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Financing Social Enterprises

A Study of Private Investors' Criteria to Fund
Social Ventures in Sweden

By

Morgan Fortier & Stefanie Smith

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Supervisor: Diamanto Politis

Examiner: Caroline Wigren-Kristoferson

Abstract

Existing literature on investor motivations when financing social ventures is limited, despite a growing rise in the establishment of social enterprises and a growing interest in social entrepreneurship in Europe. The research presented in this paper, alongside the analysis that complements it, aim to provide new insights into the field of social venture financing, or what many business angels now refer to as impact investing. Social enterprises are often assumed to be too risky or irrational to attract private equity investments, since these enterprises designate a significant portion of their financial resources towards creating a social impact, at the cost of a low return on investment. The authors of this master thesis answer the research question “*what criteria motivate private equity investors in Sweden to finance social enterprises that are seeking external funding?*”

In order to answer this question, qualitative data from five different subjects was collected, using a verbal protocol method. These five subjects represent traditional finance business angels and each are active in the Skåne region of Sweden. A set of eleven variable categories was extracted from the data, with each based on either theoretical considerations or empirical findings. The data and ultimate findings are complemented by a theoretical discussion of social entrepreneurship in Sweden, as well as a theoretical framework that presents the key differences between social and commercial enterprise financing as established in academic literature. The findings demonstrate that, even if the risk of low returns on investment is a strong factor at play when considering financing a social venture, the strongest motivations are related to the business model, the team and other variables that are found both in traditional and social ventures.

Keywords: social entrepreneurship, social enterprise, entrepreneurship, investment, motivation, private equity, impact investing

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1. Introduction

Social entrepreneurship has gone from niche to norm in recent decades, producing ventures that are represented among all major industries, and whose roots are planted in nearly every corner of the globe, from Bangladesh to Sweden. Differing from commercial entrepreneurship in several aspects, social entrepreneurship places social value at the core of the venture, responding to social market failures with innovative products and services that serve a specific cause (Nicholls, 2006). Despite the aforementioned rise in the number of social enterprises in Europe, there is still a general lack of scientific literature on the processes by which social entrepreneurs access external funding (Braunerhjelm & Hamilton, 2012). Furthermore, the first assumption that is born from social enterprise investment is that, since their potential in returns on investment is limited by the social nature of the business, investing in them would generate losses or slow returns on investment (Bocken, 2015). Social enterprise financing is therefore perceived as an irrational act. This paper aims to fill in gaps in the literature by exploring the factors that are at play when social entrepreneurs successfully obtain external financing from investors. While a more in-depth definition of social enterprise is presented in chapter 1.1, it is important to provide the reader early on with a better understanding of the concept in the context of our study. Social enterprise will be defined in this paper as a venture that is cause-driven, whose aims are mainly social, and whose profit distribution is limited.

This research was inspired by one of the authors' personal interests in social entrepreneurship, as she herself runs a social enterprise. Throughout the course of launching the enterprise, the struggle to access external financing was as difficult as it might presumably be for a traditional commercial entrepreneur, however, meeting after meeting with potential investors showed that there was a lack of experience in investing or consulting entrepreneurs whose ideas or ventures were cause-driven. This sparked an interest to examine the local financial landscape for social entrepreneurs who are hoping to receive funding that does not come in the form of just grants or subsidies, but rather business angel investments or venture capital.

Further interest was sparked by both authors' experiences living in Sweden for a significant period of time, after moving from their respective home countries in North America. In comparison to the United States, and to a lesser extent, Canada, Sweden has been slow to acknowledge the role that private actors can take in funding cause-driven initiatives. The country's welfare system combined with social attitudes around the individual versus the

collective have created an environment where many social problems, like unemployment or environmental degradation, have traditionally been handled by the state. However, since reforms in the 1990's lead to the deregulation of the healthcare market, new private actors have emerged and the lines between public and private responsibilities have been blurred. The impact of an expanding private market that addresses social problems is a topic that will be thoroughly discussed in the second chapter of this paper, as means of providing a clear contextual framework for the overall study.

The geographic context for this study will be southern Sweden, namely the cities of Lund, Helsingborg, and Malmö. Further discussion on the country context will be discussed in chapter two. The researchers carrying out this study feel, nonetheless, that the findings can be applicable to the country at large, and potentially to other countries that share similar political and social structures.

1.1 Social entrepreneurship as a concept

In researching and discussing social entrepreneurship, one should acknowledge that the concept is multidimensional and perceived by many as occurring on a spectrum (Peredo & McLean, 2006). The wide range of definitions offered in literature on the subject means that ventures as diverse as non-profit housing collectives to high-end coffee bars can all be categorized under the umbrella term of “social entrepreneurship”. This paper will limit the scope to include social ventures that are cause-driven and characterized by the following: an “explicit need to benefit the community”, a decision-making power that is “not based on capital ownership”, [and] an internal participatory approach (Defourny, 2001, p.17, p.18, p.19). These three criteria are among the dimensions put forth by Defourny and Nyssens (2006) in their overview of the European International Research Network, EMES definition of social enterprise. The observed definition of social enterprise will be the following: entrepreneurial ventures whose goals are chiefly or exclusively social, and whose profits from commercial exchanges are subject to limited distribution. This definition therefore excludes corporations with a strong focus on corporate social responsibility and non-governmental and not-for-profit organizations; however, they will be discussed to a limited extent in the theoretical framework, for the purposes of further clarifying how the practice of social entrepreneurship differs from commercial entrepreneurship.

The main question that the research seeks to answer throughout the course of the paper is: “*what criteria motivate private equity investors in Sweden to finance social enterprises that are seeking external funding?*”

1.2 Aim and objectives of the research paper

The aim of this research is to highlight the reasons why private equity investors, choose to invest in a social enterprise. By providing an overview of finance literature and theories on commercial enterprise financing, the paper will present the standard motivations for investments in non-cause driven enterprises, and see how these compare.

The objective of the research is to analyze the phenomenon of social enterprise investments through the insights of private investors. It will be crucial to observe the current academic literature on social enterprise and small business financing to understand the theoretical framework already established that could provide information on the different factors that would influence an investor in his or her choice to invest in a social venture.

Using a verbal protocol method, the aim is to highlight the qualities that allow social enterprises to receive financing and grow in the opinion of the private individual investing. The differing variables featured in each respective protocol will be reflective of variables in actual social enterprise business models. The study aims to determine which of these variables weighs most heavily on an investor’s decision to finance a venture. The verbal protocol method will further allow the team to determine whether personal experiences, professional experiences, and/or personal interests might influence the investor’s decision.

1.3 Research purpose

Readers of this text should be able to better identify the motives behind investments in social enterprises from actors in the private sector here in the southernmost region of Sweden. The current state of literature on social entrepreneurship and the pursuit or attainment of external financing is limited. Data collected in this study therefore aims to provide social entrepreneurs, students of entrepreneurship, and other academic stakeholders with greater insight into the landscape for investment in social ventures, specifically those types of ventures that fit within the definition provided in this research. By highlighting asymmetries that exist between the

literature on social entrepreneurship financing and on small business financing, and then mitigating them, the paper will bridge a theoretical gap in the research field. Currently, the vast majority of scientific literature on business angel financing and motivations behind investment focuses on traditional commercial enterprises. The findings of this research should spark further interest in the exchanges that occur between social entrepreneurs and traditional private investors and the criteria that the latter puts forth when considering an investment.

1.4 Research limitations

The limitation of this research lies in the nature of its method. Through a qualitative research, the scope of this academic thesis will be limited by the interviews conducted. The qualitative nature of the research will provide complex information that can then be analyzed further.

Furthermore, this information comes with the risk of being limited to either the geographical context of the study, the sector in which the social entrepreneurs interviewed are active or to information that is specific to the interviewees and not applicable at a larger scale. Additionally, the lack of statistical analysis of this information cannot allow us to generalize the information collected to a wider context. However the information collected will allow us to draw results that could frame further research on the topic.

1.5 Outline of the thesis

The first chapter to follow this introduction will present a few key theories relevant to the research, for the purposes of explaining current observations on the topics of both social business and small business financing. This theoretical framework is based on an intensive literature review and will establish a comparative understanding of the theoretical concepts related to both social entrepreneurship and small business financing to underline the conceptual asymmetries in both areas of research. Furthermore, it will highlight the potential variables that will be needed to draw conclusive results out of the research.

Following the theoretical framework, the research methodology will be presented. It will describe the taken approach to select our interview subjects, the interview procedure as well as the data collection process and its analysis to obtain meaningful results. It will finally evaluate the validity of the method used throughout the thesis.

The data and results of the research will then be presented in the following chapters, as well as a discussion to contextualize the findings and offer insight into their significance. The paper will finally conclude with a summarization of the different findings and reflections on the practical implications of those findings, which could lead to further research on the topic.

2. Social Entrepreneurship in Sweden

2.1 Exploring the development of social enterprise in Sweden

The researchers of this study believe that when examining the roots of social entrepreneurship in a given country, its welfare regime, and its adoption of the “third sector tradition” can be used to create a broader contextual picture. The term “third sector” refers to the “segment of the economy that is made up of neither public nor private business concerns” (Sharir & Lerner, 2006, p.6), which typically operates under the role of volunteers and with not-for-profit aims. Sweden, alongside fellow Nordic countries who share its status as a strong welfare state, has long observed a tradition of dividing duties between the state, the business community, and civil actors, with the state oftentimes utilizing the latter two actors to implement welfare policies (Defourny & Nyssens, 2010). This tradition underwent a period of significant reform in Sweden during the 1980’s, in response to major psychiatric care reforms, giving rise to a new actor who stood as a mixture of both business and civil society. Worker cooperatives emerged as a new manager of social welfare, taking on issues beyond just psychiatric care, such as education and a lack of adequate childcare options for parents throughout the country (Defourny & Nyssens, 2010).

