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Social Enterprises & Impact Investors

A Complicated Relationship

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Sammanfattning

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Fem nyckelord: Socialt entreprenörskap, impact investment, finansiering, attityder, institutional logics.

Syfte: Syftet med studien är att undersöka och förstå de bakomliggande anledningarna till det finansieringsgap som existerar mellan sociala företag och impact investors. Vi vill göra detta främst ur de sociala entreprenörernas perspektiv, genom att studera deras agerande samt attityder gentemot impact investors och de krav de ställer. Vidare vill vi även undersöka den nuvarande situationen för impact investment i Sverige.

Metod: Studien klassificeras som en kvalitativ fallstudie med en abduktiv ansats. Vi har hämtat data genom semi-strukturerade intervjuer med åtta sociala företagare, fyra industriexpertyder samt en impact investor.

Teoretiska perspektiv: Studien berör de krav impact investment ställer på sociala företag samt de sociala företagens attityder till dessa utifrån Institutional och Hybrid Logics.

Empiri: Empirin redogör för de attityder sociala företag har gentemot de investeringskrav impact investors ställer.

Resultat: Vi kunde se att en majoritet bland sociala entreprenörer har en positiv attityd gentemot impact investment som koncept. Vi kunde dock inte säkerställa om deras attityder är ett resultat av några specifika underliggande faktorer. Vi kan också fastställa att sociala entreprenörer anser att de kraven impact investors ställer är för krävande.



Abstract

Title: Social Enterprises & Impact Investors –"A Complicated Relationship"

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Authors: Christopher Mattsson, Frida Engelmark and Tessa Mannonen

Advisor: Caroline Wigren

Five key words: Social entrepreneurship, impact investment, funding, attitudes, institutional logics.

Purpose: The purpose of this thesis is to examine and understand the underlying reasons behind the existing funding gap between social enterprises and impact investors. We aim to do this mainly from the point of view of the social entrepreneurs by studying their actions and attitudes towards impact investment and how they relate to the demands set by impact investors. Furthermore, we want to better understand the current situation of impact investment in Sweden.

Methodology: This study is a qualitative case study with an abductive approach. We have collected data through semi-structured interviews with eight social enterprises, four industry experts and one impact investor.

Theoretical perspectives: The study addresses the demands impact investors have on social enterprises and the social entrepreneurs' attitudes towards these from the perspectives of Institutional and Hybrid Logics.

Empirical foundation: The empirical material addresses the attitudes social entrepreneurs have toward the investment criteria's of impact investors.

Conclusions: We found that a majority among social entrepreneurs have a positive attitude towards the concept of impact investment. However, we were unable to determine if their attitudes are the result of any specific underlying factors. We can also conclude that social entrepreneurs deem the requirements set by impact investors too demanding.



Preface

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Chapter 1

Introduction

In this chapter we will bring to light the history and importance of social entrepreneurship and impact investing. Furthermore, we will introduce the reader to the problems that laid the foundations of our research and finish with an overview of the disposition of this thesis.

1.1 Background

“Social entrepreneurs are society’s change agents, creators of innovations that disrupt the status quo and transform our world for the better.” (The Skoll Foundation, n.d.)

Throughout history, people have developed innovative solutions to major societal and environmental problems. These people have helped shape the way our world looks today by triggering affirmative changes. Many identify them as pioneers, working to create something revolutionary that fundamentally changes the way our society operates. They have existed long before the past decade when “social entrepreneurship” was first coined and became the term commonly used to describe the concept. Martin Luther King, Jr., Maria Montessori and John Muir are only a handful of many social entrepreneurial leaders that have managed to leave a groundbreaking mark in their areas; civil rights movement, education and wilderness preservation (Rockefeller Philanthropy Advisors, 2014). Thus, their and other social entrepreneurs involvement with the social issues in their fields, have led to a development of society that might not have been possible otherwise.

We are surrounded by social enterprises, so well established that we rarely take notice. They are in the shape of nonprofit or for-profit businesses, both driven by a mission and commonly associated with businesses earning income as well as delivering societal benefits. Social entrepreneurs may have a passion and ambition for something more meaningful than solely pursuing shareholder profits, however they still need a successful market-based strategy to



generate a sufficient revenue to become independent of donations and sustain their operational activities (Bugg-Levine, Kogut & Kulatilaka, 2012). Thus, social enterprises face the difficulty of combining two interests, a business acumen and a social mission. This has caused a certain degree of difficulty for social enterprises to obtain funding. Most investors seek a financial return on their investments, which several social enterprises may struggle to guarantee, as it is either not their goal, or not their only main focus. As a result, a complexity emerges where investors seeking to invest often fail to match the social enterprises looking for investments. A funding gap exists between the two.

Furthermore, there are in fact many opportunities to invest in social entrepreneurship. Potential investors may decide at which level of development and risk to invest in, while offering capital that is crucial for the survival and growth of the social enterprises. It can consist of anything from governmental grants and foundation funding, to micro-financing or philanthropic and commercial investments (Shanmugalingam, Graham, Tucker and Mulgan, 2011). However, since many of these actors have mostly focused on charitable giving to organizations with a social mission, rather than on achieving measurable social impact, the social enterprises have often become dependent on grants and donations and failed to develop their effectiveness and scale up their business. As this problem was noticed, the third sector adapted methods and logics to become more “businesslike”. This resulted in the emergence of social finance and later, impact investing (Brandstetter & Lehner, 2015). Impact investing has emerged in order to promote social innovations and entrepreneurship that contribute a public benefit. Impact investment differs from traditional investment through the hybrid goals set by the investors. Impact investments, aiming to gain both social and financial revenue, do not yet match the logic of traditional finance tools (Brandstetter & Lehner, 2015). The Rockefeller Foundation, one of the world’s largest philanthropic organizations that promote the wellbeing of humanity by scaling transformative innovations, coined the term impact investing in 2007 (Rockefeller Foundation, n.d.). Moreover, we find impact investment naturally linked to social entrepreneurship and believe integration could lead to a potential solution to the funding gap. This is because impact investments are investments made with the purpose of both generating financial return and social or environmental impact (Rockefeller Foundation, n.d.), which is a characteristic of social enterprises, and also shows conflicting values to the traditional mindset of investors.



Social enterprises and impact investors started appearing in connection with the realization that Governments, charities and philanthropists have not been able to deal with and solve environmental and societal issues on their own. However, one of the reasons that social entrepreneurship has become more widely recognized in the western world are due to the financial crisis and accounting scandals in big firms taking place during the early 2000's. This led to a thorough assessment of the companies, as people began to question to what extent they really benefit society. The ideas of social entrepreneurship came into discussion - can social impact actually be combined with a viable business model generating financial returns? According to Verkerk (2013) social enterprises and impact investors can potentially solve relevant problems in society, such as "the bottom of the pyramid, green growth, reconfiguration of the welfare state, and consumers that focus on sustainable behavior" (Verkerk, 2013, pp.219). The fact that there is now also a European Venture Philanthropy Association is another sign of its growth in the western world (Verkerk, 2013).

In Sweden, on the other hand, people have for a long time been relying on the government to solve social issues through legislation, meaning there has previously not been a need for social entrepreneurs. Because of this, the term "social entrepreneurship" is relatively new in Sweden. Swedes are however becoming progressively more aware of the term, and the number of social entrepreneurs in Sweden is growing (Mantel and Lamptey, 2013). Their spread in Sweden was demonstrated when the world's largest organization for social entrepreneurship, Ashoka, launched its Swedish branch in 2012 (Lomberg, 2012; Ashoka Scandinavia, n.d.). The global academic literature is not unaffected by the widespread interest of social entrepreneurship, and there are plenty of studies on the subject. Despite that, there is a lack of information, including statistics and research on social entrepreneurship in Sweden.

While impact investment has emerged to bridge the gap between the social entrepreneurs and their funders, researchers abroad in countries such as Great Britain and the United States have found that few social enterprises actually manage to attract impact investors, thus a funding gap remains between impact investors and social enterprises. As impact investment is still such a new phenomenon, there is limited research conducted on the subject. In our study, we hope to



get the social entrepreneurs perspective on impact investment and attitudes towards impact investment as a way of funding.

1.2 Problem statement

Like other entrepreneurs, social entrepreneurs need funding to realize their ventures. Social enterprises need prove to be competitive to deserve funding and to ensure the invested capital actually creates measurable impact. However, some scholars argue that the competition for capital has exceeded the limit for what is considered healthy (Chertok et al. 2008). The increase in social enterprises combined with the growing understanding of the concept has been followed by an increase in specialized solutions to support social ventures ranging from micro-financing organizations and impact investors to social business incubators (Lehner and Nicholls, 2014). However, there is research stating that although the supply of specialized financing for social enterprises is increasing, many social ventures remain unrealized as social enterprises fail to attract these funders (Chertok et al, 2008; NESTA, 2014; Bugg-Levine et al., 2012).

The difficulties social entrepreneurs face when trying to access capital for both the start-up and scale-up phase, have been recognized in Sweden as well. According to Tillväxtverket, the Swedish Agency for Economic and Regional Growth, the main issue in the finance market for social enterprises, seems to be the lack of knowledge in social entrepreneurship among the public – what it is and what societal benefits it brings (Tillväxtverket, 2014). Social entrepreneurship still lacks of a clear definition, which can cause further confusion among funders, who want to be certain about where they invest their capital (Chertok et al., 2008). There is an ongoing debate about the definition of social entrepreneurship, which will be discussed in the Theory section. For now, we will focus on the practical problem.

Tillväxtverket's (2014) report also states, that only one percent of all social enterprises in Sweden are funded by venture capital. This can be partly explained by the fact that compared to many other countries, where venture capital is one of the main sources of funding, there are fewer investors with such high fortune in Sweden. However, recently angel investors have gained popularity as a complement for venture capitalists in earlier stages of development. Angel investors' investments are often 4-6 times smaller than the investments of venture



capitalists, which makes angel investors a good alternative way of funding in the start-up phase, but larger amounts are often needed in order to scale up the enterprises (Tillväxtverket, 2014). According to Chertok et al. (2008) there is a scarce supply of investments for social enterprises, which are large enough to scale up. Chertok et al. (2008) states that more investments above \$250,000 are needed in order to improve the conditions for social enterprises. This is why we see potential in impact investment organizations, which are able to make larger investments than individual investors.

In 2014 the first impact investment organization in Sweden, Leksell Social Ventures (LSV) went public, with an aim to provide larger amounts of capital to stimulate social innovation and the growth of social enterprises (Leksell Social Ventures, 2015). Although, LSV has been active for over a year, they have not made any investments yet. We are interested in understanding the reasons behind this and in order to do so we first need to find out the requirements impact investors set for the social enterprises.

Many of these findings are not new in the field of social entrepreneurship, and attempts to increase the spreading of knowledge of the concept and to improve the support systems can already be witnessed in Sweden, for example as the emergence of investors and business incubators specialized for social enterprises (Mantel and Lamptey, 2013). However, there is still scarcity of studies of these specialized solutions in the Swedish context. Most studies have focused on how to bridge the gap by making improvements in the infrastructure, but less research has aimed to target the problem from the organizational level - from the social entrepreneurs' point of view (Tillväxtverket, 2014). How do social entrepreneurs in Sweden relate to impact investment as a way of funding their ventures?

Most of the research on impact investment is conducted in Great Britain and the United States (Chertok et al. 2008; NESTA, 2014). The existing literature on the subject suggests that many social entrepreneurs' requests for funding are turned down by funders, because the social ventures do not match with the funders' criteria on the organization's business model or stage of development. Impact investors and others alike tend to target social ventures, which are already in later stages of development and show a higher potential for growth (Chertok et al. 2008).



Scholars have identified that many of the difficulties social entrepreneurs face concerning funding, arise due to the combination of nonprofit and for-profit characteristics. On the one hand, social entrepreneurs have the possibility to attain resources from both the nonprofit and for-profit institutional logics. On the other hand, however, social enterprises tend to be disadvantaged in both sectors due to their mixed characteristics, as purely non-profit organizations are more attractive to donors, while purely commercial for-profit enterprises are more profitable for investors (Dacin et al., 2011). Are social entrepreneurs torn between a social and a commercial way of thinking and does it affect their attitudes towards impact investment? Nevertheless, impact investors are neither donors nor high-profit seeking investors, they are investors seeking to support enterprises with a social mission and that show a potential for growth (Chertok et al., 2008). How much emphasis do impact investors put on the creation of social return?

Although, social entrepreneurs' primary mission is to create social value rather than profit, it is important to note that the two values are closely related. In order to achieve the primary mission of creating social impact, a social entrepreneur often needs to produce financial resources to achieve this goal (Dacin et al., 2011). Financial sustainability should be in the interest of social entrepreneurs as it is vital for the organizations to survive, grow and thus increase their social impact. However, creating a course of organized actions that does not threaten the initial vision of the social entrepreneur can be challenging and there is a need for new solutions (Valéau, 2010). How much focus do social enterprises put on achieving financial sustainability and growth in order to scale their social impact and attract impact investors?

1.3 Purpose

The purpose of this thesis is to examine and understand the underlying reasons behind the existing funding gap between social enterprises and impact investors. We aim to do this mainly from the point of view of the social entrepreneurs by studying their actions and attitudes towards impact investment and how they relate to the demands set by impact investors. Furthermore, we want to better understand the current situation of impact investment in Sweden.



1.3.1 Question at Issue

Is there a general attitude, among Swedish social entrepreneurs, towards impact investment as a way of funding, and the requirements impact investors set?

1.4 Delimitations

This study is solely focused on the Swedish market of private sector social enterprises and impact investors. The study will only include social enterprises that are joint-stock companies. This is due to reasons of practicality and interest. We have chosen to focus on researching how social entrepreneurs relate to impact investment as a way of funding as our literature review revealed that the research field is still limited due to its newness. Due to practical reasons the study is limited to joint-stock companies in order to ensure that the results of the interviews are comparable. Furthermore, we have chosen to only focus on the Swedish market as social entrepreneurship varies depending on the context it emerges in (Dacin et al., 2011), and because there is a lack of research of impact investment and social entrepreneurship in a Swedish context.

