the malfunctioning of credit markets, such as at a time of crises or in the presence of information asymmetry problems.

In a study of bank–SME relationships, Duarte, Gama, and Gulamhussen (2018) define governance as pre-approval, control and monitoring to reduce the extent of defaults that arise from financial tensions. They suggest that research that unpacks financial tensions in the bank–SME relationship can provide new insights into how SMEs that are too exposed to a single bank might default less in order to sustain their main banking relationship. Our aim is not to study the transactional relationships between BBFs and SMEs. However, we see transactional relationships as significant for uncovering the SMEs' financing challenges that impact investors seek to address. At the bank-SME level, financing challenges include the funding gap between the demand and supply sides (Fraser, Bhaumik, and Wright 2015; Robson et al. 2013) and the high cost of borrowing (Beck, Demirguç - Kunt, and Singer 2013). This is despite many banks setting up SME desks, or units, to strengthen relationship lending with SMEs (Boadi et al. 2017; Fowowe 2017). At a macro level, especially in African countries, a major financing challenge (weak governance excessively complicated administrative procedures) that leads banks to hold a relatively smaller SME loan portfolio because they prioritize more profitable investments (Gelb et al. 2007). As a result of these challenges, the tensions that arise go beyond financial and can be seen as structural tensions (Ngoasong et al. 2021) within the banking relationships.

Another set of literatures that we considered apply institutional theories to uncover the structural and mission-driven tensions that underpin bank–SME relationships (Battilana and Dorado 2010; Duarte, Gama, and Gulamhussen 2018). For this, a study on commercial microfinancing in Latin America identifies structural tensions and dual-mission tensions (Battilana and Dorado 2010). In terms of dual mission, development and commercial organizations strive to require the leveraging of resources/capabilities to effectively manage the balance between the source of tension and conflict. These studies suggest that further research is needed to uncover a governance mechanism that is effective at minimizing tensions. Studies applying institutional theories to analyse the financial and non-financial bank–SME relationships also introduce social capital (Bizri 2017) and trust factors (Jackowicz, Kozłowski, and Strucinski 2020; Welter 2012). Jackowicz, Kozłowski, and Strucinski (2020) integrate trust and financial intermediation theories to investigate SMEs' bank choices and the lengths of bank–firm relationships in Poland. They argue that SME managers who are motivated by trust-related factors are more likely to choose lenders with whom they can maintain long-term relationships. However, they also suggest that as the SMEs grow and mature, their managers lean towards those banks that offer transaction-oriented policies that better meet the needs of their firm. Trust, at individual and organizational levels also underpins relationships between credit officers and entrepreneurs in the African context (Ngoasong and Kimbu 2016), whereas bank-based impact investors seek to pursue transaction-oriented policies so as to improve reporting and accountability (Geobey and Harji 2014).

In summary, the impact investment literature reveals how BBFs are raising capital from impact investors with the understanding that governance mechanisms are in place to address persistent financing constraints that have led to fraught relationships in the past between commercial banks and SMEs and minimized their role in development. This creates a structural tension in that both commercial banks and their portfolio SMEs are no longer focusing on private wealth creation but are now being viewed as agents of poverty alleviation. However, the governance mechanism necessary to deal with the tensions in bank-based impact investing remains under-theorized and is the focus of this research. The next section presents the methods used.

3. Methods

3.1 Research setting

Our research setting is Ghana, a West African country that is experiencing a transformation in the financial sector, with emerging financing vehicles (venture capital, microfinance and impact investing) (Quartey et al. 2017; Robson et al. 2013) and the recognition of SMEs as crucial for private sector-led development (Obeng, Robson, and Haugh 2014). In 2015, Ghana received an estimated US $1.6 billion in impact investments (GIIN 2015) and was recently recognized as one of the most attractive countries in SSA for impact investing (Watts and Scales 2020). Ghana is ranked 120 on the World Bank's ease of doing business list, compared to Kenya (80), Cote D'Ivore (139) and South Africa (82) (World Bank 2018). Its SME sector is said to have the capacity to affect poverty alleviation (Aryeetey and Baah-Boateng 2016) through productivity increases that are possible through direct investments (Mano et al. 2012). These financial and social impact factors reflect the dual-mission tensions, making Ghana a useful setting for the development of empirical case studies for understanding dual-mission management (Siebold, Günzel-Jensen, and Müller 2019).

Ghana also provides a useful setting for understanding how the structural tensions that have arisen from the existing institutional environment can be addressed through the alignment of missions and strategies in bank–SME relationships that bank-based impact investment seeks to promote. Quartey et al. (2017) found that the difficulties involved in capturing credit information, ownership status, sizes of firm and legal rights, as well as the levels of experience of the SME managers, are major constraints for banks when lending to SMEs. Some banks resort to credit rationing (Robson et al. 2013), while others consider the institutional unfriendliness as justification for maintaining only a small portfolio of funds to SMEs (Gelb et al. 2007). These challenges are related to structural tensions in bank–SME relationships that can be addressed through alignment of incentives and reporting. They also reflect dual-mission tension, where banks and SMEs intend to pursue financial and social missions (Siebold, Günzel-Jensen, and Müller 2019); in Ghana, social missions include addressing unemployment, poverty, inadequate access to water, and improvement in education and health (Aryeetey and Baah-Boateng 2016).