Where Sweden is similar in regards to welfare, it differs from its previously mentioned Nordic neighbors in a few key categories related to private, public, and third sector initiatives. One of these categories is resource mobilization within social enterprises, whose resources and activities can involve one or many of these sectors. Resource mobilization is the manner in which social entrepreneurs utilize resources that come in the form of financial capital or human capital, such as volunteers who donate their time to an enterprise (Gardin, 2006). Research carried out on WISE entities, or “Work Integration Social Enterprises”, a distinct category of social enterprise, reveal that a hybridization of resources is implemented by many Swedish social entrepreneurs, who combine funds or other resources from the public and private sectors

in a rather unique way. Gardin (2006) identifies five separate resource types used by social entrepreneurs for WISEs in eleven different European countries, including Sweden, as well as four separate origins of resources for each country. These resources are: sales, subsidies, gifts, indirect subsidies, voluntary [resources]; whereas the origins of resources are the following: from persons, from the private sector, from the public sector, from the third sector (Gardin, 2006).

Swedish enterprises observed in Gardin (2006) are characterized most highly as recipients of subsidies and indirect subsidies, however sales represented the largest percentage (42%) of resource dependency; nonetheless this last figure is lower than the average for the eleven countries of 53%, showing a strong reliance on support in the form of subsidies. Furthermore, Sweden showed a higher than average use of resources from the private sector and the public sector, but a far-below-average utilization of resources from individual persons (Gardin, 2006). This dependency on the collective over the individual is noteworthy and will be commented on at a later point. Third sector involvement, 5%, was just below the average of 8%, which some argue is indicative of the “Swedish traditional division of roles” (Stryjan, 2006, p. 213). The lack of an active third sector is a notion that has been criticized, however, by those that see a significant rise in the participation of Swedes in the voluntary or non-profit sector within recent decades.

The third sector in Sweden is unique when compared to fellow European Union members or the country in which a considerable amount of research on social enterprise originates, the United States. The concept of a social economy was intensely researched by Swedish policymakers upon entering the EU in order to maximize the country’s potential for attaining funds related to social projects; it is now the only country in the Union to have an official definition for the term (Pestoff, 2004). This development was sparked in part by a basic “lack of a natural translation” for social economy in the Swedish language, but also as a result of the ways in which the Swedish legacy of “popular movements” differed from the so-called “voluntary associations” more commonly observed in other countries (Pestoff, 2004, p.66). Such popular movements crossed over various sectors, to include private and public actors in initiatives as diverse as agricultural cooperatives to childcare cooperatives. One actor that did not see involvement in these initiatives was the Swedish church, who unlike equivalent religious bodies in fellow European, non-Scandinavian countries, does not drive Sweden’s third sector.

The authors of this paper anticipate that the traditional delegation of resources within Swedish society will have an impact on investors' sentiments and attitudes during the data collection process. Each investor has spent all or the majority of their personal and professional lives in the country and is therefore influenced by the social and economic structures at play. Furthermore, the last several years have been marked by major demographic changes, due in large part to the arrival of asylum seekers, refugees, and economic migrants. These changes have sparked wide-scale conversation about social issues like job creation, and one can see that the lines are fairly blurred when the question of "whose responsibility is it to tackle these issues?" is presented. This paper will refer back to this chapter during the discussion, in order to see what kind of influence the societal context has on their rationale for investing in a social enterprise.

2.2 Attitudes around social entrepreneurship

Since the environment in which a social enterprise operates plays a significant role in its ability to make it to the establishment phase (Sharir & Lerner, 2006), it is even more important to develop a solid understanding of the societal context for this study. Research carried out on social entrepreneurship in Sweden points to a feature that once again makes it stand out from its neighbors or surrounding European countries, which is its "orientation towards the collective" (Gawell et al., 2009, p.81). Collective action has been an integral part of social change within the country, which points to both a strength and limitation for the social entrepreneur. She can more easily build her social capital -which is a highly valuable resource for any entrepreneur- but she may simultaneously experience a more difficult time obtaining financial capital from individuals, over institutions (Gawell et al., 2009). This is a theoretical assumption that the research team carried into the eventual data collection process.

3. Theoretical Framework

3.1 Social entrepreneurship and social enterprise as concepts

Social entrepreneurship and social enterprise should be seen as two separate yet related concepts. The former can operate within any type of enterprise, such as a large business with a heavy focus on corporate social responsibility or a small non-governmental organization. Social entrepreneurs look for or recognize a need for social change within an ecosystem, whether it be

an organization or the world at large, and seek a “coherent business model” for addressing that need (Mulgan, 2006, p. 77). Social enterprise, however, is the realization of a social entrepreneur’s ambitions within an organization that has been developed for the purposes of supporting a given cause. Scholars tend to divide the latter concept along two different schools of thought, the “earned income school of thought” and the “social innovation school of thought” (Defourny & Nyssens, 2010, p.41). Even within these parties, there are discrepancies and debates about the features that characterize an enterprise as “social”.

The earned income school of thought, henceforth referred to as the “first school”, developed as social scientists began to observe non-profit organizations using commercial activities to fund their ventures. In just a short amount of time however, researchers who saw a wider application for the term pushed for it to be applied to “all forms of business initiatives” and not just non-profit organizations. Defourny and Nyssens (2010) refer to the early stage of this first school as one that follows a “commercial non-profit approach” and the later stage as the “mission-driven business approach” (2010, p.41). The second school of thought, the “social innovation” school, places the focus on the role of the entrepreneur driving the enterprise. It is in regards to this school that the most widely observed definition of a social entrepreneur is found:

Social entrepreneurs play the role of change agents in the social sector,
by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting heightened accountability to the constituencies served and for the outcomes created. (Dees, 2001, p.4)

This school differs from the prior by embracing enterprises that are social and categorized under the private, for-profit sector. It also laid the groundwork for the European Union’s EMES

research network to create their own indicators for defining social enterprise, which, due to the reach of the EU, has shaped the concept's image in countries like Sweden. EMES research heavily observes such enterprises as not-for-profit private organizations that sell goods but with the goal of improving a community; these organizations rely on stakeholders across various sectors, including public, private, or civil.

3.1.1 Social enterprise typologies

The literature on social entrepreneurship as a whole is quick to treat the concept as a fairly recent construct that evolved from more traditional non-profit and non-governmental social ventures. Scholarly literature categorizes social enterprise beyond the two aforementioned schools of thought, by also breaking the concept down by typology. Today's social enterprises are represented throughout different industries and are arguably as diverse as their commercial counterparts. The evolution of these typologies, however, has not happened uniformly throughout the world, as many scholars point out when discussing the history of social entrepreneurship in contrasting business environments, such as mainland Europe, and the United States and United Kingdom.

While social enterprise continues to be treated as a fragmented concept throughout academic literature, several standard typologies consistently appear within the various journals and books written on the subject. These typologies include the for-profit social venture, the non-profit venture that engages in philanthropic activity, the not-for-profit venture that engages in commercial exchange, and the enterprise that is purely profit-driven but committed to either social value maximization or corporate philanthropy (Dees & Anderson, 2003; Nyssens, 2006 ; McLean, 2005). The for-profit social venture has been discussed considerably by Dees & Anderson (2003), who have been previously quoted in this paper, as they stand out as some of the leading contributors in the field of social entrepreneurship research. They define this typology as being "legally incorporated as for-profit entities", such as a limited liability company or a cooperative, or "explicitly designed to serve a social purpose" (2003, p.2). Entrepreneurs who start this type of social enterprise have to focus on the "double bottom line" (Dees & Anderson, 2003, p.3), which is to achieve both social and financial objectives. They differ from entrepreneurs who engage in the third typology previously listed, which Dees & Anderson (2003) refer to as the "socially responsible business", as well as the non-profit organization, which is legally forbidden to distribute profits to stakeholders (2003, p.3).

Previous discussions of the schools of thought on social enterprise allow one to position each of these typologies, and establish an obvious link between the EMES, EU-wide observation of social enterprise and the for-profit social venture as well as the socially responsible business.

3.1.2 Social enterprise financing

While one can easily examine the development of social enterprise and social entrepreneurship in Sweden in recent decades, the accessibility to external funding for cause-driven enterprises is limited. The topic has not been extensively researched or written about. It will be assumed in this paper that the lack of access to external capital is a hindrance to growth for social enterprises during the startup phase, as is the reality for commercial startups as well. However, the amount of research on commercial enterprise financing far exceeds that on social enterprises. Braunerhjelm and Hamilton (2012) advocate for a push in the field of social entrepreneurship research, not only because it can provide insight into subjects like external capital financing, but also because a general lack of secondary data makes it difficult to disseminate any primary data collected. Out of a sampling of 31 different empirical articles on social entrepreneurship examined by the two in their survey for the Swedish Entrepreneurship Forum, Braunerhjelm and Hamilton (2012) observed just one body of research that discusses resources available to social entrepreneurs, both human and financial.

Primary data gathered by Dees and Anderson (2003) reveals that private capital markets can be accessed by for-profit social entrepreneurs, if their ventures are “sufficiently profitable” (2003, p.6); nonetheless, these investments will need to be complemented by other sources in order to fully achieve the social and financial goals of the venture. Social entrepreneurs who receive external capital depend on innovative strategies for effectively spending those funds, and “are driven to [...] minimize expenses incurred in creating and delivering value” (Dees & Anderson, 2003, p. 6). This begs the question of how and from whom these entrepreneurs receive external capital.

3.2 New venture financing

The different methods to finance new ventures have been described thoroughly in the academic literature. It is essential to first describe the financing process for new ventures in order to then describe the nature of the different external financiers available for businesses and highlight

through academic sources the potential reasons that would motivate an investor to be involved financially with a social enterprise.

Whether they are social enterprises or ventures motivated by financial profits, new ventures have access to a multitude of methods and technologies to finance themselves. Understanding entrepreneurship as a source of innovation and economic growth within their market forced researchers in entrepreneurship to analyze their financial structure and resource acquisition processes (Winborg & Landström, 2001).

The understanding of the economics of a new venture relies essentially in the understanding of the relationship between private equity and the nature of the firm (Berger & Udell, 1998). Before being able to access public financing through the stock market, firms must finance their activities through private financing and other lending technologies (Berger & Udell, 2006). This financing process happens during the lifetime of the start-up process, from its creation to, ideally, its entry in the stock market.

