If not for profit,
for what and how?

SOCIAL ENTERPRISE

What are the barriers to investing in social enterprises? An investigation into the attitudes and experiences of social entrepreneurs in the United Kingdom

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Abstract

The ongoing global economic crisis and the restrictions that this is having on government expenditure has meant that current UK policy is being directed at trying to end the grant dependency that currently exists in the third sector. One of the key focuses of this policy initiative has been to try to increase the third sector's access to both debt finance from lending institutions and equity finance from venture capital investors. However, this policy intervention presupposes that the lack of private sector investment in the third sector is a 'supply-side' problem caused by limited funds. This ignores the structural problems in the social enterprise sector related to governance and a lack of organisational capacity. Indeed, as of 2011 the ethical investment sector in the UK was worth approximately £9 billion and was spread across 90 ethical investment funds responsible to 700,000 investors. Additionally, social investment (i.e. those funds targeted specifically at third sector organisations) was worth £165 million as of 2011. This suggests that the lack of private sector investment in social enterprises in the UK is not a 'supply' side problem but is instead related to the 'investment readiness' of social enterprises.

INTRODUCTION

'Social Investment', sometimes also called 'Impact Investment', ultimately seeks to provide finance to social ventures (either debt or equity finance) with an expectation that a social as well as financial return will be generated (Brown and Norman, 2011). In the UK the 'social investment market' (SIM) was estimated to have made a total of £165 million of social investments in 2011 (Brown and Norman, 2011) and this is predicted to grow to around £1 billion in the UK by 2015 (Brown and Swersky, 2012). Indeed, the UK is positively placed to play a leading role in this global growth, due to its depth of social-purpose organisations, its strong financial sector (Evenett and Richter, 2011) and the strong political support for the SIM that has come from successive UK governments (Nicholls, 2010b). Accessing external funding or support through investment contracts or alliances can be beneficial to social enterprises (SEs) as it builds organisational independence and resilience (Sakarya *et al.*, 2012). However, these changes to the SE's core model of mission delivery provide challenges to management teams (Bugg-Levine and Emerson, 2011) that often require restructuring or skill-set injections at board level. An inability to successfully undertake these changes often causes problems for SEs seeking finance from the SIM, as they do not have robust governance structures, skilled management teams and detailed business plans in place (Hines, 2005; Hill, 2011; Howard, 2012). This perception that social enterprises are not 'investment ready' has been driven by a duality in the SIM, in which SEs cannot access social investment and social investors cannot find 'investment ready' propositions (Howard, 2012). There is a current paucity of academic research into social finance and the SIM in general and researchers have identified a need for more theoretical and empirical studies so that a more detailed understanding of the SIM can be developed (Battle Anderson and Dees, 2006; Nicholls, 2009; Nicholls and Paton, 2009; Nicholls, 2010a; Moore *et al.*, 2012; Hazenberg *et al.,* 2013). Specifically and in relation to this study, there is no academic research that explores in detail the 'investment readiness' (IR) of social enterprises seeking investment. This paper reports research that explored the IR of social enterprises through in-depth semi-structured interviews.

THEORETICAL FRAMEWORK

Government interventions aimed at increasing the access of finance to 'small and medium-sized enterprises' (SMEs) are usually targeted at increasing the availability of supply-side capital (Mason and Kwok, 2010). In the UK there has been a focus upon developing the supply-side of the SIM, as the government has sought to create a market and regulatory framework for social finance (SF) through legislation and direct/indirect funding (Nicholls, 2010b). This has caused a neglect of the problems on the demand-side of the SIM (such as a lack of IR amongst SEs), although this focus is now shifting through such schemes as the 'Investment and Contract Readiness Fund' (ICRF) (SIB, 2013). Gregory *et al*. (2012: 6) define IR as "…an investee being perceived to possess the attributes, which makes them an investible proposition by an appropriate investor for the finance they are seeking." The process of seeking investment and becoming IR begins at the point that the entrepreneur/enterprise realise that their personal resources, or those of their organisation, are insufficient for their start-up, growth or sustainability needs (Silver *et al.*, 2010). There is a lack of academic literature that explores IR in the SIM, with the existing research focused upon intermediary finance institutions (Hazenberg *et al.*, 2013), as opposed to the demand-side of the market (i.e. social enterprises). There is therefore a need to explore prior academic literature on IR within mainstream finance in order to develop an understanding of IR that can be applied to this study.