3.2 Research design, sampling and data collection

This study adopted a qualitative research method (Miles, Huberman, and Saldaña 2014), consisting of multiple embedded cases (banked-based funds into SMEs) in Ghana. A case study research design is appropriate for researching impact investing 'where theory is in its early and formative stages' (Bhatt and Ahmad 2017, 399). We adopted a combination of purposive and theoretical sampling (Bizri 2017). For purposive sampling, we followed Obeng, Robson, and Haugh (2014) in selecting respondents from three contrasting, sub-national regions: the Greater Accra Region, which hosts the headquarters of major financial institutions; the Ashanti Region, which hosts major commercial activities; and the Eastern Region, which has benefitted from being demarcated, by the Government of Ghana's Free Zones Authority, as an industry cluster. The purpose of such clusters is to encourage enterprise development in previously underdeveloped regions. Thus, we considered the unique context of Ghana rather than the ease of access associated with convenient sampling (Miles, Huberman, and Saldaña 2014). Theoretical sampling then focused on selecting cases to evidence theoretical reasoning and to aid replication (Siebold, Günzel-Jensen, and Müller 2019; Yin 2009).

We operationalized the above sampling approaches in three stages. In Stage 1 (April 2014 to May 2015), the second author carried out a scoping study of impact investing in Ghana, identified 20 impact funds and clarified their characteristics as bank based. In Stage 2 (March to December 2017), the first author conducted a pilot study to test access to these BBFs, and their respective investee SMEs, as potential case study firms. We also used the pilot study to clarify our research questions, consent and interview protocols and to identify secondary participants. Overall, 5 BBFs and 12 SMEs constituted our primary sample (Tables 1 and 2). Secondary participants included government agencies (n = 4), country managers of development finance institutions (n = 4) and global impact investors that have invested in Ghana-based funds (n = 5).

Stage 3 (January to April 2018) was devoted to data collection. The research received ethics approvals from the authors' university's Human Research Ethics Committee (HREC/2017/2491/Lamptey/1). To ensure anonymity and easy recall of participants and cases, we used code numbers for fund managers and SMEs. The choice of who to interview in the commercial banks and investee SMEs was based on persons in positions/roles that allowed them to discuss governance and strategy around impact funds (e.g. for banks these were the Fund Managers responsible for BBF while for SMEs, they were the owner-managers or managers) rather than selecting people based on their job titles. In all, 44 audio-recorded and three informal interviews were conducted, all of them using the English language and each within a timeframe of 60–90 minutes. The interview guide developed from the literature review included questions that related to governance (pre-approval, control and

Table 1. Bank-based impact investment funds studied.

Code	Year Founded	Description of commercial bank	Overview bank-based fund	Background of interviews
BBA001	1970	Foreign-owned top six bank	Raised US$60 million within three years, agribusiness focused, deal sizes up to US $3 million	(1) Head of agribusiness finance, male, 10 + years experience in banking (2) Relationship manager, retail banking, female, 12 + years experience in banking.
BST002	2009	Foreign-owned top six bank	Export-oriented SMEs in agri-business, estimated portfolio of US$10 million, deal size of US $2 million	(3) Head of corporate banking, male, 10 + years experience in banking
BFI003	2006	Foreign-owned top six bank	Investments in SMEs in health, education, water, sanitation and finance sectors. Portfolio size of US$10 million.	(4) Head of Strategic Partnership, male, 8 + years experience in banking (5) Relationship Manager, Male, 12+ years experience in banking
BEC004	1990	Locally-owned top six bank	Managed funds for financial inclusion in agri-businesses, estminated portfolio of US $20 million, targets microfinance and agency banking, deal sizes up to US$5 million	(6) Head of Digitalization, Male, 15+ years in experience in banking (7) Senior Accounts Manager, Male, 10+ years experience in banking
BCA005	1990	Locally-owned top ten bank	SMEs, espacially women-owned across many sectors, portfolio size of at least US$25 million	(8) Deputy Head, Corporate Banking, Male, 12+ years experience in banking.

monitoring), how alignment of mission was negotiated and agreed, the choice of BBF model, and implementation. Observations, captured in field notes, enabled identification of new themes that had not been examined earlier during the literature review (Bhatt and Ahmad 2017; Yin 2009). During informal visits to regulatory and promoting institutions and during interactions with the staff of fund managers and investee SMEs, it was possible to triangulate the evidence that had been obtained from the interviews with participants. The data from the secondary participants and the field notes, when combined, facilitated data triangulation and data checking.

3.3 Data analysis

The study adopted a qualitative content analysis approach to systematically explore textual data to identify patterns and structures emerging as themes (Bizri 2017). A five-step process of within-case analysis was used to code and analyse the influences of BBFs on SMEs according to the levels of governance, strategy changes and impacts (social impacts and financial returns). First, the interview transcripts, documentary evidence (reports, brochures, posters, and leaflets) and fieldwork notes were imported into NVivo 11 Pro software and the data was organized. Second, we coded the data using phrases, statements and descriptive categories from cases as first-level categories or respondent types. Third, we used first-order concepts to reflect the codes from the previous categories. Fourth, we identified second-order concepts or medium-level themes, based on the extant literature, to further code and re-classify the first-order concepts. This analytic approach applies grouping and pattern matching, which promotes data categorization (Miles, Huberman, and Saldaña 2014). Finally, as aggregated dimensions represent analytic concepts or themes, based on the theoretical themes in the literature review, we triangulated the secondary data and rapid participant observations to aggregate second-order codes.

Table 2. Small and medium-sized enterprises studied.