1.5 Target Audience

The target audience of this study is first and foremost Swedish scholars, university students, entrepreneurs and investors (both social and commercial), however, we also hope to appeal to a wider audience; people with a general interest in social entrepreneurship and societal improvement.



1.6 Disposition

CHAPTER 1 – Introduction

In the first chapter we present the background of our topic. We describe the existing problem within the subject, and how this lays the ground for our purpose.

CHAPTER 2 – Methodology

This chapter describes our methodological choice and approach, i.e how we have conducted our thesis.

CHAPTER 3 - Theoretical Framework

The theories we chose to evaluate our empirical data is presented in this chapter. We also recognize earlier research concerning social entrepreneurs and impact investors.

CHAPTER 4 - Description of Empirical Context

In the fourth chapter we present the findings from our descriptive interviews with one industry expert, in order to understand the Swedish context in which social entrepreneurship and impact investment occurs. We also present some common hurdles among social enterprises.

CHAPTER 5 - Presentation of Empirical Data

An analysis of the empirical data collected is conducted in the fifth chapter. This data consists of our results from the interviews we have conducted.

CHAPTER 6 - Analysis and Evaluation of Empirical Data

In this chapter, we compare and draw parallels between the results of our empirical data to our chosen theories.

CHAPTER 7 - Conclusion and Discussion

The last chapter consists of our findings and a discussion presenting the background for our conclusions. Here the strengths and weaknesses of our thesis are examined.



Chapter 2

Methodology

This chapter describes the research process. We will describe how we have conducted our research by presenting the research methodology, choice of approach, research design, theoretical framework and evaluation and analysis of empirical data.

2.1 Perspective

The purpose of this study is to increase the knowledge of the underlying reasons for the funding gap that exists between social enterprises and impact investors. This study was conducted from the perspective of the social entrepreneurs since understanding the role the attitudes of social entrepreneurs play in the existence of the funding gap is the main focus. The subjective reasoning of social entrepreneurs' attitudes has been a key component in this study. Respondents talked freely during the interviews.

As mentioned before, the form of social entrepreneurship differs depending on the context from which it emerges in (Dacin et al., 2011). In order to understand the context of social entrepreneurship in Sweden which, in turn, adds to the understanding of the attitudes of the interviewed social entrepreneurs, the perspectives of some industry experts have been included as well.

Previous research in social entrepreneurship, commercial entrepreneurship and impact investment have been important in helping us understand the attitudes of social entrepreneurs. However, this study focuses mainly on the attitudes and actions of the interviewed social entrepreneurs. The following questions guided this research: How do social entrepreneurs relate to impact investing as a form of financing their ventures; what are their opinions, and what are their reasons?



We are currently pursuing a Bachelor's degree in Entrepreneurship and Innovation Management. Further research in the field of social entrepreneurship, from the perspective of social entrepreneurs, could be valuable for researchers and practitioners of social entrepreneurship in Sweden today, as well as to ourselves, since we are all passionate about social entrepreneurship and hope to become social entrepreneurs one day.

2.2 Approach

This study uses an interpretivist approach since the purpose is not to explain, but to understand the attitudes of social entrepreneurs towards impact investment. As a result of this approach, we draw our own conclusions and create our own theories based on the results (Bryman & Bell, 2005). The interpretivist approach views society subjectively, while the positivistic seeks to find objective and constant truths. The research is too narrow to properly use the positivistic view and draw objective conclusions, without risking legitimacy of the conclusions. Additionally, the subjective, interpretivist perspective is more compliant with methods used in previous research in the field, as well as with the qualitative interviews conducted. The central focus of this study is on the subjective attitudes of social entrepreneurs, rather than an objective truth.

Furthermore, we have utilized an abductive approach towards our research. The abductive approach combines features of both the inductive and deductive approach (Alvesson & Sköldberg, 2009). An inductive process includes observing research results without any previous knowledge to formulate probable, not absolute, theories based on that research (Bryman & Bell, 2005). Before choosing our research topic, we conducted a thorough literature review on problems related to financing social enterprises. Consequently, we were not entering the process without any previous knowledge; therefore, the inductive approach is inapplicable. The deductive approach, on the other hand, involves examining specific theories and using collected results to test the truthfulness and validity of those theories (Bryman & Bell, 2005). We have not chosen to test the accuracy of certain theories, but instead used theories as a framework for understanding social entrepreneurs' attitudes and the research results. Therefore, the deductive approach was not applicable in this study. Similarly to the inductive approach, we sought to draw conclusions and create our own theories based on the empirical data. Furthermore, we have acknowledged prior theoretical propositions, similar to the deductive approach. Since our thesis



draws from both inductive and deductive methodological structures, the abductive approach to appropriate for this study (Alvesson & Sköldberg, 2009).

2.3 Research Methodology

Essentially two methods are utilized for conducting research: qualitative and quantitative methods. A quantitative methodology seeks to gather, compare, and analyze statistical data, and quantify the results in search for an objective and generalizing answer that can be applied beyond the chosen focus group (Bryman & Bell, 2005). We have chosen to use the qualitative method in our study. This study focuses on the attitudes and subjective views of chosen social entrepreneurs and the attitudes often depend on the context from which they emerge. Instead of quantifying the results, the purpose of this study is to understand and interpret the perspectives of the interview subjects' answers (Lundahl & Skärvad, 1999). A qualitative methodology works well when trying to receive detailed information about individuals' subjective views.

Some researchers use both quantitative and qualitative methods in their studies. However, as many researchers have pointed out, it is difficult to gather quantitative data on social entrepreneurship as there is no coherent definition of social entrepreneurship, and social enterprises vary in legal forms, actions and missions (Tillväxtverket, 2014). Furthermore, quantitative studies would require gathering information from larger crowds, which is prohibitive based on limited time and resources.

Additionally, the qualitative method has been criticized as being subjective and difficult to reproduce and use in other research contexts (Bryman & Bell, 2005). However, the subjective nature of this qualitative study is a positive characteristic of the methodology. The purpose of this study is to understand the subjective attitudes of the social entrepreneurs interviewed towards impact investment, in order to understand how they relate to the issue of bridging the funding gap between social enterprises and impact investors.

2.4 Research Design

Based on the reasons explained above, this thesis is an abductive, qualitative case study that seeks to understand how Swedish, privately owned social entrepreneurs relate to impact investing. Case studies are useful when analyzing a certain event in a specific geographical



context, which describes the parameters of this study. Yin (2013) argues that a case study is specifically beneficial trying to comprehend a precise social phenomenon in depth and/or trying to explain a present concern (Yin, 2013). This case study involves a current situation in Sweden and does not account for any specific time span. However, the social entrepreneurs and impact investors interviewed have been affected by events taking place during a large time span. The focus of the interview is on the situation for social entrepreneurs in 2015, yet different organizations may have different development trajectories and challenges which might affect the attitudes of the entrepreneurs. Therefore, instead of conducting a participating observation, a qualitative case study has been developed through interviews. Since the organizations interviewed are currently in different stages of development, a participating observation-method would have deprived the subjects of the opportunity to reconstruct the events that led them to their current situation (Bryman & Bell, 2005).

We conducted semi-structured interviews with eight social entrepreneurs and unstructured interviews with one impact investors and four industry experts. While social entrepreneurs are the central focus of this study, an impact investor was interviewed to provide the reasoning behind the requirements impact investors set. Furthermore, three industry experts from a Swedish social business incubator, CSES were included, as they are in close contact with social enterprises and were able to provide information about the conditions of social enterprises regarding funding. Finally, as social entrepreneurship depends on the context from which it emerges (Dacin et al., 2011), information regarding the Swedish infrastructure for social entrepreneurs and impact investors was necessary to provide context. As there is a lack of research on the subject of impact investment, the unstructured, descriptive interview with a representative from Malmö Social Innovation (MSI) detailed the current conditions of impact investment in Sweden.

2.4.1 Choice of Cases when Gathering Empirical Data

As mentioned in previous sections, research on impact investment and social entrepreneurship in Sweden is lacking. Thus, we chose to focus our research on the Swedish market. Furthermore, as social entrepreneurship varies depending on the context from which it emerges (Dacin et al., 2011), we chose to include only Swedish social entrepreneurs in the study to ensure comparable results. Due to the contextual characteristics of social entrepreneurship, the specific



characteristics of Sweden may have an impact on the attitudes social entrepreneurs have towards impact investment. As there was no research available on the Swedish ecosystem for impact investment and social entrepreneurship, the research process began by conducting a descriptive interview concerning the ecosystem with Camilla Backström, operations manager for the field of finance and impact measurement at Mötesplats Social Innovation (MSI).

Leksell Social Ventures (LSV), an impact investment organization, was chosen as an interview subject for its clear framework of their investment criteria for social enterprises. LSV operates in Sweden with a wide range of connections to Swedish social enterprises making it a relevant organization for this study. Furthermore, LSV is the only impact investment organization in Sweden with the capacity for large enough investments for social entrepreneurs to expand their organizations extensively (Chertok et al., 2008; Leksell Social Venture, 2015). Henrik Storm Dyrssen, the CEO at Leksell Social Ventures, was interviewed for this study

After having conducted the interview with Dyrssen and gained knowledge about the requirements impact investors set for social enterprises, the search began for social entrepreneurs suitable for the research. For the purposes of this study, the social entrepreneurs needed to be founders of social enterprises that matched the chosen definition of *social enterprise* (See section 3.1). Dyrssen provided several social entrepreneurs. Selection of social entrepreneurs to interview was based on those who had the time and interest in being interviewed. In addition to the entrepreneurs recommended by Dryssen, an additional group of social entrepreneurs were contacted and those who agreed to participate were interviewed.

2.4.2 Data Collection

Our primary data was collected through semi-structured and unstructured interviews conducted with social entrepreneurs, the CEO of an impact investment organization, and other experts from organizations relevant to the field. Convenience sampling was utilized to collect empirical data. This means that we interviewed organizations and entrepreneurs interested in participating in our research (Bryman & Bell, 2005). Some of the interviewed social entrepreneurs wanted to be anonymous in our research. To be consistent, we gave all social entrepreneurs a number from 1-8 and named them as "SE(number)" in the thesis.



The main source for secondary data has been academic literature consisting of academic articles, books, and documents. When collecting the data, highly cited sources with theories and ideas that have been academically recognized and accepted by scholars and practitioners were used.

In order to increase the understanding of the funding gap between social enterprises and impact investors, Alvesson and Sköldberg's (2009) "triangulation" has been applied to the data. Triangulation involves using several methods to achieve a better understanding of certain phenomena. This study consists of different types of interviews with different participants, active in various contexts. While Alvesson & Sköldberg (2009) claim this method can make it difficult to reach coherent results, triangulation also allows for a greater understanding of the issue.

2.4.3 Sample Selections

Sample selections define the groups of organizations studied. The samples can be categorized into the following different groups:

- Population - The groups from which sample selections are made
 - a. Social enterprises
 - b. Impact investors
 - c. Associate-organizations working with social entrepreneurship
- Sample - The groups within the chosen populations that, based on the delimitations, are relevant for this study
 - a. Private Swedish social enterprises
 - b. Private Swedish impact investor
 - c. Swedish associate-organizations currently working to benefit social entrepreneurship in Sweden with knowledge of the funding gap
- Sample frame – Convenience sampling of organizations within the sample selections that were willing to be interviewed.
 - a. Eight Swedish social entrepreneurs representing their social enterprises.
 - b. Henrik Storm Dyrssen at Leksell Social Ventures.



- c. Three representatives from the social business incubator CSES and Camilla Backstrom at Mötesplats Social Innovation. These individuals are referred to as industry experts
(Bryman & Bell, 2005)

Sample selection was not completely random; a non-probability sampling was performed. Performing a non-probability sampling has often been criticized, because it may not result in a representative sample, i.e a group whose answers can be generalized to represent the entire population (Bryman & Bell, 2005). However, as a qualitative case study looking at individual cases, independent of other social organizations in Sweden, the goal of this study is not to obtain a representative sample since we are conducting a qualitative case study.

2.4.4 Interview Methodology

All of the interviews were conducted over the phone or Skype, and they were digitally recorded in order for the transcription to be made. Christopher Mattsson and Tessa Mannonen led the interviews as they had access to the needed equipment. The recorded interviews were directly transcribed by Frida Engelmark. All interviews were conducted in Swedish and have been translated into English as accurately as possible.

The structure of the interviews conducted differed depending on the type of organization interviewed. The interviews with representatives from CSES and MSI were conducted using an unstructured approach, since the aim of those interviews was to increase the understanding of the interplay between different actors in the ecosystem for social entrepreneurship. A set of themes were used in the interviews, but participants were encouraged to talk freely in order to gain knowledge from their expertise. As the representatives from CSES were all working closely with social entrepreneurs, they were included in this research to provide a deeper knowledge about conditions related to the funding of social enterprises. Therefore, the questions to the representatives of CSES were related to funding social enterprises and somewhat on their knowledge about impact investment. These questions can be found in **Appendix 1**. Camilla Backstrom at MSI was asked questions about impact investment in general and about the ecosystem for impact investment in Sweden. These questions can be found in **Appendix 2**. Industry experts were asked questions based on their field of expertise.



The interview conducted with the Henrik Storm Dyrssen, the CEO of the impact investment organization, Leksell Social Ventures (LSV), focused on the requirements set by LSV for social entrepreneurs. Dyrssen was also asked questions regarding his impression of the attitudes of social entrepreneurs which is the main focus of this research. This semi-structured interview was designed to give the respondent the freedom to digress from topics in order to gain new insights about the circumstances. The questions can be found in **Appendix 3**.