Investment Readiness

Prior research identifies the quality of a potential investee's business plan as being crucial to the IR of an SME (Howard, 2012), with investors often being frustrated by the poor quality of the business proposals submitted for funding (Mason and Harrison, 1999; Paul *et al.*, 2003). The viability of a business proposal involves an examination of the capitalisation of the business, the management team in place, return versus risk analysis and the quality of information held and provided by the business (Mason and Harrison, 2001; Mason and Kwok, 2010). In a study of debt and equity investors, Mason and Stark (2004) identified that debt financiers (bankers) placed more emphasis on financial data than did equity financiers (venture capitalists [VC] and business angels). This is possibly due to the lower margins on debt-finance investments, which force bankers to minimise 'Type One Errors' (lending to businesses that subsequently fail), as well as a debt-financiers' reduced ability to monitor an investment in the same detail that an equity investor could (Mason and Stark, 2004). Research has also shown that there are also high rejection rates of business proposals by equity investors, usually directly related to poor business proposals that do not meet investment criteria (Mason and Kwok, 2010). Despite this, there are also numerous rejections of good business propositions that are otherwise IR. This is because in markets where imperfect information exists, investors need to balance risk and this leads to 'investment ready' businesses being declined capital (Deakins *et al.*, 2008). When considering SEs for investment, investors are also interested in the social impact of the SE but it is generally acknowledged that social impact (SI) is difficult to measure. The difficulties inherent in trying to measure SI have also led to a lack of information in the SIM, a factor that is complicated by the existence of a plethora of methodologies for measuring SI. Three prominent SI methodologies have arisen in the SIM; namely 'Social Return on Investment' (SROI) (Maree and Mertens, 2012); the 'Impact Reporting and Investment Standards' (IRIS); and its derivative the 'Global Impact Investing Rating System' (GIIRS) (Saltuk *et al.*, 2011). However, the use of SROI has been limited as the monetisation of complex social problems is seen as limited in its effectiveness (Maree and Mertens, 2012); whilst research by Saltuk *et al.* (2011) highlighted that only 20.15% of social investors utilised IRIS or GIIRS.

The characteristics and skill-sets of the entrepreneur and their management teams have also been shown in prior research to be extremely important in accessing finance and being considered IR. Indeed, the suitability of the entrepreneur, which relates to a critique of their business skills, expertise, projections and personal qualities such as integrity (Mason and Harrison, 2001; Kollmann and Kuckertz, 2010; Mason and Kwok, 2010) has been shown to be extremely important in investor decision-making processes. Muzyka *et al.* (1996) suggests that investors, as well as assessing the entrepreneur(s), are also concerned with the management team of a potential investee organisation, which is often more important than analyses of the market, product and deal structure. However, Vasilescu (2009) also argues that it is just not the quality of a management team, but also the way that it is structured that is important to investors. A management team could be of a high quality and possess a good skill-set, but if that is not complemented by a coherent and appropriate structure then investors may be deterred. This has particular relevance for SEs seeking to access the SIM as research has shown that concerns over entrepreneurial/management skill-sets, as well as governance structures, are two of the main reasons for investors declining SE investment opportunities (Hill, 2011).

The impact that the personal characteristics of the entrepreneur(s) has upon the chances of successfully acquiring investment has also been shown to be important in prior research. Bank loan officers were shown to make subjective evaluations around a potential investee's character, with favourable characteristics viewed as conformity, low risk-taking propensity and professionalism (Wilson *et al.,* 2007). This has also been evidenced as taking place in the equity investment sector, with the evaluation of 'soft data' and the use of intuition forming an integral part of the VC investor's due-diligence process (Zacharakis and Shepherd, 2001). Often intuitive decision-making processes are a symbol of a lack of clear information in a market, as investors have to rely on their 'gut reaction' (Jankowicz and Hisrich, 1987), particularly when funding start-up or early-phase businesses (Ramón *et al.*, 2007; Ferrary, 2010). Indeed, this last point relating to 'gut reaction assessments' has also been shown by prior research to take place in VC assessments of social entrepreneurs (Achleitner *et al.*, 2012). Mason and Harrison (2001) also discuss the negative effect that poor presentational skills can have on a business and how this is particularly crucial in verbal, face-to-face pitches to investors. This importance of the personal characteristics of the entrepreneur could also be significant for SEs seeking investment from the SIM as the passion and drive of a social entrepreneur has been shown to be crucial in successfully seeking investment (Howard, 2012).