Code Name	Year founded	Description	No. of staff	Scale	Impact fund	Background of interviews
SIN004	2010	Microfinance institution	97	High growth	BFI003	(1) General Manager, Male, 15+ years experience in banking and consulting (2) Accounts officer, Male, 5+ years of microfinancing experience
SGE005	2001	Imports and wholesale distribution of soymilk products.	30	Medium Sized	BST002	(3) CEO/Founder, Male, 20+ years industry experience
SPS006	1995	Provides commerce and warehousing services	20	Medium sized	BEC004	(4) Managing Director/Founder, Male, 20+ years entrepreneurial venture experience
SFR008	2006	Manufactures and exports fruit concentrate to European markets, sources fruits locally through outgrower fruit farming schemes	30	High growth	BFI003 & BEC004	(5) General Manager and Co-founder, Male, 10 + years industry experience
SFA011	2010	Produces agricultural inputs (e.g. organic fertilizer and agri-police pesticides) for the local and regional market	10	Small	BCA005	(6) Managing Director, Male, 10+ years experience in agri-business sector
SEU012	1986	Manufacture and sales of bolts and nuts for clients in the West Africa region	50	Medium-size	BCA005	(7) Managing director/Founder, Male, 15+ years entrepreneurship experience
SLI013	2007	Distributor of downstream fuel products through franchisees	20	High growth	BBA001	(8) Managing director/Founder, Male, 15 + years entrepreneurial experience
SGC015	2005	Grows and exports fair-trade pineapples to European markets	168	Medium-size	BST002	(9) Financial Controller, Male, 10+ years experience in industry (10) Production Manager, Male, 12+ years of industry experience
SAK016	1987	Livestock farming on 755,000 birds capacity hacthery	350	Medium-size	BBA001	(11) Financial manager, Male, 10+ years of experience in agri-business sector
SBU014	1998	Produces roofing sheets and kitchen accessories for real estate companies and individuals.	25	High growth	BBA001	(12) Managing director/Founder, Male, 15+ years entrepreneurial experience
SMA016	2005	Network of agricultural farmer group that produces and distribute agriculture products to commercial users	100+	Medium-sized	BEC004	(13) Coordinator, Male, 15+ years experience in agri-business sector
SAW017	2010	A 32 bed capacity specialist hospital	20	Small	BFI003	(14) CEO/Founder, Male, 15+ years experience as a medical practitioner.

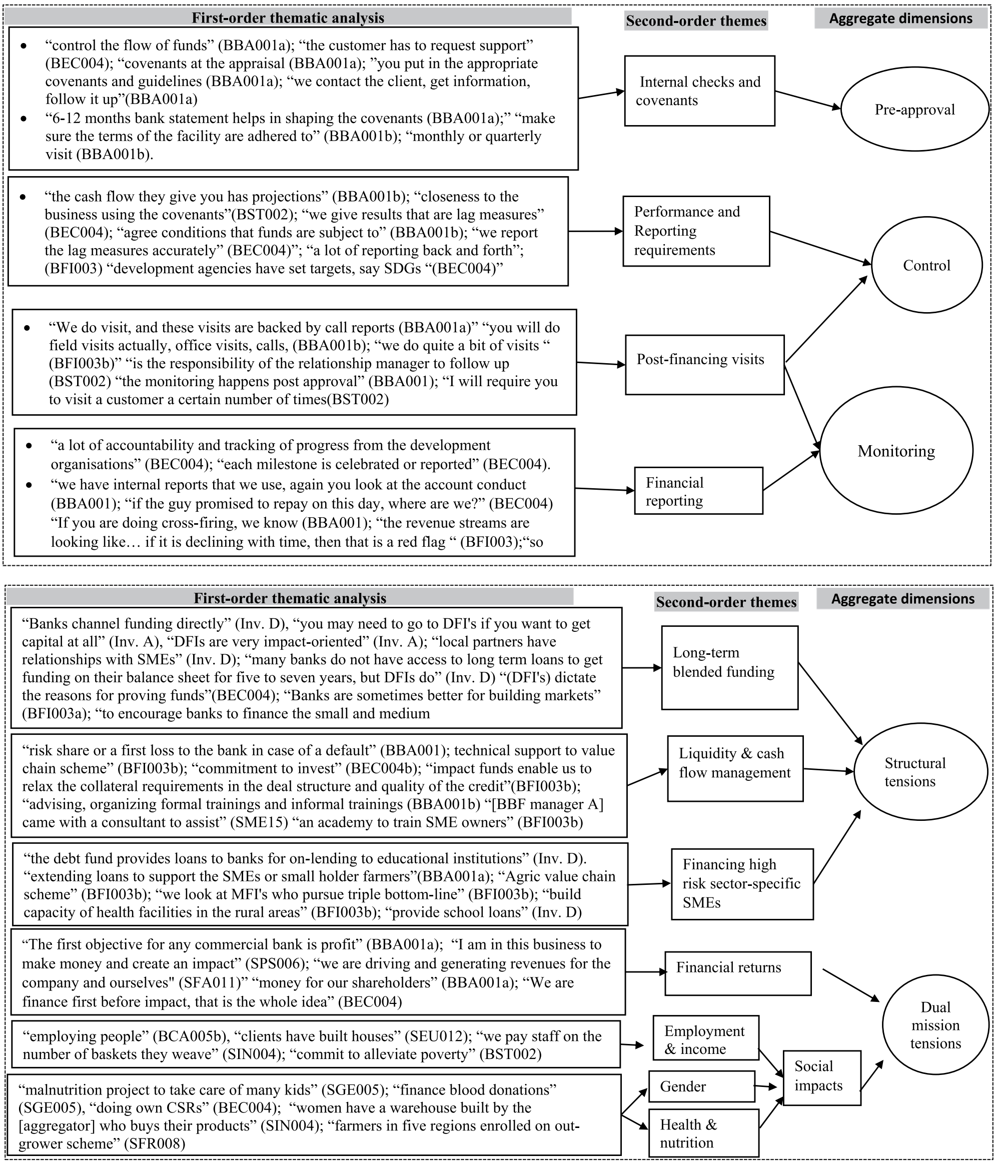

Figure 2. (a) Data structure for governance of bank-based impact funds. (b) Data structure for governance as alignment in response to tensions.