However, this process is affected in the case of a venture that has a social nature. Bergset (2015) explains that the activities of social businesses are likely to affect their attractiveness to potential investors. Longer research and development periods as well as riskier goals and a disconnect between the social enterprise's goals and their value on the market place make social businesses less likely to attract external financing when they are amongst the companies needing the most external financing (Bergset, 2015). Furthermore, an already existing reserve is present within investors: since the rate of failure in entrepreneurial activities is already important, investing in a social enterprise that is not mainly driven by profit appears even more risky for the investor (Bocken, 2015).

These risks and negative perceptions of social enterprise financing present the idea that investing in a venture that is cause-driven instead of profit driven is irrational and against the interest of the investor. Bergset (2015) explains this irrationality:

Neoclassical economics informs the assumptions in entrepreneurial finance theory: economic actors are rational "homo economicus" who maximise their utility. Utility maximisation, perhaps even more so than in other economic theory, is here characterised as the single goal of

maximising profit while minimising risk. Decision-making that does not conform to this logic can therefore be characterised as irrational. (Bergset, 2015, p.16)

Investments in social enterprises are assumed to be irrational behavior due to the risky nature of the business compared to its profitability. This would lead to the conclusion that investments in social enterprises are rare or non-existent. However, investments in ventures aiming to benefit society or the environment are present in the financial landscape, in the form of public and private investments (O'Rourke, 2003).

Before describing the nature of the potential investors in social enterprises and their motives, it is important to establish the theoretical framework that explains the asymmetries between entrepreneurs and financiers, not only regarding investments in social enterprises but also regarding traditional investments.

3.2.1 Agency theory

Agency theory is a theoretical framework that simplifies the phenomenon of investments and business activities to a relationship between two actors, principals and agents (Eisenhardt, 1989). As an agent acts on the behalf of the principal, he is inclined to act in his own interest instead of the interest of the principal. Both might share a partial common goal, but the agent's actions are influenced by its own aversion to risk and self-gain.

Furthermore, there are consequent information asymmetries between the principal and the agent, leading to a need for the principal to monitor the agent. This monitoring process is considered costly and time-consuming, increasing aversion to risk (Eisenhardt, 1989).

In practice, this can lead to aversion from an investor in investing in a venture. Once capital is injected into a business venture, there is a risk that the firm manager will use that capital in business activities that are riskier than the activities that were originally planned, a phenomenon also named moral hazard (Bergset, 2015). However, if this moral hazard can be prevented or controlled through monitoring, Bergset (2015) explains that social enterprises are naturally more difficult to monitor:

There is some anecdotal evidence to suggest that investors and public funding institutions are not equipped to assess and evaluate certain types of green start-ups and their business models due, first, to the fact that they are not trained in these new fields of business activity and, second, to a lack of established benchmarks in these early times of many types of such green market activity. (Bergset, 2015, p.268)

There is therefore an asymmetry present between financiers and entrepreneurs regarding the knowledge required to understand the value of social enterprises and their potential success in these markets. However, while this repels profit-oriented investors from investing in social enterprises, external financing is available from investors understanding the value of social benefit brought by ventures (Bocken, 2015).

For the purpose of this thesis, it is important to define the different types of private investors that could provide external financing to a social enterprise as well as understand their theoretical motivations when they invest in ventures for reasons other than return on investment.

3.2.2 External financing

New ventures are dependent on external financing to pursue their operations and the financial structure that entrepreneurs adopt are one of the main source of influence on the operations of the venture (Winborg & Landström, 2001; Cassar, 2004). Social ventures are subject to the same dynamic and are even more vulnerable to financial structures that allow them to develop non-market oriented solutions to create social relief: this is due to the risky nature of the technologies developed by these ventures as well as the long research and development needed before these products or services can integrate the market (Bocken, 2015).

As social enterprise investment is assumed to be irrational from a financial perspective, it is less so from others (Bergset, 2015). If there are indeed less attractive when the goal is profit-oriented, investors have displayed other reasons to invest in social enterprises. Bergset (2015) explains that there is a rationality that is not financially driven in investing in social enterprises: investors can be motivated non-financial attributes in social-businesses, talking about a blend of value, a heterogeneous mix of financial and non-financial values that social enterprises can provide.

Bocken (2015) highlights the need for financing in social enterprises to stimulate larger solutions leading towards sustainable innovation. As business models providing social relief become more complex and more adapted to the current market, it is a necessity for investors to help the development of these solutions through investments that will drive the innovation and the efficiency of social enterprises.

O'Rourke (2003) indicates that these investments are however not less subject to a monitoring process or financial scrutiny. With financial investments being scarce, social enterprises are more likely to be examined and evaluated, both on financial and non-financial criteria, to ensure efficient investments that will result in positive outcomes.

Equity finance available to entrepreneurs is commonly found from three sources: business angel, venture capitalists and corporate venture capitalists (De Clercq et al., 2006). Private venture capitalists, also called business angels, are investors financing small enterprises with their personal capital (De Clercq et al., 2006). Their involvement is important in the early stages of the venture, and their motives are return on investments and personal interest in the venture. In addition to their financial investment in a small enterprise, they are also likely to invest time and energy in the development of the business and adopt roles not only restricted to resource acquisition (Politis, 2008). Four categories can be highlighted:

- sounding board/strategic role;
- supervision and monitoring role;
- resource acquisition role; and
- mentoring role. (Politis, 2008, p.132)

Business angels are amongst the earliest investors in social enterprises (Marcus et al., 2013 ; Bocken, 2015). Since they source their investments from personal capital, they have more flexibility and discretion when investing in small enterprises, and can therefore invest for reasons that are not only for returns on investments. They can therefore invest for reasons like common values with social enterprises experience in this specific industry, the relationship with the team or the capacity of the social enterprise to be successful even if it means slower or minimal returns on investments (Bocken, 2015). They still however focus on the entrepreneurial qualities of the venture, like their own experience in the industry, the founding team's cohesion and the possible returns on a minor ownership of the enterprise (De Clercq et al., 2006).

Professional venture capitalists invest funds collected from various partners with the goal of generating profits. They help firms' managers to allocate and manage those funds on a period of approximately ten years to mature the company until it can safely perform an entry into the stock market (De Clercq et al., 2006). The initial public offering is when equity owned by venture capitalists can perform an exit and generate important returns on investments. The venture capitalists also assist the firm's management to improve operations and generate growth in the goal of increasing its value (De Clercq et al., 2006). Their selection of a venture to invest in relies on several factors, such as the growth prospects or an excellent management of the venture from the team. However, they can have an interest in ethical investments and social benefits generated by social enterprises, motivating them to invest in social enterprises as a sign of participation into a more global effort towards social relief (Bocken, 2015). The different motivations for professional venture capitalists highlighted by Bocken (2015) are the following:

1. Practical idealism - a belief that business can be used as a force for good and sustainability is good business (20 interviewees; 77% of sample)
2. Disagreement with the status quo: search for radical new approaches and making change by connecting small and large companies (8 interviewees 31%)
3. Adding professionalism, mainstreaming and [commercialisation] of sustainable businesses (4 interviewees; 15%)
4. Emotion: care, fear, a personal epiphany (e.g. having a first child, witnessing large-scale pollution), sense of responsibility (3 interviewees; 12%)
5. A search for transparency (1 interviewee; 4%) (Bocken, 2015, p.653)

The last category of equity-based investors is corporate venture capitalists. Corporate venture capitalists are venture capitalists investing corporate funds to finance ventures in their later stages, resulting in important returns on investment once the corporate venture capitalists perform an exit (De Clercq et al., 2006).

Like venture capitalists, corporate venture capitalists show more interests in for-profit ventures that will generate very high returns on investments, especially more since they invest in the

stead of other funds or firms (De Clercq et al., 2006). However, it is not impossible for corporate venture capitalists to invest ethically into social enterprises, but they are most of the time signs of commitment to social relief in collaboration with important social enterprises like non-governmental organizations (Bocken, 2015).

4. Methodology

In order to answer the research question - "*what criteria motivate private equity investors in Sweden to finance social enterprises that are seeking external funding?*" - we utilized the verbal protocol analysis method (Ericsson & Simon, 1984). This approach is designed to provide the researcher with insight into subjects' thought processes and behavior when analyzing information that has been placed before them. The researcher presents subjects with a number of different protocols, or cases, and asks them to verbalize any impressions or thoughts that they may have about each individual case. The researcher then analyzes the responses that the subjects had to the protocols and interprets the data accordingly.

Qualitative studies based on verbal protocols - also called think aloud method - have emerged as a method to evaluate cognitive processes in respondents (Ericsson & Simon, 1984). Its utility lies in its capacity to evaluate the thought process of an interviewee leading him to a decision or answer, instead of analyzing the answer resulting of that thought process. It is crucial however to implement rigorous tools to collect relevant and valid data and avoid errors created by biases of the interviewers, including questions that might infer biased answers from the interviewees or accidental reactions from the interviewers that might push the interviewee to answer in contradiction with his own thought process (Ericsson & Simon, 1984). To avoid these errors, the questions following the verbal protocols were open-ended and minimal information was communicated to the interviewee during the test.

This method was selected for this paper because of its capacity to produce very honest and frank feedback from investors about their willingness to finance a social venture. Qualitative data could have been obtained through basic interviews; however this method was eliminated because of risks it presented, namely that the interviewee might feel pressured by social norms to express an interest to invest in a cause-driven business. A brief follow-up interview was however conducted following the protocol method for the purposes of the better understanding the subject's perspective on social entrepreneurship and social action.

The information received was collected and organized in categories of variables to quantify the number of times a variable would be mentioned by the subject. The goal of this collection was not to attribute positive or negative connotation to the variables of the case motivating the subjects to invest or not, but instead to compile verbalizations of variables to quantify which ones are the most present in an subject's motivation to invest.

4.1 Overview

To evaluate the investors' criteria to finance social enterprises, the interviewees were presented with two business cases and were asked to verbalize their thoughts on the different elements of the cases. To avoid a direct bias in their analysis of the cases, both cases were presented as business proposals seeking investments and not as social enterprises specifically. However, the cases did display in the text the attributes of a social enterprise.