The social entrepreneurs' questions were based on the purpose of this research but were also influenced by some of the interviews conducted with industry experts. Our questions were related to the requirements set by Leksell Social Ventures for social entrepreneurs since this study examines the social entrepreneurs' attitudes towards these. Semi-structured interviews were conducted to allow respondents the chance to develop their answers as precisely as possible, resulting in more trustworthy and fruitful results. Furthermore, semi-structured interviews give the participants the freedom to digress from topics, which provides a deeper understanding of the context from which their enterprises emerge and how they relate to impact investment. In addition, semi-structured interviews enabled comparison of the received results. These questions can be found in **Appendix 4**.

2.5 Theory

The theoretical frame of reference is based on a variety of academic research articles in order to avoid biased conclusions based on our emancipatory cognitive interest (Alvesson & Sköldberg, 2009). Some of the theories were presented in the introduction but, first and foremost, in the Theory chapter. Theories from both of these sections will be used when evaluating and analyzing the empirical data.

The research process began with a thorough literature review on social entrepreneurship and the difficulties of financing social enterprises. In the literature review, there was a lack of research on social entrepreneurship and the relating financing mechanisms in Sweden. Tillväxtverket (2014), the Swedish Agency for Economic and Regional Growth, states that there is a lack of data on both social enterprises and the related specialized funding mechanisms such as angel



investors and impact investors in Sweden. As a result, literature was chosen from countries where social entrepreneurship is more established such as in Great Britain and the United States (Chertok et al, 2008; The Skoll Foundation, 2015; Rockefeller Foundation, 2015; NESTA, 2014).

The theories applied to the evaluation of the empirical data are all relevant to our subject. Our primary intention when deciding which theories to include in our research was finding a way to explain social entrepreneurs' attitudes towards impact investment. We began by choosing a variety of highly cited research articles in order to define social enterprises and impact investment. These theories will be used in the evaluation of data to ensure that our chosen interviewees match with our chosen definitions.

As social entrepreneurship is a subcategory of entrepreneurship and social entrepreneurs are similar to commercial entrepreneurs (Dees, 2001), we applied Landström and Löwengren's (2009) theory concerning underlying factors for the existing funding gap for commercial enterprises. The theory presents factors that have an impact on the commercial entrepreneurs' attitudes towards external financing, which can be applied to social entrepreneurs' relationship to impact investment.

The Institutional Logics Perspective was applied for the analysis of the empirical data. This theory describes how the behavior of individuals and organizations is affected by the guidelines of certain institutions. Furthermore, organizations operating as hybrids, exhibiting multiple institutional logics, can be analyzed through the Institutional Logics Perspective. Viewing the social enterprises as hybrids, provides for an understanding of the conflict of multiple logics within organizations, such as social enterprises and their competing social and commercial logics. Hybridity contains elements such as an organization's "degree of incompatibility and centrality" that explains how logics are distributed between organizational actors (Besharov and Smith, 2014).



2.6 Critical Evaluation of Sources

Evaluation of secondary data requires a critical approach, as sources may be subjective, biased, skewed, or incomplete. (Lundahl and Skärvad, 1999). In order to maintain credibility, all sources have been critically evaluated before inclusion in the study.

Unreliable sources were identified through critical questioning and assessment of data. For example, consideration was given to the forum in which sources appeared and publication. Although the sources gathered from the various databases of Lund University are likely to be trustworthy, sources may still be biased. While we might assume that academic articles, with multiple citations, are more trustworthy than news articles, for example, even the most reliable source still requires critical evaluation.

A limited amount of theory-building publications are available on impact investing, as it is still a nascent field of research. The limited theory literature that is available consists mostly of practitioners' reports and documents, written by a group of somewhat interconnected scholars. Furthermore, only a few large organizations and foundations contribute to the research field of social entrepreneurship (Brandstetter & Lehner, 2015). In order to decrease the risk of using biased theory, a variety of sources have been used.

The subjective nature of interviews may result in representatives from various organizations deliberately portraying themselves in a certain light, which can lead to the information they provide being biased. Therefore, both primary and secondary sources have been evaluated critically.

2.7 Analysis of Empirical Material

The information from interviews with the social enterprises was evaluated and categorized using content analysis, which summarizes and interprets collected data transparently. A content analysis can be both quantitative and qualitative. A qualitative content analysis, also referred to as an ethnographic method, is an appropriate approach for this qualitative study (Bryman & Bell, 2011). In most cases, a quantitative content analysis includes establishing predefined categories for the collected data, whereas an ethnographic content analysis establishes loose categorizations



enabling adjustments and additions throughout the process. Considering this is a qualitative case study, setting up predefined categories for the data was not feasible which makes the ethnographic content analysis a more logical choice (Bryman & Bell, 2011)

Converting the data from the interviews into categories began with coding the material. Strauss (1987) emphasized the significance of the categorized material being coupled with the empirical data to decrease the risk of biased interpretations (in Alvesson & Sköldberg, 2009). Furthermore, content analysis decreases the chances of inserting bias into the categories. The following rules guided the content analysis as we converted research and data into prearranged categories, in an objective and systematic way (Bryman & Bell, 2011). First, we transcribed the interviews and studied them. After that we were able to locate patterns of opinions and behavior. We categorized our data based on the themes included in the interviews, and as a result, we found connections between categories, analyzed those connections and drew our own conclusions. The findings were further analyzed based on selected theories to find additional patterns and answers.

2.8 Assessment Strategy

When determining the quality of a quantitative research, its methodology and results, assessing its validity and reliability normally plays an important part. Validity refers to if you are actually measuring what you plan to measure and if the results can be generalized, and reliability being how well the study can be replicated and if the answers are agreed upon (Bryman & Bell, 2011). Since this study is of qualitative character, these measurements were not the most appropriate for our research. Scholars have debated whether validity and reliability can be applied to qualitative studies, and some have argued that there might be better ways to assess the results of a qualitative study. Lincoln and Guba (1985, in Bryman & Bell, 2011) indicate that their skepticism towards using validity and reliability in regards of a qualitative study derives from their disbelief in a constant and objective truth in the social world (Bryman & Bell, 2011). Furthermore, they point out that qualitative studies do not result in any absolute truths, and that there is need for other assessment criteria, such as *trustworthiness* and *authenticity*, when conducting a qualitative study (Bryman & Bell, 2011).



Trustworthiness can be divided into four categories:

1. *Credibility* - As the world consists of different social realities, what is relevant to convey in a study, to make it credible, is a correct presentation of the research subjects' personal social truths by confirming with them that you have understood their subjective opinion on the matter in question (Bryman & Bell, 2011). The interviews are credible because we did not ask biased questions, prompt certain answers, and confirmed answers when they were not clear.
2. *Transferability* - Qualitative studies are often based on unique cases and specific contexts. By focusing on depth and presenting a broad description of the context in question, the level of transferability of our conclusions can be determined, i.e if our findings can be applied to other situations (Bryman & Bell, 2011). A thorough background of the context in which social entrepreneurship and impact investment operates in Sweden has been provided. This in-depth exploration of the context may allow the results to be transferable to other social entrepreneurs, commercial entrepreneurs and other stakeholders in regards of social enterprises and impact investors.
3. *Dependability* - This criteria states that for a research to be dependable, a thorough and trustworthy description of the research process, and the reasons behind the choices, is to be presented, or at least easily accessible. Letting peers review the study is also recommended to increase trustworthiness (Bryman & Bell, 2011). The research process has been described in this Methodology section. The gathered data, the process of analysis, choice of theory, choice of subject, choice of methodology and process of presentation, are either presented here in the Methodology section or in other parts of this thesis. Reasons for our choices are also presented. The interviews and transcriptions are not included due to their size but can be accessible, either in written form or as recorded audio files.
4. *Confirmability* - For a study to be of high confirmability, the researchers need to stay objective and not let personal values and/or previous theoretical biases influence the research and findings of the research (Bryman & Bell, 2011). We have left personal values out of our research.



Lincoln and Guba (1985, in Bryman & Bell, 2011) state that a study's authenticity is determined by consideration of different perspectives of the research objectives and the social context from which they are derived. A reflection of different perspectives helps the participants in the social setting to better understand their surrounding and the people they interact with within that social setting. Additionally, a reflection to determine authenticity examines whether the study has resulted in members of the social setting to change their circumstances (Bryman & Bell, 2011). The different perspectives of the interview subjects has been presented as clearly as possible, establishing the study's authenticity and contribution to a broader understanding of the funding gap between social enterprises and impact investors.

These assessment criteria have been chosen instead of validity and reliability since they are more appropriate for this subjective qualitative study where exact replication of the research methods are most likely impossible.

2.9 Limitations

We acknowledge the following limitations of this study. Some of the interviewed industry experts are engaged in organizations that could lead to biases in their opinions. The amount of time and financial resources to conduct the research were limited, making it impractical to travel to the interviewees across Sweden. All interviews were conducted through Skype or telephone. The interviews may have yielded different results if they would have been conducted face-to-face. We also acknowledge that although, the people interviewed represent their organizations, their answers may not reflect the opinions and experiences of the entire organization.



Chapter 3

Theoretical Framework

This chapter begins by presenting the theories chosen to define social enterprises and impact investment. Furthermore, the theories used in the evaluation and analysis of gathered data are introduced. The purpose of this chapter is to provide the foundation for understanding the social entrepreneurs' attitudes towards impact investment.

3.1 Defining Social Entrepreneurship

Social entrepreneurs find dysfunctions in society ranging from social exclusion to pollution of the environment, which the government or business sectors have failed to solve. Social entrepreneurs see these issues as market failures and business opportunities which can be exploited by creating innovative solutions to make improvements in society (Ashoka, n.d.). Social entrepreneurship is becoming more popular, and the term is used to describe a vast group of different types of social activities, all with an imbedded goal to achieve social or environmental impact (The term “social impact” is used to describe both social and environmental impact). These activities can be combinations of both public and private activities, for-profit and nonprofit activities (Dacin et al., 2011; Mair, 2010). The definition of social entrepreneurship varies depending on the source and the context from which it emerges (Dees, 2001).

Our literature review revealed re-occurring themes in the various definitions which tend to focus on four factors: characteristics of the entrepreneur, the sphere of operation, the processes and resources used, and the mission of the enterprise. The first three factors vary heavily depending on the context from which the social enterprise emerges, as different geographical locations vary concerning resources, policies, problems to be solved and conditions that affect the emergence of entrepreneurship. The fourth factor, the mission of the enterprise, seems to be the same for all social entrepreneurs: achieving a positive social impact on society (Dacin et al., 2011).



To narrow down the broad term social entrepreneurship, some scholars suggest clarifying the definition of social entrepreneurship in order to separate the entrepreneurial activities from other more loosely structured “non-entrepreneurial” activities with a social purpose, such as activist movements (Mair & Marti, 2006). According to Martin & Osberg (2007), any definition of the term “social entrepreneurship” should begin with the word “entrepreneurship”, since the word “social” only modifies entrepreneurship. Entrepreneurship refers to starting a business, which creates value either to the entrepreneur or society. The term “social” refers to the emphasized social mission and social value creation, which distinguishes social entrepreneurship from commercial entrepreneurship (Mair & Marti, 2006).

Recently a controversial issue has arisen regarding the distinction between social entrepreneurship and commercial entrepreneurship, specifically how much economic value a social enterprise is allowed to create in order to sustain the label as a social enterprise. Like any enterprise, social enterprises need to generate income in order to sustain the organization and to create social impact independently rather than being dependent on donations (Dacin et al., 2011). Although both social and commercial enterprises may have social goals, a social entrepreneur is distinguished from a commercial entrepreneur based on the primacy of the social value creation in social entrepreneurship, compared to the primacy of economic value creation in commercial entrepreneurship (Mair & Marti, 2006).

The terms *social entrepreneurship*, *entrepreneur* and *enterprise* are used interchangeably in the literature. The main narrative, however, views entrepreneurship as a process or behavior, entrepreneurs as the founders of the initiatives, and enterprises as the tangible outcome of entrepreneurship (Brouard and Larivet, 2010). As social entrepreneurship can emerge in various legal forms, private firm, joint-stock company, economic association, foundation, cooperative, non-profit association, to name but a few, we have chosen to use the term social enterprise to describe the social organizations, as it embraces all these forms of entrepreneurship, yet excludes non-entrepreneurial activities such as activist movements (OECD, 2013).



The purpose of this study is not to engage in the academic discussion of the distinction of social entrepreneurship, but in order to delimitate and ensure the validity of the research, social entrepreneurship is defined as entrepreneurship with the primary mission to create social value (Mair and Marti, 2006). Based on the literature review, The Skoll Foundation's definition of social enterprise aligns with the most influential definitions of social entrepreneurship and social enterprise. The Skoll Foundation is one of the world's largest foundations supporting social entrepreneurship, which has raised awareness of the phenomenon and contributed to the debate over the definition (Mair, 2010).

Social enterprise, according to The Skoll Foundation (n.d.) is defined as follows:

"A mission-driven organization with a market-based strategy. Social enterprises include nonprofits which run income-producing businesses and for-profits which prioritize positive social and environmental impact."

3.2 Defining Impact Investment

Impact investors are investors with an aim to generate a measurable positive social impact in addition to the financial profit, although the extent may vary. Impact investment instruments vary depending on the user. They can include grants, loans, guarantees, quasi-equity, bonds and equity (Brandstetter & Lehner, 2015). The performance metrics used by impact investors are usually three-dimensional (overall risk, return and impact) or four-dimensional (social risk, financial risk, return and impact), in contrast to the two dimensional metrics (risk and return). The choice of dimensions is often made according to which is more practical. Measuring social impact is difficult, as it is impossible to fully standardize metrics due to the wide variety of outcomes. However, various sets of metrics and frameworks have been developed – Impact Reporting and Investment Standards and Social Return on Investment, to name but a few. These frameworks tend to work well only for ventures that are already well established, since the frameworks are based on an ex-post rather than an ex-ante point of view (Brandstetter & Lehner, 2015).