The second-order codes were helpful as they aided analysis and allowed case illustrations to be noted as categories of observed constructs of the theoretical framework; this was especially so for case descriptions (Yin 2009). The same steps were applied to uncover fund manager-SME investee relationships, again focusing on governance, strategy changes and impacts. Data codes, categories, and themes were created to demonstrate how we moved from raw data (first-order codes) to the constructs for categories (second-order codes) and themes (second-order codes) for each of governance, strategic change/alignment and impacts (Figure 2a and 2b).

Cross-case analysis was used to capture the similarities, differences and unique contents of the BBFs into SMEs for theory-building. Cross-case analysis seeks to 'enhance transferability to another context' and to deepen our understanding of, and explanations about, the phenomenon under investigation (Miles, Huberman, and Saldaña 2014, 101). Cross-case analysis involves comparing the similarities and differences in the accounts of respondents, which helps to improve the building of a reliable theory from the cases (Siebold, Günzel-Jensen, and Müller 2019). We used case-replication method to compare, systematically, the emerging themes with the evidence from across the cases in order to assess how well each theme fit with the case data and with the existing theories of governance, strategy alignment, investor–bank partnerships, and the pursuit of dual mission by banks and SMEs.

4. Findings

4.1 Governance as a response to tensions at the impact investor-bank level

Our data reveal that whereas ownership, control and board representation are the key governance mechanisms, in traditional bank-based SME financing (Gompers, Kaplan, and Mukharlyamov 2016; Kaplan and Strömberg 2009), control and monitoring are the primary governance mechanisms that are relied upon to manage structural and dual-mission tensions at the investor-bank level. Although the standard template for bank financing is still being used for deal sourcing of SMEs, there have been new criteria added to reflect the pursuit of dual mission. Overall, the fund managers that we interviewed spoke about a need to enable SMEs to develop strong governance systems: that align to the strategic aims of impact investing, that address the 'fear' of funds diversion and other financial risks, and that develop the human resources of the SME, by drawing on technical assistance facilities. A strong governance system in this sense reflects pre-approval, control and monitoring (Figure 2a).

Pre-approval is inherent in any loan or credit administration process; terms, conditions and covenants are stipulated in the legal agreements between the lender and the borrower (Scarlata and Alemany 2010). Typical wording used by BBF respondents concerning control mechanisms included:

"I set a condition that I am giving to you this fund subject to doing this and that, so we all agree (BBA001b),

. . . ensure covenants are met" (BST002)

. . . adherence to terms of the facility (BBA001b)."

While some covenants are generic, the majority are commercially driven and sector specific in their impact orientation, reflecting the strategic interests of global impact investors. BBF uses monitoring to ensure that SMEs produce dual mission outcomes of social impact and financial returns. Evidence of monitoring is found in accounts that are typically presented as:

"we cannot do armchair lending (BBA001$_a$)

. . . you have to be on the ground . . . governance mainly through monitoring (BST002)".

Monitoring also aims to ensure that the SMEs deliver on the intermediate objectives of risk mitigation, information feedback to credit decision-makers and compliance with agreed terms. Monitoring here is useful for justifying why alignment is necessary for strong governance (Chava and Roberts 2008). Our data revealed three ideal types of BBFs, namely managed funds, co-financing, and grants and guarantees. Each of these funding models has been in existence for decades. We found two ways in which they have been reconceptualized in bank-based impact investing; one relating to structural, and the other to dual mission, tensions. First, there has been an emergence of new types of investors that impose stricter conditions alongside the changing perceptions of donors that are now favouring investments in the place of foreign aid. Second, the intentionality to pursue dual mission in SME financing was not previously emphasized in bank financing. The constitution of BBF models recognized the structural and dual-mission tensions in bank-SME financing and how these were resolved through alignment at the investor-bank level. Below we articulate the arguments for each of the three BBF models.

4.1.1 Managed funds for possibility-to-profitability

Managed funds are favoured by Development Finance Institutions for on-lending to SMEs (Benink and Winters 2016). The purpose is to provide direct investments into SMEs that lack access to long-term capital, while providing liquidity support for commercial banks. Previously, managed funds targeted large, long-term infrastructure investments that were viewed as having the potential to create an enabling environment for SMEs to be able to secure loans from commercial banks (Benink and Winters 2016). When asked to describe the structure of managed funds as a result of raising capital from impact investors, the responses of interviewees pointed to structural tensions, related to the structure of financing (Duarte, Gama, and Gulamhussen 2018), and to dual-mission tensions (Mogapi, Sutherland, and Wilson-Prangley 2019).

As typified in the accounts of BST002, BFI003 and BEC004, about on-lending to high growth and established SMEs (Figure 2b), the structure of managed funds emphasizes the loan period, size of investment and criteria for accessing the capital. Though these areas of emphasis are transaction-related factors (Jackowicz, Kozłowski, and Strucinski 2020), the constitution of managed funds that invest in high growth and the established 'missing middle' enterprises also reveals trust factors in terms of the faith that commercially driven investors have in the financial system as a result of the provision of technical assistance by development finance agencies. Whereas there is a perception of high growth firms as either using their own internal funds or conventional debt-finance such as loans (Brown, Mawson, and Mason 2017), what we see here is that high growth firms are seeking impact investments, requiring a renewed thinking into what non-transactional factors within governance mechanisms can enable their success.