4.2 Sampling and subjects

The sampling criteria were the following: we contacted fourteen private investors in Sweden defined as either business angels or professional venture capitalists with the experience of at least one investment in a venture. To avoid biases, we did not limit our sampling to private investors that had invested before in a social enterprise since we wanted to test all the potential motivators that might influence their decision in investing or not. We did not have any demographic criteria such as gender, age or origin. They were contacted by email with the request to participate in a test aiming to study the motivations of investment with no indication that the cases would be social enterprises.

Five of the people contacted replied to the email and agreed to meet us. Meetings took place in Lund, Malmö, and Helsingborg, and lasted on average 45 minutes. Each conversation carried out between the researchers and the respondents was recorded and transcribed.

Basic information on name, age, industry, and the number of investments made was collected prior to the think-aloud process, for the purposes of collecting accurate data and eliminating confusion during the extraction process.

Subject	Age	Gender	Industry/Professional background	Number of investments made	Previous investment in social enterprise
1	64	M	Fishing; Hospitality	25-30	Yes
2	65	M	Consultancy	30-40	Yes
3	48	F	Sales and Marketing	4	No
4	46	M	Business Angel Advisement	0 direct	No
5	37	M	Entrepreneur	53	Yes

Sampling data

One of the subjects did not fit the criteria entirely, as he had not invested his own capital into a venture before. This was made evident early on during the verbal protocol process, however the researchers decided to continue the data collection process. Further questioning revealed that he had been directly involved in advising numerous business angels and therefore had the knowledge and experience the researchers sought in order to collect valuable data.

4.3 Procedure

The cases were developed after a significant amount of brainstorming in which the researchers weighed the following variables: social cause, entrepreneurial team, product, business model, potential return on investment, stage of development, and scalability. The variables reflect those discussed in the theoretical chapter of this paper. Each variable was added to two separate cases, whose inspiration was drawn from real-life social enterprises. The first case is that of a social enterprise that would be categorized as a “WISE”, or *work integration social enterprise*; it is referred to as Case A. The second case, Case B, is built around a different human-centered cause: fair labor practices in the development of mobile devices. Both cases can be found in the appendix of this paper.

When contemplating which causes to place at the center of each case, the research team initially contemplated leaving out any social topics currently trending in southern Sweden. This included mock enterprises that directly benefitted or supported refugees or migrants to the

European Union, as well as ideas for eliminating food waste. The initial justification for doing so was to eliminate results that could be influenced by the bandwagon effect, in which persons support an issue because it is generating a large amount of support from others in their social network.

After careful thought, the decision was made to reverse this line of thinking and instead include a trending social topic within one of the social enterprise cases. Doing so would allow the researchers to observe the likelihood for an investor to express interest in a case that dealt with a trending topic. This change in direction occurred, however, after the first interview took place. The research team therefore treated the first interview as a pilot, and appropriate changes were made to the protocols.

Each case was followed by one question aimed to trigger an immediate response from each of the respondents: “would you invest/consider investing in this business?” After receiving their answers to this question, the respondents were then asked the following questions:

1. What did you think about the proposal? Give us some details.
2. What were the attractive points? What stood out as unattractive?
3. What is your list of criteria when investing in a business? What are your motivations for investing?
4. How familiar are you with social business or social entrepreneurship?
5. Have you ever invested in a social enterprise?
6. Why or why not?
7. Is it important for you to have some type of philanthropic investment(s) in your portfolio?

To cover a larger number of variable categories, the authors organized the variable categories into two clusters. The first cluster included variables that have been identified previously by the authors through the theoretical framework, namely “minimal return on investment”, “nature of social entrepreneurship in Sweden”, “business model”, “information asymmetry”, “team”, “search for disruptive approach”, “sense of responsibility”, “emotional draw to a cause”, “practical idealism” and “industry-specific knowledge or interest”. The second cluster is composed of variables that were empirically acquired through the interviews and not originally highlighted in the theoretical framework, such as “job creation”, “stage of life of the

investor”, “setting an example for employees”, “tax benefits”, “expending one’s portfolio”, “enjoyment of helping others” and “market potential or size”. This distinction is necessary to avoid a misinterpretation of variables, which would lead to their incorrect categorization.

The interviews were recorded and the conversations transcribed to extract more easily the perceptions of the interviewees on the different variables included in the cases. The think aloud method relies not only on the interviewer’s initial interpretation or reaction to the interviewees response, but rather a more collective approach, in which data is reviewed and then thoroughly analyzed. Since the interviews were recorded, each subject was notified that his or her statements would be used for the purposes of this study only and that his or her identity would remain anonymous. The preprocessing was performed according to the clusters of categories of variables identified in concordance with the existing methodology on verbal protocols (Ericsson & Simon, 1984).

The cases

Case A involves a new startup, launched in 2015 by three persons of different professional backgrounds. One co-founder has a background in business administration and is the child of an established farmer in Skåne. In response to the growing number of newly arrived refugees and immigrants without a job or access to the labor market, the fictitious team decided to create a venture that matches farmers with unemployed immigrants. Farmers train their interns, provide them with new skills, and help them to establish a greater connection to Swedish society. The interns use a piece of the farming land to grow produce that is sold in the form of a “food box”, from which the profits are distributed between the novice farmer and the founding team of the venture. Their model has been tested with four pilot workers, who sold a total of around 300 food box at a price point of 250 SEK. Furthermore, the startup was the recipient of grants from the County Administrative Board of Skåne and Vinnova.

Case B includes a team of three persons, developing a tablet that is sourced from components that were procured ethically. The business has been running two years longer than that in Case A, and has sold roughly 10,000 units. In contrast to Case A, however, Case B offers investors a return on investment after five years. The business requires investment for the purposes of creating an improved second version of their product, establishing a fund for workers throughout various points in the supply chain, marketing, and improved logistics. The founding

team includes an engineer, developer, and one experienced entrepreneur who has steered four ventures with one achieving considerable success.

As previously mentioned, the information in the proposals that would lead to variables that can be processed afterwards includes social cause, entrepreneurial team, product, business model and potential return on investment. The social causes were varied in order to support theoretical assumptions that investors would likely express more interest in causes that were of interest to them either personally or professionally. Neither was initially considered to be potentially more or less attractive to investors by the research team, despite the cause in Case A being directly inspired by a topic that is of high importance in the media presently. Each cause, combined with its respective product or service in the business case, was drawn from reality, in order to make the overall case believable.

4.4 Data extraction method

The cases included different characteristics to allow the subjects to evaluate the business. These attributes were therefore the different stimuli that could generate a reaction from the subjects, according to the methodology developed by Ericsson & Simon (1984). If necessary, the interviewer could probe the subject to express positive or negative impressions of those stimuli. If the subject had a positive impression of one of the attributes, the subject would react positively to the stimuli and reinforce its quality. If the subject would have a negative perception to one of the attributes, they would instead adopt a corrective stand to explain how the attribute could be improved and increase the subject's motivation to invest, no more probing was done in regards to the attributes. After the initial probing to investigate on the attributes that they could perceive positively or negatively. Therefore, we assume that the variables that were repeated the most during the interview were the most important ones for the subject in relation to the cases.

This is why the authors compiled the number of references to a variable to organize them by importance for the subjects. Each reaction to the attribute of a case was coded and compiled, independently of its positive or negative quality. This allows the authors to evaluate and rank which variable is the most common among all the subjects.

Furthermore, qualitative information was collected after the initial think aloud reactions of the subjects. The data collected through that process is not in itself not meant to be quantified and

used to evaluate the motivations of the subjects in their potential investment in the cases, but is instead meant to give the authors context and additional information on the knowledge and perception that have the subjects on social enterprises, social investment and philanthropy.

5. Data Analysis

In this chapter, the data collected from the chosen verbal protocol method is presented. The data is presented in the below table, which provides further insight into the importance that certain variables have for each of the interview subjects. As is evident, the top five most important variables that were directly mentioned throughout the process were the business model, the team, industry knowledge and/or interest, potential return on investment, and market size and/or potential, with the final two in that list ranking evenly.

5.1 Presentation of data

	Theoretical variables									
Subject	Return on Investment	Nature of Social Entrepreneurship in Sweden	Business Model	Information Assymetry	Team	Search for disruptive approach	Sense of Responsibility	Emotional Draw to a Cause	Practical Idealism	Industry Specific Knowledge/Interest
Subject 1	2	4	2	2	2	0	1	0	0	0
Subject 2	1	0	5	0	3	3	2	0	1	0
Subject 3	4	1	8	2	9	0	0	3	0	3
Subject 4	2	0	4	0	4	2	1	2	0	1
Subject 5	0	1	10	0	1	1	1	0	5	6
Total	9	6	29	4	19	6	5	5	6	10

Table 1: Theoretical variables coding and processing

	Empirical variables							Decision on investment	
Subject	Job Creation	Stage of Life	Setting an Example to Employees	Tax Benefits	Expanding One's Portfolio	Enjoyment of Helping Others	Market Potential/Size	Would Invest in My New Roots	Would Invest in Choice Tablet
Subject 1	1	2	2	1	0	1	2	No	No
Subject 2	1	1	0	0	0	1	2	No	No
Subject 3	0	1	0	0	0	0	4	No	No
Subject 4	1	1	0	0	1	0	0	No	No
Subject 5	1	0	0	0	0	0	1	Yes	No
Total	4	5	2	1	1	2	9		

Table 2: Empirical variables and decision on investment

Rank:	Variable
1	Business Model
2	Team
3	Industry Specific Knowledge/Interest
4	Minimal Return Investment
4	Market Size/Potential
5	Nature of Social Entrepreneurship in Sweden
5	Challenge status quo
5	Practical Idealism
6	Stage of Life
6	Emotional Draw to Cause
6	Sense of Responsibility
7	Job Creation
7	Information Assymetry
8	Means of Showing Employees Moral High Ground
8	Fun to Help Others
9	Tax Benefits
9	Expand Portfolio

Table 3: ranking of variables by number of time mentioned

5.2 Most significant variables

As previously mentioned in the methodology chapter of this paper, the codes used to extract data from the research cases were based on both theoretical and empirical variables collected throughout the research process. Upon plugging the codes into the table, it was quickly apparent which variables stood out as the most important for each of the investors who took part in the study. The top five variables discussed by the investors have been presented below for the purposes of providing further analysis of the data.