The motivations of impact investors range from so called “impact-first” investors, who provide funding for a lower return than the market rate to investors who seek an adequate financial and social return (Brandstetter & Lehner, 2015). All impact investors share a common goal to generate a measurable positive social impact in addition to the financial profit. The Global Impact Investing Network (GIIN), a non-profit organization that promotes impact investing and is sponsored by Rockefeller Foundation (GIIN, n.d.), has identified four key characteristics for impact investment:

1. The intent of the investment is to generate a positive social and/or environmental effect.
2. Expectations of generating financial return or at a minimum, a return of capital.
3. Expectations of return vary from below market to risk-adjusted market rate.
4. The social or environmental impact has to be measurable and reported in order to increase transparency and accountability.

We have chosen to define impact investing according to The Global Impact Investing Network:

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”

(GIIN, n.d.)

3.3 Underlying Reasons for the Funding Gap for Commercial Entrepreneurs

“Social entrepreneurs are one species in the genus entrepreneur” (Dees, 2001 p. 3)

Besides the primacy of achieving social value creation rather than economic value creation, social enterprises are similar to commercial enterprises and tend to struggle with the same issues. To better understand how social entrepreneurs relate to the funding gap and external financing, the most common explanations for the mismatch of resources between financiers and commercial enterprises follows.



Most of the small enterprises in Sweden are so-called lifestyle businesses, which are often funded by the founders' own capital, revenues from sales or smaller credits from banks. Lifestyle businesses are seldom in need of large amounts of capital from external financiers. However, those entrepreneurial and innovative ventures that require external financing, often face difficulties in attracting external capital. The phenomenon is known as *the funding gap*, which exists for commercial entrepreneurs as well as for social entrepreneurs. The main reason for the existence of the funding gap is that the demand for financial capital exceeds the supply, which varies over time. The most common public efforts to reduce the funding gap are increasing the supply of capital and making improvements in the financing infrastructure. Traditionally, the funding gap has been explained by the high degree of uncertainty among enterprises influenced by factors such as the rapid technological development, the unpredictable market, and information asymmetry, which emerges, as the entrepreneurs often know more about their enterprises than the investors (Murray, 2007 in Landström & Löwengren, 2009). There are other risks that the investors need to consider as well, such as the risk of other actors exploiting the same idea and the risk of moral hazard, which means that there is no guarantee that the entrepreneur will act accordingly to the investor's interest. These uncertainties can be managed by obtaining intellectual property rights and close monitoring of the enterprise. However, the costs for securing the investment are often high which partially explains an investors' reluctance to invest in new businesses (Landström & Löwengren, 2009).

However, it is not only the preferences of investors that influence the funding gap. An entrepreneur's attitude towards financing, lack of legitimacy and a lack of business knowledge are factors that contribute to the existence of the funding gap. These factors contribute to a long and costly process of searching and attracting external financiers, which some enterprises cannot afford and choose to use other solutions instead.

Especially at the early stages of development, floating assets are important as they enable rapid action such as exploiting new opportunities. Without floating assets, the enterprise will struggle with sustaining the business, instead of developing it. Many new enterprises have negative cash flows, as actions needed in developing a business such as developing a prototype, renting spaces,



and hiring employees are often costly. The degree of the negative cash flow varies between different industries as development processes and the time to reach the market varies in length. Enterprises that work in industries where it takes a long time to gain revenues from sales are often dependent on external financing (Landström & Löwengren, 2009).

Most entrepreneurs want to remain in control over their business. When an enterprise obtains funding, the entrepreneurs lose some control over their business, as investments are rarely unconditional. As a result, some entrepreneurs choose to avoid external financing. However, Berggren (2002, in Landström & Löwengren, 2009) identified that entrepreneurs often find themselves in situations where they need to seek external financing, despite their negative attitudes towards it such as in times of financial difficulties when the enterprises future is at stake. Berggren (2002) also found that entrepreneurs with former experience of working together with financiers are less reluctant to seek external financing (in Landström & Löwengren, 2009).

To obtain external financing an enterprise has to prove its legitimacy for the financiers. This is typically an issue for new ventures as they often lack prior industry experience. Proving legitimacy is especially difficult for new enterprises active in new industries. Finally, many entrepreneurs lack business knowledge. Enterprises are commonly founded by an individual or a group of people who are often similar to each other in age, education and experiences. Consequently, the competencies in the enterprise are often homogeneous and focused on the product or service and the market, rather than the financials and the development of a sustainable business strategy (Landström & Löwengren, 2009).

3.4 Institutional Logics Theory

The analysis of the collected empirical material is based on the Institutional Logics Theory. By using this theory, social entrepreneurs' varying attitudes towards impact investment will be explained. The theory describes the effect actions of institutions have on the behavior of individuals and organizations. Since Alford and Friedland first articulated the idea of institutional logics in 1985, several different definitions have been developed (Nicholls, 2010). While Alford and Friedland devised the term to characterize the conflicting fundamental methods and beliefs in institutions of the western societies, Thornton and Ocasio defined the



term in 1999 as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Besharov and Smith, 2014, pp. 365-366).

The Institutional Logics Perspective states that logics shape beliefs and behavior. Logics are the means of how to think about and comprehend something, and an enterprise can for instance have a business logic or social impact logic that shapes how they behave in a business situation. Furthermore, each logic presents a set of guidelines for the actors within the organization to follow. Therefore, while one logic could grant rational guidance, areas within an organization demonstrating several logics with different formulas for action can become dubious and contradictory. The institutional logics perspective contributes to an understanding of the conflict that develops between beliefs and practices in an organization with multiple logics (Besharov and Smith, 2014)

3.4.1 Social Enterprises as Hybrid Organizations

The term *hybrid* characterizes organizations inhabiting several logics and has been used in an array of contrasting ways. What might be the most frequently appearing designation of hybrids in modern research is "organizations that instantiate two conflicting institutional logics within the organizational core" (Besharov and Smith, 2014, pp.375). According to Besharov and Smith (2014) social enterprises integrate essential features of "social welfare, development, or sustainability logics with elements of market or corporate logics" (Besharov and Smith, 2014, pp.375). Furthermore, Besharov and Smith (2014) state that an organization combines multiple logics when it "lies at the interstices of divergent fields, are embedded in fields that value creativity, or depend on various professional or occupational groups" (Besharov and Smith, 2014).

Since hybrid organizations are connected to various conflicting institutions, the social entrepreneurs can use their multiple logics to gain legitimacy with both social impact organizations and venture capitalists. Furthermore, some organizations maintain productive with multiple institutional logics, while others are delayed in their work because they are in conflict with the different demands of their many logics. Logics are inconsistent, and the character of the



multiple logics can vary from one hybrid organization to another (Besharov and Smith, 2014). Hybridity can clarify why similar organizations sometimes give such different responses to institutional demands. Understanding hybrid organizations could facilitate understanding of some social entrepreneurs' interest in impact investors and vice versa (Besharov and Smith, 2014).

3.4.2 The Logics Degree of Incompatibility and Centrality within Social Enterprises

Besharov and Smith (2014) mention two key dimensions that vary between hybrids and affect the organizational form of the hybrid. The first dimension is what the authors call “the degree of compatibility”, which describes how compatible the logics are within an organization. The second dimension focusing on centrality, explains to what degree certain multiple logics become apparent in the central attributes that are the focus of organizational functioning.

Even within only one organization, the kind of logics adapted can make a crucial difference to their structure. Multiple logics within one organization can lead to institutional complexity. Greenwood et al. (2011, in Besharov and Smith, 2014) define this state as the circumstance an organization faces when they “confront incompatible prescriptions from multiple institutional logics” These organizations differ in institutional goals and also in the means by which these goals are to be achieved, and suggests that some organizations, such as social enterprises, are less compatible than others (Besharov and Smith, 2014).

With a high logic incompatibility, social enterprise hybrids can assume two contrasting organizational structures depending on their level of centrality. Centrality is determined by the complexity of the goals of an organization. A social enterprise striving to solve complex social issues might assume an organizational structure where it assimilates several professional logics into their work. Within a social enterprise, there is a constant tension between the social impact logics and the business logics. This tension results from the multiple logics demonstrated in the core features of their organization. However, an organization such as a social enterprise, can also assume a shape where it has one core logic with several secondary logics. With this shape, the conflicts within the organization are usually minor. In this case, a corporate logic is commonly central to organizational functioning, such as business



sustainability, while other logics, like social or environmental impact, are more peripheral (Besharov and Smith, 2014).

Either organizational structure a social enterprise assumes, Besharov and Smith (2014) suggest that the organizations with both high logic centrality and high logic incompatibility, realize more opportunities as well as face more challenges than other hybrid forms. One clear benefit of high logic centrality and high logic incompatibility is the organization's chance to create new forms of organizations, offering new solutions to societal problems. Nevertheless, conflict is endemic. A common conflict within an enterprise is disagreeing about division of resources. However, the outcome of a hybrid ultimately depends on the relationships between the multiple logics. Incompatible logics are separated from each other and accorded different power and status within an organization. In short, multiple logics lead to competing demands and varying levels of influence over the organization's operations (Besharov and Smith, 2014).

The incompatible logics may also differ in their basis for legitimacy. The ideal typical logics of a nonprofit organization will be different than the logics of a for-profit organization. As a result, these logics compete with each other. The level of compatibility is based on each logics' key source of legitimacy. For a non-profit, the key source of legitimacy might be social impact, whereas financial revenue might be the source of legitimacy for a for-profit.

The incompatible logics are distributed within the organization through either differentiation or integration, leading to a separation between the many stakeholders. In an integrated organization, the majority of stakeholders embody both logics. However, when differentiated, some stakeholders embody one logic while others embody the conflicting logic. To accommodate for their incompatible logics, smaller groups that relate to the conflicting logics eventually are developed. Consequently, the smaller groups may create organizational agreements where logics are executed independently in order to accomplish their separate ambitions. These organizational arrangements manifest distinct institutional logics and vary from routines, practices, and structures to identities (Besharov and Smith, 2014). Panche and Santos (2013, in Henderson et al, 2015) studied work integration enterprises in France. In this case, there was an incompatibility between commercial and social welfare logics. They observed



that social enterprises adapted to the demands of the institutions and ultimately adopted habits correlated to both social welfare and commercial logics (Henderson et al, 2015).

Organizational stakeholders, such as social entrepreneurs in social enterprises, have their set of logics based on their background, previous experience, or professional expertise. This mental framework causes institutions to develop and become visible within organizations. In short, institutions have an impact on the logics of the organizational stakeholders, while the stakeholders in their turn affect the logics of their organization. There are support systems available for social entrepreneurs that promote incompatible logics and aims to help social enterprises in their development. The support systems within the field of social entrepreneurship create chances for the social entrepreneurs to receive guidance to integrate conflicting social welfare and commercial logics (Besharov and Smith, 2014).

3.5 Summary of the Chapter

In this chapter we have presented various theories that helped us understand: Who is an impact investor and what is a social enterprise? Furthermore, we have presented theories that can be helpful in explaining and analyzing the attitudes of our social entrepreneurs towards impact investment.

In our thesis we refer to social entrepreneurs as the founders of social enterprises. Social entrepreneurs are in many ways alike commercial entrepreneurs. However, accordingly to most scholars what distinguishes social entrepreneurs from commercial entrepreneurs is that social entrepreneurs are mission-driven, rather than profit-driven. However, as social entrepreneurship lacks of a coherent definition, it encompasses both nonprofit and for-profit organizations. Impact investment is a new phenomenon in the world and especially in Sweden. What distinguishes impact investment from other types of investment is that in addition to the financial profit, impact investors seek measurable positive social impact.

As social entrepreneurship shares is in many ways similar to commercial entrepreneurship, we have presented theories that explain the attitudes of commercial enterprises towards external financing as they might provide us help with understanding the attitudes of social entrepreneurs towards impact investment. Entrepreneurs can often be reluctant to external financing, as it



rarely is unconditional and as they want to remain in control over the management of their business. However, entrepreneurs often face situations where they have to seek for external financing despite their negative attitudes.

Finally, we have presented theories about institutional logics and hybrid organizations, as we will use these as a tool to analyze the attitudes of our interviewed social entrepreneurs. Institutional logics shape beliefs and behaviors and present guidelines for actors within organizations to follow. Hybrids are organizations that inhibit several institutional logics. Combining different institutional logics within an organization can often lead to conflicts on an organizational level, as the norms of different institutional logics can be contradictory.



Chapter 4

Description of Empirical Context

This chapter presents the findings from the descriptive interview with an industry expert with in-depth knowledge of impact investment in Sweden. Furthermore, the chapter presents the common hurdles social enterprises face when searching for funding. The purpose of this chapter is to provide a comprehensive view of both the infrastructure for impact investment in Sweden and common issues typical for social enterprises in order to understand the relevance of this thesis.

4.1 Camilla Backström - Mötesplats Social Innovation (MSI) - The Ecosystem for Impact Investing

Mötesplats Social Innovation (MSI) is a national platform with an aim to bring together academia, industry, government and the non-profit actors in Sweden who want to promote the growth of social innovations. We interviewed Camilla Backström, operations manager for the field of finance and impact measurement at MSI, in order to understand impact investment in Sweden.

Backström refers to the infrastructure that is needed to unleash the full potential of impact investment as an “eco-system” which includes the following:

1. Financiers with a fixed interest in social value creation
2. Specialized intermediaries: organizations that connect various actors in the field and create and spread knowledge about the field. e.g. business incubators, support organizations, all types of specialists, business advisers, and consultants.
3. Social innovators and entrepreneurs
4. Impact measurement
5. Policy



Backström states, that many of the problems facing social enterprises and impact investors stem from the lack of an established “ecosystem” for the field

Since social entrepreneurship and impact investment are such new phenomena in Sweden, there is currently no all-inclusive mapping done on the actors in the field. However, based on her knowledge in the field, Backström states that she believes that the main reason behind the stagnation of impact investment in Sweden is neither investor's requirements nor the social entrepreneurs' actions but in the lacking ecosystem. Backström emphasizes the importance of intermediaries “They are the oil in the machinery which makes it spin”.