4.1.2 Co-financing or blended funding

Co-financing is a collaborative arrangement between BBF and development agency funding in a 50:50 relationship (Figure 2b). In this model, the bank and the development agency conduct a joint assessment of the SME with the bank focusing on financial viability and the co-development institution assessing the social impact dimension. Here, governance is shaped around reporting as against governance by a board of directors (Gompers, Kaplan, and Mukharlyamov 2016). The development agency commissions a third party to assess the developmental impact of investing in the SME while the bank conducts a financial evaluation of the commercial viability of the SME. The two reports are fully considered to inform a decision on the granting of a loan. From this process, alignment between the funders and SME starts to emerge and a dual mission strategy is established.

The above depiction relates to structural tensions that exist in, what one fund manager labelled as, syndicated loan financing, which traditionally targeted corporations, large infrastructure projects or governments, but which is now being adapted to smaller loan sizes for sector-specific SMEs, such as healthcare, education, water and agribusiness sectors. Our evidence is consistent with existing discussion on 'co-investment' as a source of large scale, 'big-ticket' investment involving governments, and global and private investors (Wood, Thornley, and Grace 2013, 84). To promote and support SMEs in specific developmental sectors, interest rates on these loans are kept relatively low because these sectors are unattractive to purely commercial capital. The low interest rates reflect the dual-mission tension in that, in addition to banks having a preference for charging high interest rates and SMEs having a history of high default that discourage banks from granting loans (Fowowe 2017), the social impact requirements constitute additional credit risks for SMEs, resolved through low-interest funds from development agencies.

4.1.3 Grants and guarantees

Grants and guarantee models enable banks to claim a percentage of the guarantee in situations where an SME fails to repay the bank (first loss-provision). Despite their aspirations for growth, capital is often lacking because banks have concerns about a SME's capacity to repay (default issues) (Fowowe 2017). The guaranteed model is favoured by philanthropic foundations and development agencies that previously promoted development in African countries through foreign aid. In order to ensure that commercially viable SMEs can pursue social impact missions, these impact investors prefer structured grants and guarantees. These take the form of 'market-testing' grants to BBF managers and ensure that capital is available for unproven markets; they also reduce the risk, to the bank, of utilizing bank capital for new product development. Second, grants to BBFs also occur in the form of incentives to fund managers to ameliorate the monitoring cost of SME financing and thereby reducing 'the risk for unfamiliar products' (Wood, Thornley, and Grace 2013, 90).

In relation to managing structural tensions, the accounts by BFI003, about how banks establish a 'Strategic Partnership Unit dedicated to attracting impact investments', recognize that the existing structures of bank–customer relationships are not suitable to be aligned with the pursuit of dual mission and that a new structure is needed to avoid previous perception gaps in bank financing. Such a bank-initiated style of relationship management is recognized by Boadi et al. (2017) as being necessary to ensure that specific banks support the sustained growth of SMEs.

4.3 The role of governance in enabling the pursuit of dual mission in SMEs

The data from interviews with the fund managers and entrepreneurs (owner-managers of the SMEs) reveal how effective governance enables the pursuit of dual mission by SMEs, in the ways in which pre-approval, control and monitoring mechanisms are deployed to deal with structural and dual-mission tensions in bank–SME relationships. The interviewees' accounts of the ways in which governance is operationalized reflect the structure of lending set-up to mitigate risks for SMEs and, thereby, to facilitate the realization of dual-mission objectives. To follow, we analyse three SME case studies to reveal, first, the tensions, both structural (Duarte, Gama, and Gulamhussen 2018) and dual mission (Battilana and Dorado 2010; Siebold, Günzel-Jensen, and Müller 2019) that come into play at the bank-SME level and, second, how these are addressed.

The first case study was an established SME (SMA016) that was, hitherto, financially constrained to realize anticipated growth and needed to be strategically realigned to secure access to impact investments from a bank (BEC004). Eventually, BEC004 financed SMA016 with US$3million, which generated employment for over 10,000 farmers across four regions in Ghana. Before financing, this SME had experienced resource-constraints in that it lacked access to the appropriate growth financing necessary to positively affect economic growth (Beck, Demirguç -Kunt, and Singer 2013). The pre-approval process enabled an assessment of the nature of dual mission pursued versus the potential risks, as illustrated below:

> Established SMEs in the agribusiness sector are high risk because of complex and often inefficient supply chain linkages. Many are scalable because they serve thousands of farmers and food crop buyers. We can help such a business to achieve its potential as a medium-sized enterprise by investing in its supply chain to connect farmers to markets. In this way we also create employment and income for farmers. (Manager, BEC004)

The quotation above relates to dual-mission tension in that the social impact goal to create employment and income for the poor has to be balanced against the likely commercial returns to be realized through bank-based investments. The accounts of the BEC004 Manager is an example of a departure from the predominantly held view that banks are traditionally reluctant to extend loans to high-risk SMEs due to fear of defaults (Boadi et al. 2017).

Governance, in the form of an alignment of incentives for the pursuit of dual mission, became a way of resolving the tension in this case. The BBF Manager of BEC004 explained how they worked with the manager of SMA016 to set-up a structure of impact financing that consisted of direct loans and technical assistance to strengthen the firm's internal governance and operational management of their dual-mission objectives (Siebold, Günzel-Jensen, and Müller 2019). When asked to explain how post-finance monitoring occurred, both the BBF manager and the SME manager explained that they would check the status regularly, e.g. 'if the business manager promised to repay on this day, where are we?' (BEC004). In terms of structural tensions around the complexity of business operations (Siebold, Günzel-Jensen, and Müller 2019), SMA016 experienced infrastructure challenges (e.g.

with transport, power supply and payment mechanisms) that constrained the effective functioning of its local supply chain and increased the risks for the bank financing. To address this, the BBF and the SME jointly implemented activities that involved mobilizing certified food crops from farmers' harvests and supplying them to the warehouses of multinational buyers. They also helped with invoices, which were usually subject to a 60-day credit, by the BBF manager using grants and guarantees to discount them.