Business Model

The business model was discussed a total of 29 times during the data collection process, with two investors mentioning it eight or more times in the span of a 45 minute conversation. This variable stands out in holding the most weight or significance amongst angel investors when potentially investing in a social venture. Undoubtedly, one of the largest concerns that investors had when discussing this variable was the perceived lack of scalability that the proposals in Case A and Case B had to offer.

Investor Five expressed concern upon reading each proposal, insisting that both hypothetical businesses should aim to grow in a sustainable manner, addressing the competition effectively and setting long term goals. “They should have a progress line between now and the future and that should be law. That's the business part of it: competitor landscapes and ideas, and it's global and it's scalable and everything.”

Investor Two also discussed the importance of a sustainable business model that allows the social venture to truly carry out its overall aims, with one of those being to impact the cause at its core. One such example of this expression is the following quote:

So the general trend is that you need to find the right businesses, sustainable that works, so the customers are prepared to pay. And I think, I want to stress especially that customers are prepared to pay so that you can run a profitable business; because otherwise you just start with a good idea - you want to save the world - but if your business is not sustainable, it's just a good idea at the start. It doesn't develop.

Further reflection on the importance of sustainability in a business model will be conducted in the section 5.3.

Team

The team was undoubtedly important to the investors, with nearly each investor consistently mentioning it throughout the data collection process. For Investor Three, this variable offered the largest source of information as well as sentiment, with the investor reflecting on three separate occasions within the session that “it always comes [down] to the entrepreneur”. The investors who participated in this study did not produce intensely negative nor positive responses to the teams portrayed in either business case; however, they did make it very evident to the researchers that their willingness to invest, or lack thereof, was derived in large part to the founding team.

Industry Background or Interest

Initial research carried out by the research team offered insight into the potential importance of an angel investor’s professional background or industry-specific interest. This was verified during the data collection process, with three investors discussing it upon reading the verbal

protocols. For one of the investors, this variable was clearly significant, rendering six separate occasions in which his professional background factored into his reaction to the case at hand. Two of these occasions produced the following concerns about Case B, Choice Tablet: “the problem with the mobile market is that it’s a binary market”; “I mean, mobile phones are kind of the worst industries to be in, because it’s a big bloody market”. Further commentary on the industry in which Case B’s team would be launching their product revealed that his strong opposition to the proposal was rooted in large part to his knowledge of the mobile devices industry.

Return on Investment

Traditional finance literature on business angel investments places a considerable amount of emphasis on the potential return on investment the angel will receive. The research carried out for this paper revealed that investors considering social venture proposals will also weigh their potential return on investment. In fact, just one investor failed to mention it.

The variable was of the most significance to Investor Three, who upon reading Case A, My New Roots, said, “if you look at it more as an ‘investment’ investment where the aim is to make money, it’s of course low-scale and there are limited abilities to actually make money.” She continued with this line of thought by expressing:

If you are going to get that kind of case, you have to do it as an impact investor where you would actually see the social benefit, the benefit to society, the benefit of the people involved and also then accept limited rates of return.

Similar statements were made by other investors, including Investor Two, who said, “I can’t have a view if I’m gonna invest. But I do social investments, but then I don’t have so much demand on return on investments.” This statement was made in response to the same case, My New Roots.

Market Size and/or Potential

Empirical variables were considered after disseminating the data collected, with new considerations like “market size and/or potential” added. This variable is the fifth most mentioned by the investors, with just one potential investor not raising its importance, Investor

Four. In relation to Choice Tablet, Investor One expressed candidly “okay, there are a few guys out there that wants to have an ecologically-produced tablet or whatever but... How many are there? I wouldn't think there would get any success at this, no.”

Market size and the potential to reach the market were considered by the investors as general weaknesses for both cases, although further concern was expressed for Choice Tablet. Investor Five focused his concern on fellow actors in the market and the incapacity by the hypothetical team to stand out amongst them: “I would consider the task of building a car or a mobile phone to be an extremely crowded market.”

Summarizing Interest in the Protocols

When asked whether or not they would invest in or consider investing in the business proposals presented to them, each investor responded “no”, with the exception of one investor, Investor Five, who responded positively to My New Roots. He introduces his rationale with the following statement:

I would consider it. I like the... I mean this is essentially, if I would summarize it for me, this is a "Årstiderna / Mossagård" kinda idea, but they are using the fact that they have kind of a social good structure to it, which I like.

He continues however, by expressing that in order for it to be a certain “yes” for him to invest in, the business model would need to be more scalable and show signs of truly making a large-scale, or long-term impact. It is worth noting for future discussion purposes that he revealed that he has invested in similar businesses in the past.

5.3 Complementary qualitative data

The interview based on verbal protocols also directed the investors to express their experiences and perceptions of social entrepreneurship, social investments and philanthropy. Even if this data cannot be directly quantified to show correlations between an investor’s perception on social investing and their motivations to invest, it is important to highlight the emerging opinions gathered throughout the research process. These perspectives will allow to provide context to the compiled data and facilitate a discussion following the presentation of the results.

The information gathered can be divided into three categories: perceptions of social entrepreneurship, attitude towards social action and perception of philanthropy.

Perceptions of social entrepreneurship

Throughout the interviews, several perspectives have been collected to illustrate the perception of investors on social enterprises. These perspectives, even though not part of the core reaction to stimuli created by the verbal protocol, highlights specific issues encountered by both social entrepreneurs and investors.

Several investors emphasized the importance of a pragmatic approach to investments in social enterprises. They shared that an important number of social enterprises rely on a good idea or a good cause to present their business model, without developing methods to insure that the business will be at least self-sustainable, if not profitable. Social enterprises should not forget the business aspect of social venture creation, according to one of our investors.

They should have a progress line between now and the future and that should be law. That's the business part of it: competitor landscapes and ideas and it's global and it's scalable and everything. But it also needs to be, again, good for the world.

This pragmatic approach can be demonstrated by important performance metrics that prove the efficiency of an investment. Social enterprises should be able to prove their efficiency by two metrics: a capacity to be economically sustainable, measured through profits or revenues, as well as a metric proving the efficiency of their social action. If social action cannot be measured very precisely, investors become averse towards investing in these companies, since the impact of the investment cannot be correlated to specific results. This leads to social investments in companies that have more capacity to measure their impact, but with less interesting business models or social causes:

The double bottom line is a really good thing but the problem is that, for a lot of people investing, they need something that is very, very, very measurable and the problem is that then they only end up investing in, like, CO2 emission reducing companies or stuff that you objectively

measure. And then you do not actually... You don't build interesting companies, because CO2 emissions is something you can buy off, you can buy a carbon offset and just trick those systems.

This necessity to evaluate the two different metrics limits potential investors in contributing financially to social enterprises.

Furthermore, another interviewee put emphasis on the fact that social enterprises cannot expect leniency from equity investors for the fact that the venture tries to have a social impact in addition to the operation of a sustainable business model. He explained:

It all boils down to what's in the bottom of the company and how would you present for an angel or a customer or a partner. I don't think it differs that much, you still have to have the minimal viable service or product. You need to have a value proposition and that could be included that you would get something that would make great happiness.

The major takeaway from these perspectives is the importance of establishing a business model that is economically sound. A business that aims to deploy social relief still requires the founders or management team to adequately develop the sustainability of the business model.

Attitude towards social action

The qualitative data collected also highlighted the general consensus that social action and investments aiming to improve local communities or society at large were needed. All investors agreed that investments creating an impact socially or on other agents of the market were beneficial.

The interviewees already participating in social investments put emphasis on the fact that their current investments were not financially motivated anymore, with one expressing, "I'm not doing it anymore just for the pure, pure business. I like to see something else into it: solve a greater question." Another investor, while talking about the social venture that they started, explained:

I use to say that it has been my best investment in life. I put time, energy and money there. I haven't got one single dollar back but still I regard

it as my best investment because life is not just money. You see that you have a lot of value, it's good for the young generation.

The same investor later put emphasis on the responsibility that individuals have to generate a greater good:

I think it is important to us because we have a lot of challenges in this society and, there is a saying that says “because you can't do everything for the world, that's not an excuse for not doing anything.”

The insight provided by these interviews is that, even if social enterprise investment can be seen as a risk behavior lacking returns on investments, investors are aware of a responsibility that they carry to create social action with the capital that they possess.

Perception of philanthropy

The interviews also provided insights on the idea of philanthropy from investors. Perceptions that were recorded designated a difference of perception between social investment and philanthropy. If the investors' attitudes were fairly positive towards social investment as long as the business model was sustainable, the perceptions of philanthropy were more mitigated.

One interviewee insisted on making a strong distinction between social investment and philanthropy. The interviewee's perception of philanthropy was more analogous to a donation with no return on investment than an actual investment:

I think philanthropy is not investment because that's really grants or, I mean, you give things. I believe more in impact investment because we are talking about the sustainability. I think, if you are going to build things, then you have to do it in a sustainable way and then you need to have some sort of business model to make it sustainable. But of course, if we talk about philanthropy, then it's a completely different business: it's not investment.

Another investor explained that pure philanthropy could actually have negative effects when it comes to creating impact. In the perspective of the interviewee, philanthropy directed towards

an operational model that is not ready to manage important capital could actually create solutions that are not developed for long-term relief. Instead, they would create social benefits in the short-term and be detrimental in the future. This observed perception implies negative consequences in comparison to social investment.

The findings detailed through this chapter illustrate assumptions created by the theoretical framework. However, new findings that were not highlighted in the academic literature emerged and create a need to discuss the different findings, whether they corroborate the presented literature and what theories can support the findings that were not predicted in the theoretical framework. This is also an opportunity to discuss the findings that can be of interest for either social entrepreneurs or investors.

6. Discussion

The different variables and their importance in the mind of investors have been highlighted in the aforementioned analysis. As the research shows, different variables have more influence on investors' motivation to invest in social enterprises. It is necessary to link these findings to the theoretical background to understand which motivations are anchored in general entrepreneurship theories and which ones are anchored in social entrepreneurship theory. It is also necessary to observe and relate findings that were observed during the verbal protocols to existing literature if possible.