Furthermore, Backström adds that the missing policy framework for impact investment makes the field a “no man's land”. This means the lack of policy increases the risk of the investments which makes investors more reluctant to invest in social enterprises. Policy is needed to free capital and to make the field legitimate. A policy framework makes investors feel more secure and willing to invest. According to Backström, impact investors are the only financiers who actually know what social entrepreneurship is, and impact investors are scarce in Sweden. Furthermore, “The large capital is not within impact investment”, Backström adds.

Backström notes that the lack of a clear definition of both social entrepreneurship and impact investment has led to inertia in the growth of the field. Backström argues that the reluctance of financiers in Sweden to invest in social enterprises can partly be explained by the lack of knowledge in social entrepreneurship. Backström has been in contact with social entrepreneurs who avoid defining themselves as such because they are afraid that the label “social entrepreneur” scares away traditional investors. A clear definition of social entrepreneurship, according to Backström, is needed to make social enterprises more attractive to investors. Similarly, a clear definition of impact investment is the foundation for the growth of the field: “Without definitions, there will be no field.”



4.2 Common Issues Related to Financing Social Enterprises

Understanding the most common hurdles social enterprises face when searching for funding is crucial to understanding the conditions that affect social entrepreneurs' attitudes towards impact investment.

More recently scholars have begun examining social entrepreneurship from an institutional perspective. Like other enterprises, social enterprises tend to face competing institutional pressures. As the goal of social enterprises is to address social problems, which the government or the commercial business sectors have not been able to solve, social enterprises often need to mobilize resources from different sectors and combine them in innovative ways. The fact that social enterprises use a mixture of resources derived from different institutional logics is why managing the institutional pressures at an organizational level has proven to be more challenging for social enterprises than for other enterprises (Dacin et al., 2011).

The demands of stakeholders from different logics can sometimes be in conflict with each other. In order to prove an enterprises' legitimacy in accordance to both institutional logics, social enterprises need to adapt to demands set by stakeholders from both fields, which can lead to tensions on the organizational level. The most common tensions derive from the need to demonstrate the enterprises social and economic competencies simultaneously. For example, stakeholders from the for-profit institutional logic might demand a high financial return on their investment while stakeholders from the non-profit institutional logic might demand a high social impact which sometimes means that the enterprise has to compromise on one or the other (Dacin et al, 2011).

Zeyen and Beckmann (2011) surveyed social enterprises that used a mixture of for-profit and non-profit institutional logics. Although an increasing number of support organizations for social entrepreneurs are emerging such as Ashoka and the Skoll Foundation, and social entrepreneurship is drawing more attention in the media, there is still no established organizational field nor institutional logic for social entrepreneurship. It has also been found that social entrepreneurs are not necessarily aware of the availability of these support systems, which leads to them not being fully utilized (SIE, 2012). Zeyen and Beckmann (2011) found that some



of the respondent enterprises operating in multiple institutional logics faced challenges on the internal organizational level and in their external interactions. For example, some social enterprises faced difficulties proving their legitimacy to their for-profit clients, as the clients did not take the social enterprise seriously due to its non-profit status. Their findings illustrate the issue that some social enterprises struggle in communicating their objectives because they are operating in at least two different institutional logics. Furthermore, Zeyen and Beckmann (2011) add that the lack of a coherent definition of social entrepreneurship influences clients' and investors' attitudes towards these enterprises. They found that these factors lead to social enterprises facing difficulties both in communicating their objectives to interested parties and convincing them that the organization is actually beneficially impacting society.

The fact that social enterprises can obtain resources from both the for-profit and the non-profit institutional logics can be viewed as both an opportunity and a challenge. On the one hand, social entrepreneurs have the possibility to attain resources from both the nonprofit and for-profit institutional logics i.e. they have a wider range of alternatives than commercial enterprises have. On the other hand, social enterprises tend to be disadvantaged in both sectors due to their mixed characteristics. Purely non-profit organizations are more attractive to donors, while purely commercial for-profit enterprises are more profitable for investors (Dacin et al., 2011). Commercial enterprises attract financiers by offering potential financial returns. Enterprises that earn the most profit are the ones that can attract more resources in order to grow. As social enterprises' primary goal is to create social value instead of economic value, they often provide lower financial returns, if any, to the investors (Dees, 2001).

Another related characteristic, performance measurement of social enterprises, adds to the conflict. In commercial entrepreneurship, performance metrics are usually standardized and measured in terms of financial performance such as profitability or increase of sales. In contrast, performance measures for social entrepreneurship are unstandardized as they vary depending on the mission and activities conducted by the enterprise. Evaluating the performance of social enterprises is difficult, as measuring tangible outcomes rarely reveals the degree of achieved impact. While it may be possible to quantify how many liters of pure water has been provided to a community in Africa, it might be more challenging to measure the political impact of a social



enterprise with a primary mission to increase awareness of gender equality. Furthermore, even if the outcomes can be measured, it is difficult to attribute the improvements to a specific enterprise (Dees, 2001). The lack of standardized performance metrics makes it difficult for social enterprises to achieve legitimacy among investors. Consequently, social enterprises tend to struggle with identifying funding sources that share their interest of creating social value (Mair & Marti, 2006).

Some researchers argue that the innovative character of social enterprises might further complicate the process of attaining funding. As social enterprises often enter or create new markets, they may face a liability of newness. With a new organization, the risk of failure is high, but the risk decreases as the organization ages. Legitimacy and liability play a critical role in attracting external capital as financiers wish to have as low risk as possible (Dacin et al., 2011).

4.3 Summary of the Chapter

The purpose of this chapter was to highlight the many factors affecting the existence of the funding gap between social enterprises and impact investors in addition to the attitudes of social entrepreneurs towards impact investment. This chapter presented the findings from the descriptive interview with Camilla Backström, operations manager for the field of finance and impact measurement at MSI. In short, Backström emphasized that many of the issues with impact investment in Sweden can be explained by the fact that impact investment is such a new phenomenon that it lacks an established ecosystem. According to Backström, in order for impact investment to unleash its true potential, the ecosystem needs to consist of the following: financiers with a fixed interest in social value creation, specialized intermediaries, social entrepreneurs, a coherent policy framework and tools for impact measurement. Backström identified the lack of intermediaries and a clear policy framework as the most critical deficiencies in the Swedish ecosystem for impact investment today. The descriptive interview with Backström contributed to the understanding of the current situation of impact investment in Sweden.



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Social Enterprises & Impact Investors – "A Complicated Relationship "

To verse the reader in our subject, we presented theories about common hurdles social entrepreneurs face when searching for funding. Many of the issues social entrepreneurs face derive from the fact that social enterprises often use a mixture of resources derived from different institutional logics, as the demands of stakeholders from different logics can sometimes be in conflict with one other. Furthermore, the lack of standardized performance metrics makes it challenging for social enterprises to achieve legitimacy among investors.



Chapter 5

Presentation of Empirical Data

This chapter present the primary data gathered from interviews with social entrepreneurs, an impact investor and industry experts. This chapter also provides an introduction to the organizations the interview subjects belong to.

5.1 Presentation of Interviewees

5.1.1 Centre for Social Entrepreneurship Sweden (CSES)

Centre for Social Entrepreneurship Sweden (CSES) is the first non-profit social business incubator with a primary focus of promoting social innovation in Sweden through stimulation and support of entrepreneurs involved in the process. CSES's main goal is to help social entrepreneurs develop their organizations by providing them with access to relevant networks and competencies. By helping entrepreneurs develop their organization, CSES aspires to make social enterprises more likely to attract investors by adding a commercial approach to their social initiatives. In order to gain a deeper understanding of the conditions and attitudes of social entrepreneurs, we interviewed three industry experts from CSES who are working in close contact with social entrepreneurs.

5.1.2 The Interviewed Social Entrepreneurs

We interviewed eight Swedish social entrepreneurs representing organizations that were in accordance with our chosen definition of a social enterprise. Although all the social enterprises were mission-driven, they differed significantly with respect to the industries they were active in, social missions, activities and attitudes towards financial return. Six of the social enterprises were for-profit and two were nonprofit. They were all joint-stock companies. The social entrepreneurs are presented more specifically in **Chart 1** at the end of this chapter.



5.1.3 Leksell Social Ventures

Leksell Social Ventures (LSV) is an initiative by the Leksell family. Larry Leksell began his social career with Electa, an organization that invented a brain cancer radiation treatment. Leksell was also on the board for Stockholm City Mission (Stadsmisionen), a nonprofit organization providing support for people in need. After serving on the board for ten years, Leksell recognized the lack of capital and alternatives for financing social innovation and founded LSV. LSV went public in May 2014 in order to promote social innovation in Sweden.

LSV is a nonprofit investment company wholly owned by the Leksell family. LSV channels any financial returns back into new initiatives and social investments. LSV offers credit, financial guarantees, and equity investments of up to eight million SEK and some grants on a limited basis. The company currently has 50 million SEK in capital to use for investments. LSV targets initiatives that address social and economic marginalization in order to improve the ecosystem for social innovation in Sweden.

We interviewed Henrik Storm Dyrssen, the CEO at LSV to gain a deeper understanding of the requirements LSV sets for social enterprises in order to invest in them. Since LSV went public, they have screened 160 organizations. Most of the applicants were entrepreneurial and in early stages of development. These organizations had origins in the private sector, entrepreneurship, civil society, and in some cases the public sector. LSV has not invested in any of them, since none of the organizations met LSV's requirements or goals with respect to scalability, integrity, and the social impact model. Dyrssen emphasized that most of the organizations were in a too early phase to be attractive for LSV; from now on, LSV will focus more on organizations with proven growth.



5.2 Investment Requirements set by Leksell Social Ventures

Scalable:

A model that through growth or copying can scale up to national coverage of at least 10% of the defined target group

Financially sustainable:

The organization needs have a business model which covers the organization's costs through sales of good or services and generates an excess. Dyrssen adds that a reasonable return in order to be financially sustainable would be about 5%.

Goal-oriented:

To have a model for management that ensures the prioritization of social problems and the target group simultaneously as taking finances in consideration. The management has to have a strategy on what is done with the financial returns.

Initiative:

Non-profit associations, businesses regardless of legal form, with established teams.

Evidence-based:

The organization needs to have a model based on testing, evaluation, and validation of the method to achieve desired impact on the target group.

Measurable:

The organization needs to have a clear and articulated idea and process for metrics that indicate whether the operation is successful or not.

Social public benefit:

The organization needs to address a specific social issue and have a defined target group.

(Leksell Social Ventures, 2015)



Dyrssen adds that they often wish to have co-investors with expertise in the field in order to provide the organization with the needed knowledge.

Furthermore, Dyrssen states that there has to be metrics for all primary purposes, either metrics to show that the organization creates a positive impact or metrics from the management's point of view, showing that the organization is developing. Dyrssen indicates that it is much easier to "prove outcomes than impact." He suggests that it is difficult to prove the change that has happened was a consequence of the investment. That is why LSV only focuses on evidence-based organizations, so that evidence and experience can be compared and evaluated with other organizations. Additionally, he notes that the metrics need to be relevant for the decision making process; otherwise the metrics are just "reporting for the sake of reporting."

When asked about the main reasons for not investing in any of the 160 applicant organizations, Dyrssen answered that the main deficiency with these organizations was that their social models were not convincing enough. Although the entrepreneurs were often highly engaged in the issue, they were seldom versed in the matter. Dyrssen said that although some organizations might be well established and have been active for years, it does not prove that they are up to date with the most recent research in the field or aware of what other similar organizations are doing. Dyrssen indicates that there are many social issues, and many people who want to address these issues yet lack the needed knowledge about the problems. Dyrssen emphasizes that LSV is not interested in who the individuals are, rather how convincing the social model is: "It is not enough that people are active in this sector, we must make a difference as well".

5.3 Social Entrepreneurs' Attitudes Toward Impact Investor's Requirements

In the interviews we conducted with the social entrepreneurs, we found no clear pattern in the willingness to adapt to investors' requirements among the respondents. Some of the respondents expressed that they preferred to maintain control over the management of their organization. However, they stated that although they are reluctant to adapt to investors' requirements, they are seldom in a bargaining position since there is a limited supply of financial capital. SE4 stated



that “We would rather not adapt too much [...] we feel confident in our business plan [...] the more we stick to it, the better social impact we achieve.” SE4 argues that they have built a coherent business model, and increased requirements for social impact would most likely require changes in their financial plan which could result in less social impact. In contrast, one of the entrepreneurs stated that it is important that impact investors set requirements for measuring social impact, as they can function as guidance for the enterprise to make improvements in order to increase the social impact. Another respondent also saw that requirements set by investors can often lead to improvements in the enterprises’ strategy, which could be helpful in attracting capital in the future. There was a general awareness that funding seldom is unconditional, but the willingness to adapt to the requirements varied among the respondents.

Most of the feedback from social entrepreneurs LSV has received on their requirements has focused on the emphasis on financial sustainability and social impact models. According to Dyrssen, most of the entrepreneurs are shocked by the emphasis on financial sustainability and positively surprised by the strong emphasis on measurable social impact. Many applicants have responded negatively towards LSV’s wish to have co-investors. One of the industry experts representing CSES pointed out that there is still a wide gap between the enterprises in the incubator and impact investors. According to the expert, the requirements set by impact investors are too high and impact investors should be willing to take some risk as well.