The second case study relates to long-term blended funding, which is an agreed strategy-mandate fit at the investor level that is executed at the SME level by fund managers. SGC015 was an established, pineapple exporting SME that raised impact investments from two impact investment funds, one of which was BST002. BST002 provided US$1million at a low interest rate of 14% per annum (compared to existing loan interest rates above 35% per annum for locally denominated transactions and 16% for foreign denominated loans). Such a lower interest rate reflects a structural tension, where the loan amount that the bank provides to the SME comes with a much lower interest rates and an additional burden around the monitoring and reporting that would be required (Duarte, Gama, and Gulamhussen 2018). The success of SGC015 in securing such low interest loan from BST002 can said to have established vertical trust between a finance provider and an SME (Ngoasong and Kimbu 2016). This is because SGC015 showed evidence of the loan when applying for funding from a capital market-based fund manager of US$2million for growth and expansion of its export market, a more transaction-oriented relationship.

The total funds from both impact investment funds enabled SGC015 to develop over 200 acres of its existing farmland for production of pineapple in the Eastern Region, within an enclave demarcated as a free zone area recruiting farmers and youth from the region for land preparation, fertilization, cultivation, harvesting and, ultimately, for exporting. However, the funding created a dual mission tension in that huge loans were secured that were risky but, also, there were challenging social impact measures to be demonstrated. When asked to describe the nature of governance when investing in this SME, the BBF managers talked about pre-approval screening to establish the 'closeness of the business against the covenants agreed with impact investors' and how the fund ensured that 'covenants are met', with the latter reflecting the control and monitoring components of the governance (Audretsch, Lehmann, and Plummer 2009; Gelb et al. 2007).

The case of SGC015 is similar to that of SEU012, an established medium-sized enterprise with a diversified portfolio in the agriculture, manufacturing and sanitation sectors, in terms of alignment to dual-mission management. However, SEU012 had a slightly different lending structure, informed by acquisitions. SEU012, located in the Ashanti region, employed over 100 people with an estimated annual revenue exceeding US$1million across the three different sectors. As part of the strategy alignment, the BBF manager of BCA005 provided three categories of loans: (1) US$2million to acquire a bolt and nut manufacturing company; (2) US$500,000 for market development within the West Africa region; and (3) US$300,000 to procure raw material imports for processing and exporting. When asked to describe how SEU012 could realize the growth and market demands, while delivering social impact, the BBF manager of BCA005 spoke about how a technical assistance facility, consisting of relationship advisors, provided on- and off-site business support services to the SME.

A final illustrative case is SGE005, an importer and distributor of soy milk products, operating in 10 sub-regions of Ghana. SGE005 had created a network of distributors with the majority of them representing women-owned small businesses that sold imported products to individuals and local retailers. BST002 had been providing financing to SGE005 in the form of an annual bank guarantee that started at US$1.5million and increased to US$5million by the fifth year. Through control and monitoring, SGE005 was challenged to fulfill the contractual agreements. A dedicated relationship manager from BST002 monitored the SME's accounts and transactions, and visited them, or engaged with them, as required for any transaction and advisory matter. An escrow account, operated by SGE005 and BST002, enabled a weekly transfer of sale proceeds from distributors and was used to effect quarterly payments to foreign suppliers. On average, SGE005 cleared 130 × 40 ft containers of soymilk products per month. As part of a strategy alignment process to secure the next batch of funding, agreed social impact and financial returns were validated; SGE005 strategically identified new women entrepreneurs as distributors and established a malnutrition foundation. The founder of SGE005 commented on the women entrepreneurs developed as distributors:

> " . . . a host of them (women), as I was saying, most of the distributors that I have, I have forty distributors in the whole country; 80% of them are distributors that I created myself. I thought them myself, I brought them into the business . . . a lot of them have built their houses, bought cars and taken their kids to school because of my initiative. (SGE005)"

The above achievements relate to the findings of Mogapi, Sutherland, and Wilson-Prangley (2019) about dual-mission tension being resolvable through trade-offs where profitability, expansion of business, growth, and contribution to economic growth are indicators of financial returns. This was reflected in the high growth enterprises that we studied. A unified approach to dual missions is captured below:

> "The utility companies are happy because we pay our bills that cover the electricity revenue targets [Environmental, Social, and Governance]. We got the farmers' association to open bank accounts. Once their members have accounts we don't pay them cash. I only sign one cheque with the list of members and advise the bank, and then they are credited. This gets people into the banking sector. If we were processing 500 tonnes per day divided by 13 tonnes per truck you are talking about 38 trucks. For each truck you need about 10 people to do on-loading, implying 380 people just for harvesting and loading consistently for the next four months. How do you pay them in cash?" (SFR008).

Taken together, the accounts of the SMEs and the BBF managers reveal the nature of governance in bank-based impact investments (pre-approval, control and monitoring) and describe how this governance model enables the pursuit of dual mission by BBFs and SMEs through the recognition and management of structural and dual-mission tensions during implementation. These findings are further discussed below.

5. Discussion and conclusion

5.1 Theoretical contribution

When global impact investors channel SME financing to developing countries through commercial banks, different types of tensions can arise between the commercial bank and the SME, which need to be overcome to ensure that both bank-based impact funds (BBFs) and their investee SMEs can achieve, and retain, a balance between financial and social missions. In examining how the governance of bank-based impact investments enables the pursuit of a dual mission of financial returns and social impact by investee SMEs in Ghana, we have made two significant theoretical contributions to the literature on entrepreneurship development.