These findings should also be linked to the perception of social entrepreneurship expressed by the investors. This will create the appropriate landscape of information to underline the appropriate knowledge that would allow social entrepreneurs to start social enterprises on stable grounds.

6.1 Theoretical findings interpretation

Business model

The business model was the most discussed variable during the verbal protocols. It seems logical to think that a social enterprise's business model and its capacity to generate revenues and potential profits would be an important concern for an investor. It concurs with the theory on social entrepreneurship investment: "the business model is found to be an important enabler

to success of sustainable businesses” (Bocken, 2015, p.655). Investor Two expressed it clearly in reference to one of the cases: “The thinking is good with the start-up, but if it's going to work [sustainably] then you need to generate positive cash flows.” This necessity has resonated throughout all the interviews. Potential investors would find it irrational to invest in enterprises in which social externalities would create a burden on cash flow and, therefore, their capacity to stay economically sustainable (Bergset, 2015).

This attribute of the business model of a social enterprise is perceived as a deterrent to investments. However, it is not strictly a characteristic that can only be attributed in social enterprise. This problem is common for all type of start-ups: since private equity financing is very limited, investors are seeking to invest in small firms that have a business model that can promise significant returns on investment (Berger & Udell, 1998).

However, for investors interested in investing in business models with a social impact, the motivation of investment is less focused on important returns on investment but more spread over different sets of metrics that can prove the business model to be successful (Bocken, 2015). Social enterprises must provide indicators proving that their business model is economically self-sufficient and effective in the impact that it wants to create. Investor Five explained that social enterprises have the added difficulty to provide substantial metrics to prove that investments will not be wasted on a flawed business model.

Furthermore, business models that are able to reach important or new markets and acquire private equity bring a positive upside in the ecosystem of social entrepreneurship: by getting access to private equity financing, they relieve the public financing sector from investing in them, allowing smaller social enterprises that are less profit-oriented to receive grants and financial support (Dees & Anderson, 2003).

Team

The team behind the social venture remains one of the most important factors in the business proposal of a social enterprise. Most of the investors declared that the founding team of an enterprise was the most important factor to lead a business model to a successful path. Investor Three explained further: “if you don't have a strong entrepreneur, a team that actually has the commitment and the energy and the skill to drive the business, it doesn't matter: you can have the best product in the world, it doesn't matter.” This is supported by the academic literature on

the topic: the founding team and management should be competent enough to drive the venture to the goals set by the shareholders (De Clercq et al., 2006).

However, the efficiency and competency of the team is not the only factor that motivates investors in relation to the team: affinity and compatibility are equally important. It can be observed in two different manners within the study. Investor Five described with more emphasis the importance of liking the founding team on a personal level.

Investor Three explains that "[it] really [is] the first thing, that you do have a team and that you do have a management that is coachable, that actually listens, and where you can have a good communication." The capacity to coach and guide the founding team is important when investing in the founding team of a venture. As investors take part financially in a business, they also want to play a more important role that is not limited to the injection of capital. Investors are looking for roles where they can mentor and guide founding teams toward success (Politis, 2008). Investor Five described with more emphasis the importance of liking the founding team on a personal level. By having a personal affinity with a team, he is more motivated to wish them success and invest in them.

This criteria in the evaluation of the business proposal of a venture is obviously found in academic literature focusing on social entrepreneurship (Bocken, 2015), but as importantly in academic research focusing on general entrepreneurship and commercial business venture (De Clercq et al., 2006; Politis, 2008). It is therefore obvious that the investors' perceptions of the team are equally important in commercial entrepreneurship and social entrepreneurship.

Industry-specific knowledge or interest

The level of knowledge that an investor had in the industries presented in the cases was the third most-mentioned variable during the verbal protocols. Investors that were knowledgeable in the technology industry had strong reservations about investing in the proposal that aimed to exist in this market. Investor Five declared after a few seconds reading the case: "I would not invest. Independently on how they did it." His reason was that the complexity and competitiveness of the mobile industry make it a market in which there is little chance to succeed. On the other hand, Investor Two, who had knowledge of and interest in the process of job creation and employment, expressed interest for the case My New Roots. Without wanting to actively invest, Investor Two said that he liked the idea while focusing almost exclusively on this aspect.

Investors who were not knowledgeable were also reluctant to invest. Investor Three explained: “I’m not so much into the digital field because I’m not... I’m not that good in that type of business model.” This is supported by academic literature. De Clercq et al. (2006) explains that investors will decide to invest in industries that they are familiar with. Their knowledge and experience allow them to identify flawed business proposals and also to help ventures in markets where their expertise and networks are the most valuable to allow growth. This variable is however problematic for social industries. Bocken (2015) explains that, as investors generally lack knowledge in industries where the social component plays a major role in the business model of the venture, they are less inclined to invest since they are not knowledgeable in the characteristics of industries where social enterprises rely heavily on social impact to measure success.

Minimal return on investment

Returns on investments are expected to be one of the main motivators while investing in a venture (Berger & Udell, 1998). Social enterprises are associated with the idea that they cannot generate important returns on investment due to their activities aiming to create social relief (Bergset, 2015).

The investors, even if they mentioned returns on investment very often during the protocols, did not express a lot of concerns regarding minimal or non-existent returns on investment. Instead, they insisted on the fact that the social ventures should first and foremost be self-sustainable. Investor Three explained that “if you look at it more as an “investment” investment where the aim is to make money, it’s of course low-scale and there are limited abilities to actually make money.”, implying that a real investment in a venture would create the expectation of returns. However, she added that “it doesn’t have to make money but it has to be sustainable to be able to cover its costs”. Investor Two, who was familiar with social investment, explained that in the case of a social investment, his expectations of returns on investment were “not very demanding”. Investor Four explained that, in the case of a social investment, he would like to see returns but that they did not need to be important.

This decrease in expectation regarding returns on investment is described in the academic literature. Bocken (2015) explains that investors will focus on other motives than returns on investment to finance social enterprises. Angel investors might focus on the reward of creating

social impact through their investment. Venture capitalists might focus on the benefits of including a social enterprise in their investment portfolio. This dissociation between the academic literature on traditional investment and social investment is at the heart of the discourse on the rationality of investment, according to Bergset (2015). Instead of setting the reason of investment on important financial returns, the rationality is instead shifted towards other motives. The only financial expectation that is present for our investors is the capacity of social enterprises to be self-sustainable and cover their own costs without needing additional investments after the initial investment.

Information asymmetry

Information asymmetry is one of the main factors that stops investors from financing in ventures (Winborg & Landström, 2001; Bergset, 2015). Lack of information on the products or markets of the verbal protocols were less frequent among our investors, but their lack of information regarding the team or the specifics of the business model made them reluctant to invest.

This result, embedded in the agency theory, is a common phenomenon that creates aversion to risks when two parties cannot be aware of the information that each party possess (Eisenhardt, 1989). It is logical to assume that an investor would be averse to invest in a venture without the appropriate information, whether it is a commercial business or social enterprise. Bocken (2015) do however identify a larger probability of a social entrepreneur facing information asymmetry, since most investors are not knowledgeable on the multifaceted aspects of business models oriented towards social action.

Emotional draw to a cause

The investors expressed a relative low emotional draw to the social causes described in the business proposals. They all agreed that the case focusing to employ migrants was a current topic that needed a solution, but none felt an emotional relation to either of the cases.

This can be one of the reasons most of them did not consider investing in these business proposals. Bocken (2015) explains that investors could be more motivated to invest in social enterprises if they feel personally concerned or attached to the cause. Therefore, even if we witnessed a rational belief that the cases were important matters, none expressed an emotional draw to the causes presented. Instead, they explained which causes they were the most concerned with personally. Investor Three was mostly concerned in her professional and

personal life with the empowerment of women as entrepreneurs and investors, Investor One was mostly inclined to help young adults in his community to have access to education and Investor Two had done already important work to advocate against HIV in Southern Africa.

Sense of responsibility

Most of the interviewees expressed a sense of responsibility to create social impact through investments. Investor Two expressed that social involvement was “the best investment in [his] entire life” even he never received a single return. He added: “I think everybody should do something that they feel is right. That's a responsibility we have.” Investor One explained that working in collaboration with local actors and other companies to create social benefit was a responsibility everyone should have. Investor Four and Investor Five expressed that, as investors, there is a duty to support social initiatives as investments should be the source of sustainable improvement in the marketplace and in society. This is highlighted in the academic literature as one of the main motivators to invest in social enterprises (Bocken, 2015). Investors might not only invest just to create beneficial results in society, but also because they might feel that, as individuals, they are responsible for the common good.

Nature of social entrepreneurship in Sweden

Three of our investors mentioned the relationship between social enterprise investing and public financing initiated by the state. Investor One expressed concerns, saying that entrepreneurs relying on public financing might have difficulties building a venture. Investor Five, while talking about the case focusing on migrant inclusion and employment, said: “I think it's one of those things the "government" should be doing.” He however acknowledged that in making this remark, he had a Swedish perspective on the issue. He later reflected on the societies in which philanthropy and social entrepreneurship are theoretically more necessary, saying that a society like the United States that has grown entirely dependent on philanthropy would not be able to handle societal woes without the likes of Bill Gates, or even smaller-scale individuals who engage in social impact. In a more socialistic country like Sweden, he recognizes the need for more philanthropic investments, but implied that due to its welfare policies, there was less of a demand on the part of the private actor to engage in cause-driven investments or donations.

Investor Three made similar remarks about the development of social entrepreneurship in Sweden, saying:

I don't think it's so well developed in Sweden, it's more developed in other countries. I don't know about the US, but I have some colleagues...[who are] very much into impact investments in Luxembourg for example and Holland and so on.

Stryjan (2006) theorizes that the WISE venture and its growing prevalence here in Sweden “constitutes a marked departure” (2006, p.207) from the traditional ways in which divisions of tasks have been handled. Social enterprises in Sweden, such as those tackling causes like unemployment, have emerged in response to the failures of a model that no longer functions in the same capacity as it did when first introduced. Who is responsible for financing these enterprises, which Stryjan (2006) calls “an original actor” (2006, p.206) is still a question without a clear answer.