The way to measure social impact varied significantly among the respondents depending on what type of activities the enterprise conducted. Some monitored how many people were engaged in the organization; some monitored the number of people using their product or service, while others were satisfied with random feedback. Many of the organizations had an approach of observing their social results whereas only one of the organizations had clear metrics that were of relevance for the strategic management. Some of the respondents we interviewed did not focus on measuring social impact. Many of the organizations had no solid metrics for measuring social impact whereas some did not measure social impact at all. SE1 stated that measuring social impact is unnecessary for their enterprise as they have such a clearly defined mission and target group; the results are visible without metrics. SE5 stated that for them, measuring social impact might become relevant in the future, but for now they were satisfied with receiving



positive feedback. Two of the respondents said that they would use more specific metrics if their financier required it. SE5 stated that other issues took priority over measuring social impact. Currently, SE5 uses questionnaires, as that is enough to satisfy their financiers. Some of the social entrepreneurs expressed that it is difficult to know how to measure and what to measure and what the results reveal about the organization's social impact.

Overall the impression we received from the interviews was that many of the respondents viewed measuring social impact as an important thing; however, many of them prioritized other things, such as focusing on scaling up their business in order to increase the social impact. Furthermore, many of the respondents were lacking clear metrics and expressed that it is difficult to know what to measure.

5.4 Financing Social Entrepreneurship

Organizations that have applied for funding from LSV are usually financed by grants such as Vinnova or Tillsvärxtverket and other institutions or foundations. Dyrssen states that the requirements of the grantees are seldom in conflict with the requirements set by LSV. However, he adds that the “project funding trap” is a fairly common issue. “Project funding trap” refers to situations where some organizations choose to work with issues that are not within their area of expertise, only because that is where there is funding available. As a result, the organizations can get stuck. “So it reduces the incentives for business development and it slows the pace of development of these activities. There is simply too much free money in the system”. One of the industry experts agrees with Dyrssen, and states that many social entrepreneurs become “grant hunters”, and spend more time and effort on searching for grants than developing their business model.

Dyrssen states that at LSV, they have been positively surprised by the business thinking in the business models. Many of the applicants developed innovative solutions to sell goods and services. However, they still lacked financial sustainability because they were unable to cover their costs with sales from sales of goods or services. The industry experts all agreed that too much dependence on external financing and grants is a common issue among social enterprises.



According to them, regardless of the type of venture, commercial or a social, the best way to finance an enterprise is by revenues gained from sales.

To find out about the level of business knowledge the social entrepreneurs interviewed possessed, we asked them about their previous experiences, and the answers varied significantly. About half of the interviewed SEs had some previous entrepreneurial experience, while the other half had very little business related experience. SE2, who had no prior experience in business whatsoever, had sought help from a local business incubator where SE2 received assistance from business advisors. The interviews with the social entrepreneurs revealed that the previous methods of funding differed among the group. Two of the entrepreneurs had received innovation loans from ALMI. Two had financed the start-up with personal capital. Other enterprises had been financed through angel investors, philanthropists, or traditional loans from banks. Most of the enterprises had started with combining different types of funding including both public grants and private capital.

The current dependence on external capital among the enterprises we interviewed varied. About half of the organizations considered themselves as relatively or highly dependent. Some social entrepreneurs were of the opinion that external capital can potentially lead to faster growth, while others preferred financing through sales despite the resultant slower growth, as sales are a requirement in order to become financially sustainable. SE5 considered the acquisition process too “time consuming” and prioritized focusing on the development of the business and sales, while SE1 saw financing through sales as a challenge, as the industry they work in is so cost driven and external capital is a vital key to survival. Overall, the dependence on external capital varied depending on the stage of growth and type of industry. Furthermore, the respondents viewed external financing positively and saw it as a necessity for growth. Some also pointed out that it is a necessity to cover the costs of marketing at early stages.

5.5 The Social Enterprises View on the Support Systems in Sweden

When asked about their impression of the sufficiency of support systems for social entrepreneurship in Sweden, the representatives' answers varied a lot. Some of the representatives had a positive impression of the availability of support systems for social



entrepreneurship in Sweden, while others stated that there is still room for improvement. SE2 pointed out that especially in Stockholm there is “more than enough” support systems available. However, SE3 pointed out that outside Stockholm, and perhaps Malmö, the support systems are probably lacking. The availability of support systems differs depending on the organization’s location in Sweden.

Our interviews revealed that some of the enterprises had also, or even exclusively, used support systems for commercial enterprises. For example, SE1 had chosen to use a commercial business incubator in order to maintain control over their strategy. SE1 had the impression that specialized support systems for social entrepreneurs set more restrictive requirements than purely commercial ones. SE1 stated, “We have chosen to stick to our own path”. SE2 saw being a social entrepreneur as an opportunity to use support from both the commercial and the social support system. In conclusion, there was no clear majority of entrepreneurs who had chosen to use specialized support for social enterprises, nor was there a clear majority of respondents who were satisfied or dissatisfied with the current support system for social enterprises.

5.6 Knowledge About and Attitudes Toward Impact Investment

Dyrssen stated that he is aware of the lack of knowledge about impact investment and social entrepreneurship in Sweden, but he does not see it as an issue for LSV. LSV identifies organizations that they think have convincing models, regardless of their organizational form.

The knowledge about impact investment was relatively similar among the interviewed representatives of social enterprises. The overall impression was that the respondents were familiar with the phenomenon, but some of them also stated that the concept of impact investment is unclear and undefined, which makes it difficult to execute. Some respondents saw the lack of a clear definition as an issue. One of the representatives stated that even though the respondent had a positive attitude towards impact investment, the concept is vaguely defined which makes it hard to understand where to place impact investors on the scale between philanthropists and purely commercial investors. Most of the respondents were aware of the fact that impact investment is rather underdeveloped in Sweden. One of the respondents was unfamiliar with the term “impact investment” but was familiar with the concept itself.



The majority of those interviewed had a positive attitude towards impact investing, but there was also some skepticism among the respondents. SE1 expressed that it is difficult for impact investors to find suitable organizations to invest in as they require both established financial and social success. SE5 questioned the motives of impact investors as an investor usually invests in order to gain revenue. He further stated his concern stating that social investing is trendy at the moment; there are many companies that only “dress as socially responsible” and in fact turn out to be like any other investors.

All the industry experts interviewed were of the opinion that there is a growing interest in impact investment in Sweden. However, they all pointed out the same feature as Dyrssen: Sweden is unique in its context, as Sweden has such a strong welfare system. Sweden has never had a tradition of inter-sector working, i.e. mixing the different sectors such as business, public sector, and the civil society. Impact investing has a long way to go to establish in Sweden. Some of the interviewed experts mentioned that it is not only the welfare system itself which leads to inertia; it is the culture in Sweden and the assumption that the state carries all the social and environmental responsibility.

5.7 Credibility and Choice of Financier

Regarding the choice of financier, credibility was considered an important aspect by a clear majority of the respondents. Most of the respondents considered it important that the financier's reputation and values match with the enterprises' values. However, many of them noted that since there is a lack of supply of financial capital as a social enterprise, they cannot afford to be too picky. SE5 stated that even though they do believe that the choice of financier may affect an organization's credibility, they are willing to take almost any money that is offered to them. SE6 was the only respondent with a clearly negative attitude towards impact investment with respect to credibility. SE6 chose philanthropic financing in order to avoid social washing, which SE6 viewed as a risk related to equity investors for social enterprises.

Some of the industry experts argued that credibility is not a problem in practice, given that the social enterprises have a clear business model in which the financial plan matches the investors'



view of credibility. They argued that the degree of credibility is always dependent on the subjective view of the individual. They also argued that social enterprises ought to find investors that match with the enterprises' conditions, and if they do so, the type of the investor will not affect the enterprise's credibility.

5.8 Attitudes Toward Combining Social and Financial Value Creation

The general opinion among the interviewed representatives was that financial sustainability and scaling up the organizations leads to greater social impact. In that sense, most representatives agreed that the creation of social and financial value complement each other. However, some respondents agreed that especially at earlier stages of development finance has to come first. Some argued that it is unreasonable to focus on social impact at early stages of development and that focusing mainly on building the commercial aspect of the venture is necessary in order to reach the market. SE1 stated that in early stages, focusing on customers and the market needs to be prioritized and that the combined focus that impact investors have probably suits better for investments in social enterprises that have been around for a while and grown.

There were different views on what an organization should do with the yield return. While some argued that "There needs to be space to earn money when doing something good", others emphasized that all yield returns ought to be put back in the organization in order to grow. A few of the representatives had not gained any revenue yet and were unsure whether they should stick to being a for-profit joint stock company or change legal form and become a nonprofit instead. SE7 stated that the matter has been up for discussion many times, though they have not made the choice yet. Overall, financial sustainability was considered as a requirement for growth and important characteristic to increase social impact.



Chart 1 – Summary of answers from Interviews with Social Entrepreneurs

Focus/Social Enterprises	SE1	SE2	SE3	SE4	SE5	SE6	SE7	SE8
Company type	Joint-Stock Company	Joint-Stock Company	Joint-Stock Company	Joint-Stock Company	Joint-Stock Company	Joint-Stock Company	Joint-Stock Company	Joint-Stock Company
Nonprofit/Not-For Profit/For Profit	For-profit	For-profit	Nonprofit	For-profit	For-profit	Nonprofit	For-profit	For-profit
Social Mission	Scheduling and administration for personal assistants	Skills developing childrens applications	Motivating students to get jobs	Work integration	Online (political) campaigning	Providing sanitation	Water cleansing	Fair-produced clothing
Previous Financing Type	Almi (Innovationloan), Länsstyrelsen (Investment), Västmanlandsfonden (Investment)	Almi (Innovationloan), Innova Funds	Reach for Change & payment from partner organisations ("sales")	Self-financed, sales	Self-financed	Philanthropists	Business Angels	Bank, Säilia Holding (Traditional Investor). Was contacted by investor(Säilia)
Dependence on External Financing	Relatively high dependance. Cost-driven business, takes 2-5 years before financial return	High dependance	Low, self-financed as of today	Non at the moment, self financed and through sales	No dependance, finds it time-consuming	High dependance	No dependance, financed through sales as of today	Was dependant
Willingness to Adapt to Financiers Demands	Rather not. Risk in doing so. Importance in sticking to company-plan	Not sure. Positive to the guidance it can provide	Open to it	No to willing. Confident in business-model	-	-	Open to it	Not that many demands set. Did not measure too much back then
Approach Towards the Combination of Social Impact and Financial Sustainability	Hard to combine, specially in start-up phase	Positive, 50/50 approach. Thinks it can improve business and the world to have a combined focus	Financial sustainability leads to larger social impact. No profit, no impact	-	Not sure about it	They go hand-in-hand. Scaling up leads to larger Social impact	-	Earning money needs to come first. "Earn money and save the world"
Knowledge about Impact Investors	Not completely sure about concept	Good knowledge	Knows about concept	Very good	Some knowledge about the concept	Lack of knowledge	Good knowledge	Good knowledge
Attitudes Towards Impact Investment as a Financing Form	Positive towards concept, but sees hardship	Very positive	Vague in definition, not of interest to them due to demand of return	Positive	Finds it rather unusual, but positive	Not sure/not positive, hard to combine impact and monetary return	-	Positive. One should strive towards both financial and social return
Measurement of Social Impact	Dont measure at all	Measured through patient feedback and reviews on Amazon	Measures social impact, how the youths they help feel in relation to the help they get.	Follow up on individuals they have helped	Gets some feedback, but no measuring	Measures usage of product	Studies with partner organisations, SROI	How many people they employed in Nepal + how much money provided to orphange
Attitude Towards the Swedish Support System for Social Enterprises	Rather positive, but not used it	Neutral, not sure	Depends on geographical location	Positive	Positive	-	-	Needs improvement
Previous Entrepreneurial Experience in Organisation	Some experience, different industries	No experience at all, used external help	Some experience	Good previous experience	Experienced and experienced parents	Experienced from Swedish Industry	-	Little experience, parental experience. Business knowledge
Choice of Investor in Relation to Organisational Credibility	Choice matters, have turned down offers	Very important	Important	Important	It probably matters	Important	Important	Important



Chapter 6

Analysis and Evaluation of Empirical Data

This chapter provides the evaluation and analysis of the gathered data by using our own theoretical framework.

6.1 Definitions

6.1.1 Vague Definition of “Social Enterprise”

As much of literature on social entrepreneurship suggests, our interviews illustrated that social entrepreneurship is vague in its definition. Many different types of enterprises with an embedded social mission go under the umbrella term “social enterprise” (Dacin et al. 2011). However, the results of our research were similar to Mair and Marti’s (2010) statement that the definition of “social enterprise” includes a heterogeneous group of organizations, differing in their legal form and activities. The characteristics and attitudes of interviewed social entrepreneurs can be seen in Chart 1. We found that the social entrepreneurs we interviewed, whether for-profit or non-profit, differed in their activities, as well as in their approaches and attitudes towards impact investment and other questions related to financing. This made it difficult to establish any clear patterns between the social entrepreneurs.

6.1.2 Impact Investor: Leksell Social Ventures

Impact investors are defined by their goal to generate a measurable positive social impact in addition to the financial profit, although the profit goals can vary in extent (GIIN, 2015). Based on GIIN’s requirements, LSV can be defined as an impact investor. This is because the intent of LSV’s investments is to generate a positive social effect, and LSV expects a financial return, or at a minimum a return of capital. However, the expectations of return are below market to risk-adjusted market rate. Moreover, LSV awaits a measurable impact. After having interviewed Henrik Storm Dyrssen of LSV, we confirm that they use investment instruments in conformity with what Brandstetter and Lehner (2015) claims are the kind impact investors use.