First, we have demonstrated the importance of reconceptualizing the governance of bank-based SME financing at the intersection of capital market theory (Gompers, Kaplan, and Mukharlyamov 2016; Duarte, Gama, and Gulamhussen 2018; Bartoli et al. 2013) and institutional theory (Battilana and Dorado 2010; Duarte, Gama, and Gulamhussen 2018) for understanding dual-mission management in impact investing. Our reconceptualized framework (Figure 3) provides an improved understanding of the influence of governance in enabling the pursuit of dual mission in bank-based impact investments through two interlinked phases. In Phase I, governance is the alignment of incentives (Gompers, Kaplan, and Mukharlyamov 2016) between global impact investors and commercial banks, which provides oversight, ensuring that bank-based fund managers do not pursue the opportunistic behaviours found in traditional bank-SME financing relationships (e.g. Beck and Demirguc-Kunt 2006). This is related to an institutional perspective on governance. In Phase II, governance is the pre-approval, control and monitoring activities (Duarte, Gama, and Gulamhussen 2018) that enables BBFs to manage structural and dual-mission tensions (e.g. Battilana and Dorado 2010; Ngoasong et al. 2021).

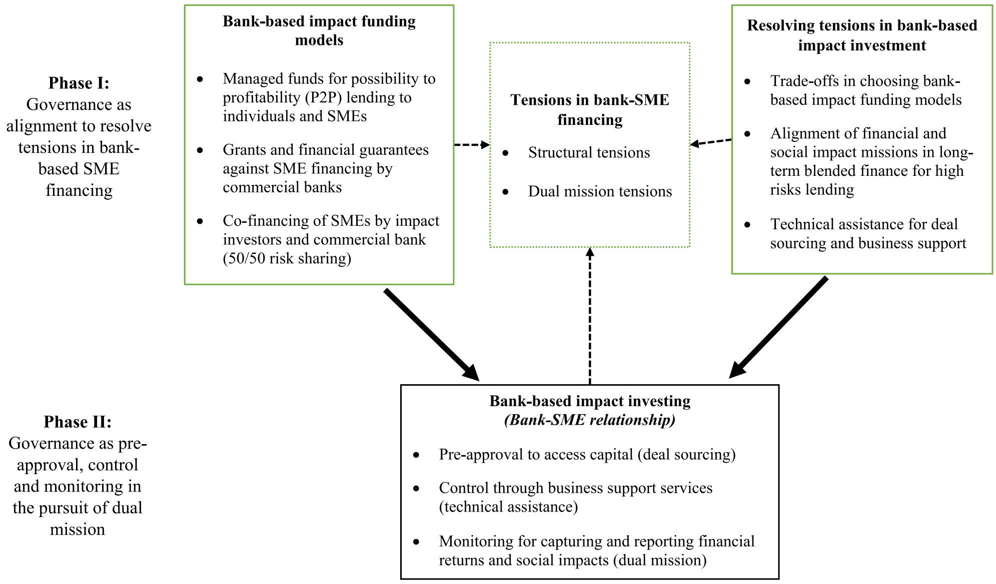

Figure 3. How governance enables the pursuit of dual mission in bank-based impact investing.

Our proposed framework complements existing conceptualizations of governance that focus on the role of the board of directors and equity ownership as the main loci of control (Gompers, Kaplan, and Mukharlyamov 2016) of critical resources needed for both advantage-seeking and opportunity-seeking behaviours in SMEs (Audretsch, Lehmann, and Plummer 2009). Whereas private equity emphasizes ownership, banks extend loans to SMEs, which means they are less likely to appoint boards of directors for the SMEs. This gives rise to a form of governance that does not require the type of board of director oversight typically found in capital market-based impact investors. Our framework is useful for understanding the influence of governance in contexts, such as those in Africa, that are informationally opaque (a source of mistrust) and in need of more transparency and relationship building to improve access to SME financing (Fraser, Bhaumik, and Wright 2015; Boadi et al. 2017). In such contexts, the alignment of contradictory incentives create tensions for which trade-offs are necessary to realize dual-mission objectives.

Second, we have contributed to the entrepreneurship literature by uncovering the circumstances under which transaction-oriented (Bartoli et al. 2013) and trust-oriented (Welter 2012; Jackowicz, Kozłowski, and Strucinski 2020) factors enable the management of tensions in bank-based SME financing. This is true for the two types of tensions analysed in this study, namely structural tensions and dual-mission tensions. Structural tensions that exist in the structure of BBFs and the organization of how impact investments are channelled to investee SMEs are consistent with existing studies on structural or financial tensions that partly account for the likelihood of SMEs defaulting on their loan repayments (Bartoli et al. 2013; Duarte, Gama, and Gulamhussen 2018). This is evident in the information asymmetry and the high costs of borrowing for SMEs (Fraser, Bhaumik, and Wright 2015). Our findings suggest that structural tensions are resolved through the financing relationship between SMEs and banks, which are transaction-oriented and trust-oriented. Transaction-oriented relationships occur in the pre-financing stage, where mistrust between banks and SMEs can limit access to finance, and in the post-financing stage, where improved transparency is established through monitoring. Trust-oriented factors are evident in the use of technical assistance to provide the capacity-building necessary to improve the operational performance of SMEs and thereby resolve existing mistrust. These interlinked relationships are applicable to all BBF models, namely, co-financing (50:50 risk sharing), managed funds and grants and financial guarantees.