6.2 Interpretation of Empirical Findings

Due to the nature of this study’s methodology, it was to be expected that several additional variables would arise alongside those that the research team had initially anticipated. These empirical variables were of significance to the research investors, and commentary on each of them provided rich insight into investors’ motivations for investing in a social enterprise. The current lack of theoretical reflection on each variable within the context of private equity financing leaves a significant gap that can be filled to some extent with new theory generated from this research.

6.2.1 Impact Investment vs. Social Enterprise Investment

One of the most significant empirical findings produced from the data collection process was the recognition of a growing interest among certain investors in what they referred to as “impact investing”. By their own definition and through their own remarks, it was evident that they see impact investments as different than social enterprise investments, with the former being a more attractive approach to engaging with social enterprises or entrepreneurs. As its name implies, impact investing is the act of investing in a business for the purposes of creating a social or environmental impact. It typically asks the investor to produce some type of measurable results for the purposes of showing their peers the extent to which impact investing can improve the conditions for a certain cause (Global Impact Investing Network, 2016).

If one is to research the major differences between impact investing and social enterprise investment, it is easy to find articles, both scholarly and mainstream, on the topic of impact investing and its growing popularity; however little literature exists to answer the question of what the real difference is between the two. For the purposes of carrying out the research at hand, the research team treated the term as akin to the phenomenon at hand, which was investment in social enterprises. Nonetheless, the use of “impact investment” seemed to conjure more positive feelings for several of the research subjects, leading the research team to believe that their sentiments on investing in social ventures were rooted to some extent in their understanding of the concept and their own personal definition of cause-driven investing. One potential source for these positive correlations with impact investing over investing in a “social enterprise” could be that the former places a higher emphasis on a strong rate of return. Rate of return is undoubtedly one of the most important motivations for business angels when considering a proposal, even if that proposal is a social venture, as has been demonstrated in this paper.

The focus on rate of return and the capacity for this variable to make impact investing a more enticing proposal to traditional business angels (who invest in commercial enterprises), runs the risk of driving the social enterprise financing scene into something that is not ultimately beneficial to society. A recent reflection on this matter in the Stanford Social Innovation Review demonstrated concern in the following quote:

Critics have pointed out that impact investing runs the risk of becoming the emperor’s new clothes—that, at its core, impact investing is about developing, stimulating, and protecting the social, environmental, and economic values that make our world a place worth living in, and that financial returns are important but do not constitute the essence of impact investing. (Hummels & Fracassi, 2016)

This analysis highlights the concern that some researchers have. By putting more and more emphasis on sustainability and possible returns when investing in social enterprises, the focus shifts away from the social core and benefits of those venture. Regardless of their understanding of social enterprises or of impact investing, the investors who participated in this study offered

insightful dialogue on previously mentioned variables, which can be divided into the categories of professional and personal motives.

6.2.2 Personal Motives

While the research team initially theorized that reactions to the two protocols would vary based on each investor's professional background or industry knowledge, what was not considered was the impact that the entrepreneur's age and wealth accumulation might have. Four out of the five investors discussed their age and the stage of life that they were in, tying it in some part to their willingness to invest in a social venture. Unfortunately, very little academic literature exists to provide a theoretical link to stage of life and investment behavior, however the investors did acknowledge that it played a role.

Investor One pointed to his change in investment rationale based on his stage of life, when expressing:

And of course it is always good to make money, but today it's important to see something else, something higher and then to work with good people. Have fun! I can afford that today, but if you had asked me that twenty years ago, I would have said that good business is the way to do it. But I'm older now.

Despite not being interested in either of the proposals presented to him, the investor acknowledged that his stage of life placed him in a position to consider a business proposal that he might not have considered at a different phase of his career. One can infer that he sees the nature of the businesses featured in the proposals as less attractive based on their return on investment and business models; nonetheless, they offer features that more traditional or commercial proposals cannot, which includes a higher purpose or cause.

The quote offered by Investor One also highlights another empirical motive, which is the joy of helping others. This was echoed further down the line in the research process by Investor Three who discussed his satisfaction with having invested in a venture that has provided zero return on investment but nonetheless been "the best investment of [his] life, because life is not just money." The research team could clearly see the passion with which both investors

discussed their desire to have a good time investing in young enterprises, who may or may not be social.

Given the perceived irrational nature of social ventures, it is not particularly surprising that the older investors placed a greater emphasis on their stage of life and their desire to get something more than just money out of an investment when compared to their young counterpart, Investor Five. Nonetheless, the amount of capital that Investor Five has accumulated in his short career could be comparable to that of investors much older than him. He has also built a strong portfolio, and admitted being involved with social entrepreneurship more than five years ago, when it was an even more obscure concept than it is today in Sweden. This demonstrates the limitation of saying outright that the older an angel is, the more likely he or she is to invest in a social enterprise.

The ultimate limitation however lies in the nature of this research, as it is a qualitative study that has a total of five investors. No broad conclusions can therefore be drawn, but contributions to the greater theoretical landscape can be made.

6.2.3 Professional Motives

For the investors who took part in the verbal protocol process, many professional motives for investing or not investing shone through. For one, there was potential interest in investing in a business that is cause-driven for the purposes of strengthening the image of his brand to both customers and to his employees. He expressed that it was in the interest of the business to become involved in what he referred to as CSR activities in order to show employees that the business stands for something more than just profit generation. The desire to lead by example was not initially seen as a motive for investing in a social enterprise, but after discussing it with one of the investors, the team felt that it was worthy of future research.

Further professional motivation was observed when Investor Three implied that a potential future investment in a social enterprise could be sparked in large part by a desire to add a cause to her portfolio that is important to her. This investor is very proud of her work with a European female business angel network that advocates for greater female involvement in the private investment world. Through her involvement in this network and out of personal interest, she has become aware of micro-enterprise strategies aimed at empowering women in developing

countries. Should she engage in what she refers to as impact investing in the future, it would be in a social venture that empowers women to become entrepreneurs through micro-enterprise programs.

The last professional motive that was collected during the research was the desire to invest in a social venture whose product or service would be in large-scale demand by the market. Furthermore the venture should be capable of effectively reaching the market. This was a motive for four out of the five investors, and differs to a degree from the theoretical variable that was previously discussed, the business model.

The research team recognizes that the empirical variable “market size and/or potential” played a role in the willingness of Investor Five to say “yes” to one of the protocols, My New Roots, when asked whether or not he would invest in it. His rationale for liking the proposal enough to potentially finance it is due in part to the willingness of today’s consumer to pay for a service or product that they care about. The customer would have the opportunity to know that the vegetables that they purchase and consume were supporting the life of the farmer involved. Investor Two echoed this line of thinking by highlighting the power that the consumer has today: “as a consumer you [can] choose and if a sustainable world is important for you then you like buying things that are in that line.” He goes on to say, however that market demand must be present and the entrepreneur must be wise in how he or she reaches it:

So the general trend is that you need to find the right businesses, sustainable that works, so the customers are prepared to pay. And I think I want to stress especially that customers are prepared to pay so that you can run a profitable business because otherwise you just start with a good idea - you want to save the world - but if your business is not sustainable, it's just a good idea at the start.

Trending Topics and Their Influence on Investment Behavior

The final variable that we collected upon extracting data from the verbal protocol method was the perceived benefit of generating jobs, which we refer to as “job creation”. The research team decided to change one of the protocol cases to include a WISE or work integration social enterprise in order to see what effect it might have on the results. Unemployment amongst certain groups, namely recently arrived asylum seekers, has generated a large discussion in the

press and throughout society in the last few years. The research team was eager to see if a WISE proposal might speak more to the investors, who were familiar with the public discussion and therefore had a stronger desire to get involved. This was previously discussed in the methodology chapter with the introduction of the bandwagon concept.

All but one of the investors discussed the attractiveness of the WISE proposal, My New Roots, in its potential capacity to generate jobs, if it were to succeed. Investor Five remarked that the business in the protocol was appealing because of its job-generating qualities: “it accomplishes more locally grown vegetables and it accomplishes getting newly-arrived immigrants to get work experience, which are both great things.” The other investors mentioned risks posed by certain groups not receiving meaningful employment, as well as the overall social benefits of integrating jobless persons into the labor market. All commentary provided for rich material that the researchers felt pointed towards an added interest in My New Roots, a business proposal that was aiming to impact one of Sweden’s more pressing social issues.

6.3 Emerging information and lessons

The different findings highlight the different reasons investors can have to invest or not in social enterprises. As they were presented the cases, they reacted very quickly on attributes and information that were detrimental to an investment from them. It is obvious that investment in general relies on the evaluation of all aspects of a business, whether that enterprise is commercially or socially oriented. Investors, independently of the reason the entrepreneur decided to start a venture, are observant of all the details. The social impact that the social enterprise wants to create is only one of them.

Investors are, in the investors’ opinion, interested and, sometimes, pro-active to invest in social enterprises to generate social relief. Most of them already had done social investments, and all of them were actively part of initiatives that were actively trying to have an impact that goes beyond monetary gain. Whether they were committed for emotional reasons or for a sense of responsibility to create a greater good, the investors all agreed that social investments were necessary. The motivation to invest in social enterprises can also emerge from non-personal motives. Investing in a social enterprise that performs well can be the sign that an investor has the capacity to guide management teams to operate companies that have by nature additional costs, which decrease their chance of financial stability, towards success. The logic is the same

for venture capital investors: if a social enterprise is part of their portfolio, it could display confidence in the capacity of their managers to lead difficult projects to success.

However, these investments cannot be blindly directed to social venture without several expectations. The main expectation that the investor had was that the social venture was sustainable in its core. Investing for a cause in a social enterprise that cannot be self-sustainable, meaning covering its own costs, was not a possibility for the investors. It is imperative for investors that making an investment in a social enterprise will not result in yearly losses. Furthermore, like in traditional venture financing, investing in a social enterprise means to invest in a group of people that have the capacity and the knowledge to drive a business. Investors must trust the team that will manage the capital that they inject to manage the venture as efficiently as possible.