6.2 Social Entrepreneurs' Knowledge of and Attitudes Towards Impact Investment

6.2.1 The Reluctance to Losing Control in a Critical Financial Situation

According to Landström and Löwengren (2009), entrepreneurs' reluctance to external financing can partly be explained by their desire to remain in control over the management of their business. This could be the reason most of the social entrepreneurs we interviewed indeed wanted to remain in control over their business and, as a result, were fairly negative towards adapting to an impact investor's requirements. The social entrepreneurs interviewed expressed that they felt confident in their own business plans and would be reluctant to take an investor with requirements in conflict with their own plan. However, some of the social entrepreneurs stated that the current lack of financing is so critical that they are not in a bargaining position and would most likely adapt to impact investor's requirements anyway, if it was necessary. Some social entrepreneurs also recognized that external capital is often a necessity for growth scaling up the business, which in turn will lead to an increased social impact. Therefore, it seems that the enterprises' financial situation can change their eligibility to choose whether they want to adapt to investors requirements or not. Berggren's (2002) theory regarding factors that affect commercial entrepreneurs' attitudes towards external financing could be applied to social entrepreneurs in order to explain this. Berggren (2002) states that entrepreneurs that face critical financial situations and have previous experience of interacting with financiers or are active in cost driven industries are likely to use external financing despite their fear of losing control over the management of their business. These findings additionally show that social entrepreneurs have similarities with commercial entrepreneurs, which Dees (2001) also found.

6.2.2 Past Experience of External Financing

Berggren (2002, in Landström & Löwengren, 2009) claims that entrepreneurs' prior contact with financiers might have a positive impact on their attitudes towards external financing. We found that some of the social entrepreneurs who had some entrepreneurial or business related experience had an overall positive attitude towards impact investment and external financing. However, the level of experience varied from case to case. In fact, one social entrepreneur with no prior experience in entrepreneurship or financing was still interested in obtaining funding from an impact investor. In that case, we see that the positive attitude can be partly explained by



the fact that the social enterprise was in contact with business advisors who might have provided them with knowledge about external financing. This, in turn, might have had a positive impact on their attitude towards impact investment. Another social entrepreneur, without prior business knowledge and no prior contact with investors, was not interested in being financed by impact investors, although they had been in contact with them. The reason for their reluctance to be financed by an impact investor could be explained by their non-profit status, and their belief that this status was in conflict with the demands of impact investors.

6.2.3 Distrust in a New Phenomena

Most of the social entrepreneurs we interviewed were familiar with the concept of impact investing; however, some showed skepticism towards phenomenon due to its novelty. We found that this could have an impact on the social entrepreneurs' attitudes towards impact investment. Social business incubators have access to financial information and associations with investors in the chosen field, which they can provide the enterprises with. The industry experts working for CSES, a social business incubator stated that the incubator is in contact with impact investors and works as an intermediary between social enterprises and impact investors. A social entrepreneur, who chose to use a commercial business incubator, rather than a social business incubator, was also somewhat unfamiliar with the concept of impact investing. We see that social entrepreneurs, who choose to use a social business incubator, rather than a commercial business incubator, are provided with more knowledge about impact investment, which in the long run might have a positive impact on their attitude.

6.2.4 Geographical Inconsistency for Support Systems

While most of the social entrepreneurs we interviewed agreed that there are sufficient social support systems, a few of them indicated that the support systems are clustered in Stockholm and Malmö, leading to an unmet demand in other regions. Furthermore, it could be argued that the geographical location of a social enterprise can affect its level of knowledge about impact investment and thus affect its attitude towards it. This is because support systems for social entrepreneurship aim to provide social entrepreneurs with relevant contacts, impact investors being one of them.



6.3 Social Entrepreneurs: Attitudes toward LSV's requirements

LSV is interested in investing in any type of social initiative that meets their investment requirements. However, LSV is mostly interested in non-profit organizations. Thus, we found it interesting that the only social entrepreneurs to show a clear disinterest in working with impact investors were the ones from nonprofit enterprises.

6.3.1 Financial Sustainability and Scalability

The organization needs to have a business model, which covers the organization's costs through sales of goods or services and generates a profit. They also need a model that, through growth or copying, can scale up to national coverage of at least 10% of the defined target group.

Most of the social entrepreneurs we interviewed agreed with Dacin et al. (2011) in that financial sustainability is vital for an organization to grow and to achieve social impact. The general opinion among the social entrepreneurs was that higher social impact can be achieved by reaching financial sustainability and scaling up the business. Many of the social entrepreneurs were of the opinion that, especially in early stages of development, building a financially sustainable business model needs to be the main focus. In order to be able to make a social impact, economic sustainability is a necessity.

However, in contrast with our results, LSV claims that many enterprises they have been in contact with were surprised by their demand of financial sustainability. This surprise could be explained by Valéau (2010) who stated that constructing a financially sustainable business model can often interfere with the initial vision of a social enterprise. That is, although the social entrepreneurs realize the importance of financial sustainability and scalability, they may be reluctant in letting achieving financial stability distract their social mission. This may be especially true if they believe the demands set by LSV are too high.

Furthermore, only three of the social entrepreneurs we interviewed were financed through sales of goods and, therefore, independent of external financing. A few social enterprises were not yet profitable. One social entrepreneur explained that this is because their social enterprise operates in a cost driven industry where it takes many years before earning a profit. Accordingly, large



investments are needed throughout the process. However, as Chertok et al. (2008) state, impact investors tend to focus on social enterprises that have already increased the scale of their organization. We find this understandable from an investor's point of view, yet also troublesome since the resources provided from an impact investor might be the very reason an increase in scale for a social enterprise is made possible.

6.3.2 Measurement and Evidence-Based Strategy

The organization needs to have a clear and articulated idea and process for metrics, that indicates whether the operation is successful or not. They further need a model based on testing, evaluation, and validation of the method to achieve desired impact on the target group.

Dyrssen emphasizes that in order for LSV to invest in any social enterprise, the enterprise in question has to have clear metrics on how to measure social impact. However, our interviews showed that the social entrepreneurs did not value measuring social impact as highly as LSV does. LSV emphasizes that the metrics have to be clear and relevant to the management. Only one of the social enterprises would have filled that requirement. The interviews indicated that most of the social entrepreneurs valued other things over measuring the social impact. This lack of prioritizing social impact metrics may stem from the social entrepreneurs' belief that the social impact was a given based on their business idea. One of the entrepreneurs we interviewed claimed that they felt that measuring their social impact was redundant since the results could be seen without metrics due to their clear social goal-orientation and visible target group. Thus, they were more concerned with scaling up their business to further increase the impact. Furthermore, LSV believes metrics have to be relevant for the strategic management of the social enterprise and not just "for the sake of reporting". Some of our interviewed social enterprises did, however, state that they adapt their measurements only in order to satisfy their investors.

Our interviews with social entrepreneurs revealed that there is a lack of established metrics for measuring social impact. Some of them did not measure impact because they found it difficult to find accurate metrics that showed the impact achieved by the enterprise. Dees (2001) indicated that even if the social impact can be measured, it is difficult to connect an improvement to the operations of a certain organization. His theory was confirmed by the interview; some entrepreneurs we interviewed operate in industries where they felt that it is practically impossible



to know if a social improvement would have happened anyway, or if their organization is the reason for it. The complexity of measuring social impact could possibly lead to a questioning of the strict measurement requirements set by LSV, as well as their focus on evidence-based organizations.

6.3.3 Social Public Benefit and Goal-Orientation

To have a model for management that ensures the prioritization of social problems and the target group while simultaneously taking finances in consideration. The management has to have a strategy for utilizing financial returns.

The social entrepreneurs we interviewed had various opinions on how their social enterprise had a focus on social benefits in combination and with business finances. While some considered it challenging to focus on both social benefits and finances at the same time, one social entrepreneur argued that a two-way combined focus was good for business and social impact. However, one of the non-profit organizations we interviewed argued that social benefit and finances are in conflict with each other. This might be because the social organization might base their opinion on the experiences of social entrepreneurs in general, whereas the social enterprise speaks from their specific experience. All of the entrepreneurs we interviewed had the intention to combine a focus on social benefit and business finances, but the extent of the emphasis on either finances or social impact varied among the social enterprises. The attitudes to this particular requirement might change depending on various factors that differ between the social enterprises such as the company's growth stage, industry and dependence on external finance.

Furthermore, we found that status of the social enterprise, non-profit or for-profit, determined the response regarding financial returns. The for-profit organizations did not see a problem in combining "doing good and making money," whereas the non-profit organizations were strict in their focus on simply creating social impact.

6.3.4 General Discussion: Demands from Impact Investors

Based on our findings on how social entrepreneurs relate to LSV's demands such as impact measurements, financial sustainability, and scalability, we conclude that the requirements are rather demanding in relation to what social entrepreneurs consider feasible. One of the industry



experts we interviewed was of the opinion that impact investors have to be willing to take a higher risk than what they are currently doing if they wish to bridge the funding gap for social enterprises. Based on our findings, this argument is relevant, as some of the social enterprises we included in our interviews had been operating and growing for years, yet did not fulfill the requirements set by LSV. On the other hand, rigorous demands from an impact investor can lead to organizational strategy development that can lead to social enterprises improving their chance of attracting capital.

6.4 The Effect of Multiple Institutional logics

Besharov and Smith (2014) claim that an organization embodies multiple institutional logics “when they lie at the interstices of divergent fields, are embedded in fields that value creativity, or depend on various professional or occupational groups”. Applying this definition, we identify the social enterprises run by subjects interviewed as hybrids. The social enterprises are hybrids because at some point in their development they depended on several sources of funding, have had to balance social impact and commercial instincts, and are acting in a field where creativity is key to creating a sustainable business plan.

6.4.1 Lack of Knowledge

Some social entrepreneurs commented on the difficulty in knowing what an impact investor is and where in the spectrum between philanthropists and commercial investors impact investors should be placed. This confusion could have an impact on the social entrepreneurs’ attitudes toward impact investment. If a social entrepreneur with a dominating non-profit logic considers impact investors closely related to commercial investors, it might cause negative attitudes toward impact investors. Likewise, it could be argued that a for-profit social enterprise that does not put a heavy emphasis on measuring social impact could be uninterested in receiving funding from impact investors.

6.4.2 Organizational Hybridity Causes Conflicted Opinions on Funding

Research shows that conflicts often occur in organizations with multiple logics. Thus, we are able to explain why social enterprises are torn between the commercial business demands and the desire to make a social impact. This conflict stems from fundamental variances within logics, especially noticeable in hybrid organizations. Logics also vary between different social



enterprises which could be a reason social enterprises making such different decisions regarding, among other things, choice of funding. While being a hybrid might be perceived as a problem, being a hybrid is ideal for a social enterprise. As a hybrid, a social enterprise can take advantage of the situation and use their multiple logics to create novel solutions to societal problems. For example, hybridity allows them to work with different professionals, specialized in various fields relevant to the complexity of a social problem. Hence, without their organizational hybridity, the social enterprises we interviewed might not have been able to make any social impact at all.

6.4.3 Past Experiences Affect on Logic Integration

Social enterprises must constantly negotiate the demands of each logic. As this constant conflict is due to their hybridity, the social enterprises need to find a balance and integration among their logics. Nevertheless, this balance cannot be achieved through a set of basic regulations. In fact, the stakeholders of the social enterprise possess their own set of logics before entering the organization. The entrepreneurs we interviewed all have various past professional experiences which shape their current logics. This could be why some respondents chose to take advantage of the available support systems for social entrepreneurs, while others preferred commercial support systems, or both. Previous experiences might have caused them to develop financial sustainability logics, making them more aware of the importance of funding. Or their past experience caused the opposite, having them focus more on the social impact logic. Organizational stakeholders, such as social entrepreneurs in social enterprises, have their set of logics based on their background, previous experience, or professional expertise. Institutions have an impact on the logics of the organizational stakeholders, while the stakeholders in their turn affect the logics of their organization. There are support systems available for social entrepreneurs that possess incompatible logics and aim to help social enterprises in their development. For those social enterprises that do not use social support systems, they could miss out on more than just getting in touch with investors. Social organizations like Ashoka strive to help social enterprises integrate their commercial and social logics. The support systems' involvement within the field of social entrepreneurship creates chances for the social enterprises to receive guidance on integrating their conflicting social welfare and commercial logics (Besharov and Smith, 2014).



6.4.4 Legitimacy and Will to Remain in Control of Logics

The desire to remain in control could potentially also affect the social entrepreneurs' view of impact investors. The key source of legitimacy for a non-profit organization could be social impact and financial-revenue for a for-profit organization. Hence, it is possible that a non-profit organization finds social investors more relevant for their organization, as legitimacy to them means focusing on social impact. If they were to receive investments from a venture capitalist, for example, their source of legitimacy might clash with the one of the venture capitalist company, which is financial revenue. It is also probable that the degree of willingness to adapt to the impact investors' demands depends on the social enterprise's wish to remain in control of the dominating logics. For example, if a social enterprise's business plan changes too much in response to an investor's requirements of co-investors, our interviews suggest that the social enterprises might not be able to make the same amount of social impact. Moreover, the impact investor's request for co-investors would increase the number of logics in conflict. This increase in conflicting logics is especially true for an organization wanting both social impact and financial revenue. However, other respondents stated that they could improve their strategy by following the investors' requirements. Subsequently, we were unable to draw any clear conclusions from the respondents' answers. This, again, could be that their responses varied according to their logics.

6.4.5 High Incompatibility and High versus Low Centrality

Additionally, Besharov and Smith (2014) mention two key dimensions that differ between hybrids, which possibly could be the case for the social enterprises we have interviewed. Some of our respondents might have had a high incompatibility in combination with high centrality, while others could have a high incompatibility and low centrality. In the latter case, some of the respondents showed considerably more focus on economical sustainability than others, creating the impression that they might prioritize their business logics in relation to their peripheral social and environmental impact logics. Other respondents face the difficult conflict of having multiple equally valued logics.

There are many factors playing a role in how social enterprises form an opinion of and attitude towards impact investors. Social enterprises are hybrids, created by the logics of its social



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entrepreneurs. The development of their logics is complex. Therefore, enterprises in the same social field approach impact investment differently. However, there are ways for social enterprises to gain control over their logics. Support systems are available to help integrate their commercial and social logics, turning the difficulties of logics incompatibility into an ideal situation for a social entrepreneur.



Chapter 7

Findings and Concluding Discussion

The final chapter presents the conclusions and suggestions for further research. Additionally, the research process and the generalizability of this study is evaluated.