With respect to dual-mission tensions, our findings are consistent with existing research reveal discussing the existence of a dual mission as a source of tension that requires the leveraging of resources/capabilities to manage (Battilana and Dorado 2010). This is significant because tensions and trade-offs between missions can be exacerbated by scarce resources and financial constraints in the development of the SMEs (Siebold, Günzel-Jensen, and Müller 2019). Previous research applying trust-based theories reveals how SMEs' bank choices, and the length of a bank–firm relationship, are more strongly associated with trust-related factors, while as the SMEs grow and mature, managers lean towards banks adopting transaction-oriented policies (Jackowicz, Kozłowski, and Strucinski 2020). We found a similar transaction orientation in the negotiation of trade-offs (Mogapi, Sutherland, and Wilson-Prangley 2019) and the alignment of missions (Gompers, Kaplan, and Mukharlyamov 2016) between commercial banks and impact investors. However, our findings suggest that in order to manage the structural and dual-mission tensions, a non-transactional, trust-based approach becomes useful. Examples of trust-based approaches the increased communication, greater trust in the capabilities developed through the provision of technical assistance, and greater collaboration in meeting common challenges (e.g. Jackowicz, Kozłowski, and Strucinski 2020; Ngoasong et al. 2021).

5.2 Implications for policy and practice

For commercial banks to increase their likelihood of raising impact investments, they not only have to understand whether specific impact investors are finance-first or impact-first (Hochstadter and Scheck 2015), they must also be prepared to re-align their investment strategies and internal governance mechanisms to reflect those preferred by the impact investors. Our findings suggest that the objective of alleviating intractable societal problems through private sector investments challenges bank-based fund managers to pursue dual missions that are difficult to achieve without an effective governance and strategy alignment.

While BBF managers, hitherto, have allocated relatively low financing to SMEs due to the perceived risks of doing so, opportunities created through impact investing are catalysts that enable commercial banks to scale-up their SME financing in a way that enables financial returns and positive social impacts. This presents an opportunity for SMEs. As suggested in Siebold, Günzel-Jensen, and Müller (2019), identifying common values that intertwine the social and financial missions can also enable SMEs to increase their chances of raising impact investments. We suggest that common values can be agreed by investors, banks and investee SMEs through a review of the governance mechanism to clarify and align the mission, values and strategies of these three key stakeholders as central to the oversight being provided.

The government should ensure that the institutional environment not only attracts impact investments (GIIN 2015) but also maximizes the societal transformation that they seek to create, for example, through investing in microfinance institutions that have long been under pressure to adopt formal (regulated) governance (Ngoasong and Kimbu 2016). The provision of incentives, for example, technical assistance can enable local pension funds, insurance companies and high net worth individuals to invest in BBFs can complement the global impact investment in-country and thereby increase the portfolio of bank-based impact investments. Moreover, entrepreneurs and owner managers of SMEs can take a cue by accepting independent directors onto their boards to increase their legitimacy to bank-based impact investors. Our findings suggest that, technical assistance is useful because it provides resources for building the knowledge and capabilities (e.g. reporting structures) necessary to strengthen both transaction-based and trust-based relationships.

5.3 Limitations and future research

This study has some limitations that provide opportunities for future research.

First, qualitative case studies in a single country study have limitations relating to context and sample size. In terms of context, our findings reflect success stories, that is, SMEs that successfully raised capital from BBFs, which might lead to expectancy effects. We did not investigate case studies of SMEs that had applications for impact investments rejected. The business environment in Ghana displays informal sector characteristics that are cultural in nature (Robson et al. 2013), suggesting that, in addition to the structural and dual-mission tensions that we have uncovered, cultural tensions that create perceptions about the interactions (Ngoasong et al. 2021) between BBFs and SMEs also require consideration. Future studies using a larger sample of BBFs, including those from across more than one country, can apply our empirically derived theoretical framework through a theoretical elaboration approach (Miles, Huberman, and Saldaña 2014). A comparative analysis of capital market-based funds, versus BBFs, is needed to reveal how the distinctiveness of impacts investors' choices of intermediaries. This will further validate our emergent framework through replication studies.

Second, our study may also be seen as limiting in that by integrating capital market-based and institutional theories, we have provided the critical application that may be found in studies that applied one or a sub-strand of one of these perspectives. The most notable in our study is the application of trust-based theory. According to Welter (2012) the application of trust-based theory in entrepreneurship research requires a more critical application that acknowledges 'the bright and dark sides of trust, its duality in relation to control mechanisms, the interdependencies between forms of trust and the different contexts in which it occurs' (p. 205). Trust formation in relation to trust duality is useful with regards to the African contexts of mistrusts that has long existing between commercial banks and SMEs, as well as whether impact investing can create the conditions through which personal trust evolves into institutional trust. This will help increase the transparency and relationship building necessary to improve access to SME financing (Fraser, Bhaumik, and Wright 2015; Boadi et al. 2017). This whether impact investing into bank-based SME financing can be trusted to create sustained institutional change with regards to the financing of SMEs is an attractive area for future research.

Finally, an ongoing debate relates to the evaluation of financial and social returns with respect to outcomes. Recent impact investing research explores issues of impact measurement and considers different standards, frameworks and measures (Harji and Jackson 2018; Reeder et al. 2015). Future research should consider the application of impact measurement to evidence the influences of BB fund managers on SMEs via impacts, beyond measures to satisfy the requirements of investors, regulators, fund managers and SMEs as in existing studies. Though our findings illustrate examples of high growth, missing middle and established SMEs with varied degrees of impacts, which reflects existing evidence (Brown, Mawson, and Mason 2017), our data do not allow for the measurement of the direct effects of SMEs on poverty alleviation.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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