However, if the social venture must be self-sustainable, generating returns on investment is not the most important expectation. Investors seem aware that social enterprises have obligations external to the venture that will generate costs and are ready to concede their returns if it means creating meaningful and measurable impact. If this impact has metrics that allow an evaluation of the success of the venture in its social action, investors would be more motivated to invest, knowing that their investment will have quantifiable effects.

7. Conclusion

This master thesis had the goal to answer one specific question: *"what motivates investors to finance Swedish social enterprises that are seeking external funding?"* As expressed before, the reason to ask this question was not to establish a set of precise attributes that social enterprises should adopt to be more likely to receive investments, but instead to highlight the characteristics that investors focus on when investing in social enterprises, and if they differed from investments that aimed to generate important returns on investments.

As investors are in theory less likely to invest in social enterprises, it was important to understand what creates that gap. The obvious assumption was that investors were less interested to invest in social enterprises due to potential lower returns on investment, if there were any at all.

The conducted research, however, does not fully confirm this assumption. Indeed, if returns on investment was a concern for the investors, it was not the main one. The study highlighted that, instead, the business model was the attribute of the business proposals that the investors were reflecting on. Examining the self-sustainability of the venture, its scalability and the different metrics that would allow both internal and external actors to evaluate the impact of the social enterprise, the investors expressed more concerns about being sure to invest in a proposal that would at least cover its own cost and not become the source of frequent losses that would need more capital injections from them. For them, investing in a social venture is already a sign of acceptance that they will receive limited or inexistent returns, which they were not worried about. Their only expectation was that the business model could sustain itself over time.

Along with this finding, the other main characteristics that motivate investors to be financially involved in a social venture could be found in the academic literature on traditional investment. A committed founding team that they could trust and mentor, and their knowledge of the industry in which the social venture wishes to operate were both criteria that came before financial returns on their investment. This highlights the beginning of an observation on social enterprise financing: investors are aware that investing in a social enterprise will compromise returns on investment to the benefit of social impact, but they will not prioritize the cause over the sustainability of the business and its chance to succeed. Like any venture, investing in a business proposal implies being involved in a project over a long period of time with two goals: the survival of the venture and its potential success. What motivates investors to finance a social venture is the addition of all the attributes of the venture to see if it results in an efficient and successful operation that will find its place into the market. Social enterprises are driven by social impact and relief, but this goal is only one of the many characteristics of a venture among many others that investors must observe with scrutiny and great care before making the choice to use their own capital to see it succeed. They might be influenced by the social cause, either emotionally or by its practicality in today's society and market, but never to the point where they would carelessly finance a lost cause. To invest in a social enterprise is of course a different act than investing in a commercial venture, and they realistically accept the loss of capital that might happen, but want to assure that their investment is not in vain.

The research underlined the fact that the motivations for social enterprise investing and commercial venture investing overlap and are intertwined. However, information emerged through the research that gave us interesting insights on the state of social enterprise financing.

As financing in social ventures was considered an activity of the public sector in Sweden, investing in social enterprise as a private activity possess its own dynamics that can be identified as trends. Several investors made an effort to distinguish social investment from impact investment, implying that there was a gap in their definition. Social investing was seen as an activity that carried less involvement for the investor and more risks associated to it, whereas impact investment was seen as an activity where the investor could use its capital to create impact in a profitable way. As social investments are seen as something that the public sector should partake in, impact investments appeared to be an activity that has a positive connotation for investors. Impact investments are associated with social relief in business, bringing forgotten actors of the community to the forefront of business and a smart financial decision for investors.

Furthermore, the research revealed that the investors were more attracted to the social cause they were exposed the most at the time of the study: integrating newly arrived immigrants into the workforce. The investors were more conscious about this cause and more positive towards it, implying that social causes that gather the most attention at a given time are more likely to receive financial investments.

It is important to once again acknowledge the limitations of the research. Due to the qualitative nature of the study, and the limited number of subjects who participated in it, it is difficult to establish any generalized conclusions about investor motivations when investing in social enterprises. While many more investors were contacted, just five were able to participate and contribute to the research. One investor contacted offered very insightful remarks about the research question and the focus of the study, however her commentary could not be included because it was not collected using the verbal protocol method. Nonetheless, the discussion allowed the research team to build a stronger foundation for analysis. Her concluding remarks when asked about the difficulties facing social entrepreneurs came in the form of advice, when she said that in order to succeed and to stand out, social entrepreneurs simply have to work harder. This advice combined with the empirical findings about the importance of developing a sustainable business model serve as valuable guidance for today's emerging social entrepreneurs.

It is the hope of the authors that further research is carried out on the topic of private investments in social enterprises, not only here in Sweden, but also in countries where impact investing is more mature, like the United States. With Swedish consumer power on the rise, and changes

occurring in the social, political, and economic landscape of the country, one can only assume that the emergence of new WISEs and other types of social enterprises will continue. Investors' notions of whose role it is to support these ventures will have to evolve as well; the research carried out in this study is a testament to the notion that that evolution is already underway.

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Appendix A

Verbal protocol cases

Case A

Scenario: My New Roots

The number of persons seeking asylum in Sweden or those migrating for economic purposes has increased dramatically in recent years, placing a large responsibility on various government agencies to help new arrivals experience as smooth of a transition as possible. One such agency is the employment agency, which has taken on a large number of new cases yet faced significant difficulties in placing both newly arrived refugees and newly arrived immigrants with jobs. Without a job, many newcomers to Sweden are not only left without the means to drive their own income, but they are also left out of a very integral social realm, leaving them with fewer possibilities to meet and interact with the Swedish society.

The company My New Roots was born in early 2015 in response to the above-mentioned problems, by a motivated team of individuals: Ludvig, Daniel, and Almira. Daniel, a graduate in business administration, is the son of a farmer in Eslöv, who had offered local youth the opportunity to intern at the farm during Daniel's childhood. Daniel realized such an internship could be worthwhile for immigrants who had an interest and/or experience in agriculture and farming. He explored this idea with friend Ludvig, who has a background in the social sciences and who also has many friends working at the Migration Board. The duo added Almira, a marketing and communications professional, to their entrepreneurial team, and redesigned the overall idea to be more advantageous to both the farmers and preceptors involved. None of the founding members have startup experience, but are guided by Daniel's father and a local businesswoman who acted as a mentor to Daniel under his studies.

The model is based on a similar program launched in the United States five years ago to much success.

My New Roots recruits newly arrived immigrants to learn farming techniques under the supervision of Swedish farmers. These immigrants are paired with an experienced farmer who

has also been recruited for the program by the My New Roots team. Based on the new worker's employment background, he or she will either begin as (1) an intern, learning the basics of farming, or (2) as a novice farmer, who undergoes a thorough introduction to farming in the south of Sweden. The farmers agree to lend, and then rent (after 9 months time) a portion of their land or greenhouse to the worker, who farms produce that is sold through a) markets and b) home-delivery of vegetable boxes.

The My New Roots team tested their model in the spring of 2014 with four persons who had arrived to Sweden and registered with the employment agency within the last one to four years. Through Daniel Olsson's father, they managed to reach a farmer in Remmarlöv who was interested in additional workforce for the harvest season. The group managed to learn new skills and raise some profit from their farming activities. Learning from the farmers also allowed the novice farmers to improve their Swedish skills and meet other farmers in the area. In total, the novice farmers sold roughly 300 boxes at an initial price point of around 250 SEK.

The initiative attracted the attention of the employment agency, who wanted to expand on this model, as well as the attention of several local newspapers. The success of this small-scale project was rewarded by the County Administrative Board of Skåne and Vinnova, who gave the founding team 100 000kr in grants.

In 2015, the group of novice farmers grew from four immigrants to fifteen, working on three separate farms. The founding team is aiming to expand this model to ten farms in 2016, as well as to start their own farm that would employ the newly trained farmers to become more independent. In the long term, they want to implement a cooperative of several farms where the profits would be split between the new farmers and My New Roots. They are looking for an investor to help them accomplish this goal. Further investment is required for the large marketing budget they would like to implement to advertise the local produce, in order to compete with food box/matkasse suppliers in the area. At the present time and under present financial conditions, return on investment would not be possible until around five years' time.

Question: would you invest in this business?

Case B

Scenario: Choice Tablet

Electronic waste, poor labor conditions, and the use of conflict minerals are just three of the many problems plaguing the mobile device industry today. Major name brands are frequently coming under fire in the media for failing to address the negative social impact their products incur on local communities and the environment at-large. The negative attention and personal concern on the behalf of customers has led to heightened interest in devices that have a more ethical footprint, and for which the production process is more transparent.

The desire to provide consumers with a more ethical mobile device pushed three entrepreneurs to develop Choice Devices, and the Choice Tablet. Mats, the in-house engineer, alongside Sam, the in-house developer, and Johan, the experienced entrepreneur with four ventures to his name -including one that achieved large-scale success- have worked since 2013 on the product, and in the first 3 years sold 10,000 units of version 1.0. Initial sales and funding were provided by a Kickstarter campaign during year two, in which the project was 210% funded.

The leader of the venture, Johan, learned first hand about the issues that commonly arise when mining minerals that go into the production of most mobile devices, when he met with a close childhood friend who works for a refugee resettlement agency. The stories he heard about the procurement of materials from the Democratic Republic of Congo, and in neighboring countries, motivated him to put his entrepreneurial experience and skills to a worthwhile cause and an innovative product. Suppliers were selected carefully and the customer is made aware of all resources in the supply chain.

Choice Devices operates out of Malmö and views the Scandinavian countries as its main market, though the Nordics, Europe, and North America are within target over the next five years. The product is made at a total cost of \$250 USD and is sold at a price point of \$575. For this, the customer receives a 10 inch tablet that uses an operating system that the team developed themselves.

Further investment is required at this time to streamline logistics, develop an improved version 2.0, and to relocate assembly from Estonia to Malmö, with the aim of providing job opportunities for many newly arrived refugees. Choice estimates a return on investment within

5 years. Nonetheless, it operates according to a limited profit distribution and aims to invest a portion of profits into a fund to support the local communities where components are procured.

Question: would you invest in this business?