7.1 Findings and Concluding Discussion

The purpose of this thesis is to examine and understand the underlying reasons behind the existing funding gap between social enterprises and impact investors in Sweden. We sought to do this mainly from the point of view of the social enterprises by investigating their actions and attitudes towards impact investment and their relationship to the demands set by impact investors. Furthermore, we want to better understand the role of impact investors in Sweden.

Our Question at issue is as follows:

Is there a general attitude, among Swedish social entrepreneurs towards impact investment as a way of funding and the requirements impact investors set?

On the basis of the question and the purpose of our thesis, we conclude the following:

There was a slight majority among the interviewed social entrepreneurs that had a positive attitude towards the concept of impact investment. However, we did not find any clear correlation between attitude and specific contextual factors among the social entrepreneurs. Based on our findings, we can conclude that social entrepreneurs deem the requirements set by impact investors too demanding.



From our research we found that social enterprises are hard to define and also very different in practice, which made it difficult to find clear patterns among the social entrepreneurs' attitudes. The group of interviewees analyzed was somewhat heterogeneous, as they possessed different qualifications, leaving the patterns in attitudes towards impact investment difficult to measure. The novelty of the field also makes it complex to study. Despite this, we have found connections between our empirical research and the theories in which we used to analyze the results. Based on our research, we find that impact investment is a new concept in the world, especially in Sweden, and unfamiliar to many. Among our interviewees, there were many social entrepreneurs who stated that they do not understand impact investment well enough to relate and commit to an opinion of it. Based on the interviews with industry experts, we found that the confusion surrounding impact investment might derive from the concept's newness and potentially the lack of a sufficient infrastructure.

Impact investors in Sweden have high demands overall of the companies they potentially would invest in. At the point of the conducted interview, Leksell Social Ventures had evaluated and turned down all of the 160 social enterprises they had screened since their establishment in 2014. None of the social entrepreneurs that we interviewed seemed to prioritize a factor Leksell Social Ventures finds important: the measurement of social impact. Many respondents found it difficult to even measure impact, perhaps not knowing what tools to use to make a proper analysis. A requirement that the social entrepreneurs we interviewed agreed on, however, is the importance of maintaining a sustainable financial plan. Nevertheless, it seems that the social entrepreneurs' attitudes toward impact investment are somewhat similar to the attitudes of commercial entrepreneurs on external funding.

Furthermore, social enterprises could be considered to operate within multiple institutional logics, with both a commercial and social focus. We found that this could be an issue for them, as it is hard for them to specifically define their organization, in communication with external sources for funding. Yet, this could also be an advantage, having access to both social and commercial funding as well as support systems. When considering the demands of impact investors, it could be difficult for the social entrepreneurs to balance their commercial and social logics. This balance may be especially challenging for a social enterprise in its early stages of



development, when a balance between logics might come second to identifying outside funding, which may be crucial for the survival and growth of the social enterprise.

Additionally, Leksell Social Ventures and other industry experts claim that social entrepreneurs tend to chase grants, something they express a disapproval of. At the same time, social enterprises find the choice of investor important in relationship to the outcome of their company's credibility. In addition, social entrepreneurs have a positive view on the availability of social support systems in Sweden, while industry experts on the other hand, think it is lacking. The social enterprises and the impact investors have different aims, beliefs, and priorities, which might be a consequence of their different set of logics. We believe that in order for impact investment to bridge the funding gap for social enterprises, impact investors need to be less risk averse. However, social entrepreneurs can also help bridge the funding gap as well. In order for social enterprises to become more attractive for impact investors, they need to increase the focus on measuring their impact. Furthermore, based on the knowledge we have gained during our research, we believe than an improved support system, where social enterprises can get the help to adjust their logics to balance those of their potential investors, could possibly help bridge the funding gap between social enterprises and impact investors.

7.2 Strengths and Weaknesses of the Study

7.2.1 Trustworthiness

We believe that our study can be considered to possess high trustworthiness. We entered the process with an open mind and kept our minds open during the process to leave out any biased opinions when presenting our collected data. We are also of the opinion that the data we have gathered is relevant for our chosen subject.

To maintain high credibility during the interview process, we have made sure to clarify questions so that the interviewees understood them, just as we had the interviewees clarify their answers if we did not fully understand them. This helped to ensure that their answers were presented fairly and not based on assumptions. All of those we interviewed were made aware of the fact that, if they wanted to, they could be presented anonymously in our report. Most of the respondents were fine with being referred to by name. We see this as a sign of the interviewees being open



and truthful when answering our questions. Since we carried out all our interviews via telephone and/or Skype, we also believe the interviewees felt relaxed and did not feel pressured with being in the spotlight, as we believe in-person interviews can lead to.

In regards of transferability, we presented a descriptive background to impact investment and social entrepreneurship to clarify the context of the situation we researched. What became clear to us, however, is that social entrepreneurs are seldom similar in their way of thinking and acting, which can be explained by the different contexts in which they operate. This has made us aware of the fact that our results will be difficult to transfer to other situations due to results being based on a few enterprises' specific contexts.

The dependability of our thesis could have been higher if we would have given a more thorough description of our process and how it changed as we progressed. What was problematic for us was that, for a time, there were factors around every corner that we felt were of importance for us, to various degrees. We changed the course of our research a number of times to address various factors, which made the process lack structure. On the other hand, the fluid process resulted in a very broad understanding of our field of study, which we believe in the end lead us to finding a relevant approach towards funding of social entrepreneurship. Furthermore, it also led us to finding a vast group of interesting and relevant theories to help us in our analysis.

In the matter of confirmability and letting personal beliefs and previous theories influence the data we present, we believe that we have been able to stay objective to a large extent. Previous theories may have had some influence on our work, but as the abductive approach states, we argue that it is highly unrealistic to not be influenced by previous theory. We argue that we have been as objective as possible throughout the process.

7.2.2 Authenticity

In a thesis of this size, it is hard to truly give a comprehensive picture of all possible perspectives and contexts. However, the data show significant differences among social enterprises depending on their specific contexts. We also submit that the perspectives of those we have interviewed have been presented in a fair and unbiased way. We believe that our thesis can help social entrepreneurs better understand the concept of impact investment and realize the significance of



operating within multiple institutional logics. We find it unlikely, but still hope that our thesis may come to help social entrepreneurs and impact investors in Sweden to change and better understand each other, since it should be in both of their interests to bridge the gap.

7.2.3 Work process

We knew from early on in this process that we wanted to research the funding of social enterprises. After a broad literature review on the subject, we focused on impact investment as a funding mechanism for social enterprises, as we found it to be a new and exciting phenomenon. Our decision to look at the attitudes of social entrepreneurs towards impact investing, with respect to the funding gap between the two, was based on the lack of research in the field for organizations based in Sweden. We were determined to fill the gap with a theoretical and practical study. Our choice of study, however, was problematic in certain areas in particular.

For a rather long period of time, we struggled with finding relevant theories to help us analyze our empirical data. Social entrepreneurship is a rather undefined theoretical field, and there is a vast amount of factors that affect the funding of social enterprises. We found ourselves searching for a theory that could help us explain the entire situation we were researching, which resulted in the process of finding theories to be longer than we anticipated.

We also had a hard time finding social entrepreneurs to interview. We chose a certain definition we wanted the social enterprises to fit in to avoid comparing too different organizations with each other. Henrik Storm Dyrssen at Leksell Social Ventures was helpful in this process as he helped us get in touch with a group of social entrepreneurs to interview. The data we received from our interviews was great for our research, and we came to realize that our ideas of how social enterprises function were quickly challenged.

To conclude, the work process in general was very instructive, yet time consuming. Throughout the process we engaged in a lot of interaction both internally in the group and externally to gain information from outside sources. As a consequence, our path was formed progressively as we wanted to ensure that our research was relevant and filled a clear knowledge gap in Swedish research of impact investment.



7.2.4 Evaluation of theories

The theories we chose to analyze the attitudes of our interviewed social entrepreneurs have proven to be useful in understanding the results of this study.

Research conducted by Chertok et al. and the Rockefeller Foundation laid the foundations for our thesis. By reviewing international research in the field of impact investment and social entrepreneurship, we were able to grasp the concept and the context from which it emerges, despite the lack of research in the field in Sweden.

The theories of Landström and Löwegren made us realize the similarities between social and commercial entrepreneurs. Specifically, the attitudes of social entrepreneurs towards impact investment could in many ways be explained by the same factors as attitudes of commercial entrepreneurs towards any type of external financing. Consequently, these attitudes are not totally distinct to impact investment, but external financing as a whole.

The theories of Dacin, Dacin and Tracey and Mair and Marti helped us understand the heterogeneity among social enterprises. The theories guided our choice of the types of social enterprises to include in our research to ensure the comparability of our interviewed social entrepreneurs.

The Institutional Logics Perspective provided the context for the varying attitudes of stakeholders toward impact investment. Furthermore, the theory on hybrid logics explained the situation within social enterprises, where multiple incompatible logics such as business acumen and the will to make a social impact, are in constant conflict. The hybrid logic theory is of relevance within the field of social enterprises. Thus, we were able to clarify the distinct difference between commercial enterprises and social enterprises with the Institutional Logics Perspective.

7.2.5 Generalizability

As this thesis is qualitative and only with a small number of interviewees, we did not expect the findings to be generalizable. Rather quickly, we realized that social entrepreneurship was a context-based field. Some might believe that all social entrepreneurs have a certain mindset, a



certain set of values and beliefs with respect to how a social enterprise functions. Social enterprises differ significantly making it difficult to find patterns connecting the social enterprises in Sweden. However, we did find one of our findings to be generalizable: just like commercial entrepreneurs, social entrepreneurs often wish to maintain control over the management of their business and can thus be reluctant to apply for external financing as it often means a loss of control (Landström & Löwegre, 2009).

7.2.6 Suggestions for Further Research

We believe that there is a general need for more research in the field of social entrepreneurship and impact investment in Sweden. We believe that a broader understanding and acknowledgement of the fields could benefit all stakeholders involved in the ecosystem of social entrepreneurship, but also Sweden as a whole. As a consequence of the strong welfare system in Sweden, a culture and the assumption that the public sector takes care of all issues in society has become very rigid. However, the public and the business sector seem to need some support to solve certain issues. The fact that there is a growing interest in both social entrepreneurship and social finance can be interpreted as an indicator that there are many private actors interested in solving societal problems. Therefore, more research in the field could boost the emergence of a new way of thinking that promotes private social initiatives in society.

As we have conducted our research on impact investment in Sweden during its nascent phase, it was not possible to research the full potential of impact investment. Thus, we see that future research could focus on what the actual gains of social enterprises that have been financed through impact investment are. Additionally, research concerning impact investment's financial and non-financial support for social entrepreneurs compared to other types of financing such as angel investors could prove insightful.

We further assert that more research needs to be done on organizational hybridity in relation to impact investment and social enterprises. If more people are acquainted with the phenomena, assimilating with hybrids could be an easier process. We would also find it interesting to know whether impact investment is truly a "perfect hybrid" or if they lean more towards the commercial logic.



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Appendices

Appendix 1 - Interviews with representatives of CSES

The questions were loosely based around the following themes

- How does CSES work? What is your roll?
- What do you think about the “financing landscape” for social entrepreneurship?
- Are there any general issues among social enterprises that are turned down funding?
- What do you think about the support system for social entrepreneurship in Sweden?
- What do you think about Impact Investment in Sweden?
- Are there high demands set on social enterprises to acquire resources? Is it a problem?
- Is the Swedish culture/welfare system compatible with social entrepreneurship and impact investment?
- Is credibility an issue among social enterprises regarding funding?

Appendix 2 - Interview with Camilla Backström

- What are you work areas at Mötesplats Social Innovation? In what area is your expertise?
- What do you think about the financing situation for social entrepreneurs in Sweden?
- What do you think about the situation of impact investment in Sweden?
- What do you think about the relationship between social impact and financial sustainability?
- Why do you think social entrepreneurs do wrong when searching for capital?
- Is measuring social impact a problem?
- Is there a lack of information among social entrepreneurs about impact investment? Is there need of more intermediaries between them?
- Is the industry of impact investment growing in Sweden?



Appendix 3 - Interview with Leksell Social Ventures

- Can you tell us about Leksell Social Ventures, how you work and how your organization looks?
- Would you define yourselves as Impact Investors?
- Do you contribute with anything but financial support when you invest??
- What type of organizations are you interested in? Nonprofit, for-profit? Any specific market or industry?
- How does the loans look you provide social entrepreneurs with?
- How old is your business? When were you founded?
- Have your preferences changed as you have grown and learned more about the market in Sweden?
- What are the requirements you set on organizations to invest in them?
- Is there a will among social enterprises to change in accordance to your demands?
- What do you do with the profit you gain on investments?
- Is it possible to say which is more important: financial sustainability or social impact?
- How do you measure social impact?
- What are the biggest flaws among the companies who wants to be funded by you?
- Is there a lack in business models?
- How do you communicate your requirements to the social enterprises?
- How do you feel that social enterprises feel about your requirements?
- Are social enterprises normally funded by other organizations before coming to you?
- Do you think that those previous ways of funding affect the way they relate to your demands?
- Do you think your lack of investments are due to your demands or the will of entrepreneurs?
- Do you think that people know who you are, what impact investment is?



Appendix 4 - Interviews with Social Enterprises

- Give us a brief description of your organization
- What sort of financing have you previously used?
- How do you look at external financing in general?
- Are you dependent on external financing? To what degree?
- How do you relate to impact investment as a way of funding?
- How do you think that social impact and financial sustainability relate to each other?
- Impact investors, and investors in general, set demands. How do you relate to these?
- Are you willing to adapt to investors demands?
- Do you measure social impact? And in that case, how?
- Do you have any previous experience in entrepreneurship?
- How do you feel about the Swedish support system for social enterprises?
- Is there enough intermediaries?
- Is there enough information?
- Do you think that choice of investors affects your credibility?