Nevertheless, the IR of a potential investee is not solely related to investor perceptions of their business, but also on the entrepreneur's perception/knowledge of the finance market as well. This has been shown to occur in relation to both the accessing of debt and equity finance by SMEs. Myers (1984) developed the 'pecking order' theory, in which entrepreneurs do not attempt to access equity-type finance as they do not wish to give up control of their business. This has also been labelled 'equity aversion' and it has been suggested that this is due to 'information asymmetry', in which the entrepreneur is not aware of or is incorrectly informed about equity investments (Van Auken, 2001; Silver *et al.*, 2010). In accessing debt finance Kon and Storey (2003) and Fraser (2005) discussed the 'discouraged borrower' effect. This is where the entrepreneur or SME are discouraged from applying for debt finance either due to negative prior experiences or a perception that they will be unsuccessful. Indeed, this self-selection process can lead SMEs to 'bootstrap' (sustain without external help) rather than seeking external investment (Deakins *et al.*, 2008). Research on SEs seeking SF has also shown that there is nervousness amongst SEs in seeking growth capital, as many felt that in accessing such investment they would be placing themselves in positions of increased financial and contractual risk. Indeed, Howard (2012) identifies that changing SE stakeholder mind-sets away from seeking grant-funding towards seeking repayable investment are crucial to developing IR (Howard, 2012).

There has been an increasing focus on applying the concepts of IR identified above to the existing state of the SIM (Howard, 2012; Hazenberg *et al.* 2013). Indeed, in addition to the research by Howard (2012) outlined above, Hazenberg *et al.* (2013) explored concepts of IR amongst 'social and investment finance intermediaries' (SIFIs) operating in the SIM. Hazenberg *et al.* (2013) identified that the key perceived elements of IR amongst SIFIs operating in the SIM related to financial sustainability; robust governance structures; broad and complimentary management team skillsets; clearly defined and scalable social missions and impacts; and a willingness and desire to seek investment and become IR. The findings of this research suggested that the SIM was undergoing a 'normative absorption' into mainstream financial markets (Nicholls, 2010a), that would potentially exclude less business-like SEs from accessing social investment. The research also reported a perception amongst SIFIs that demand-side SEs lacked the knowledge about and desire to seek investment from within the SIM (Hazenberg *et al.,* 2013).

Summary

Academic research into the perception of IR amongst SEs is urgently required, as there is little research that explores IR criteria in the SIM. Indeed, the limited non-academic research that does exist in this area suggests that charities and social enterprises are often unprepared for investment and struggle to make the transition to scalable, commercial ventures (Howard, 2012). Studies into IR can increase collaboration between entrepreneurs and investors and hence create more investment opportunities (Kollmann and Kuckertz, 2010). It is therefore imperative that studies into IR in the SIM are undertaken. The research reported in this paper sought to address this by exploring the perceptions of IR amongst UK SEs.

THE CURRENT RESEARCH

Research Questions

The research sought to answer the following research questions.

1. What were the experiences of the social entrepreneurs in exploring private finance?
2. What were their perceptions of the 'investment readiness' of their social enterprise and how had this matched with investor perceptions?
3. What barriers had they encountered in accessing finance and how had their business model responded to address these?

Method

Participants

Sixteen social entrepreneurs took part in the research study. These participant social entrepreneurs had previously approached a finance intermediary to explore accessing investment from the private sector.

Procedure

The research study adopted a qualitative approach to explore the 'investment readiness' of the social enterprises by employing semi-structured interviews. The interviews explored the experiences of the social entrepreneurs during this process, as well as seeking to identify the business model of their social enterprise. However, the open-ended nature of the questions also allowed the participants to articulate their views of what constituted their 'investment readiness' and their perceived barriers to accessing investment. The length of the interviews ranged from 16m: 22s – 36m: 50s. One interview was conducted face-to-face, one via 'Face Time' and the remaining 14 by telephone. All interviews were recorded and transcribed for analysis.

Analysis

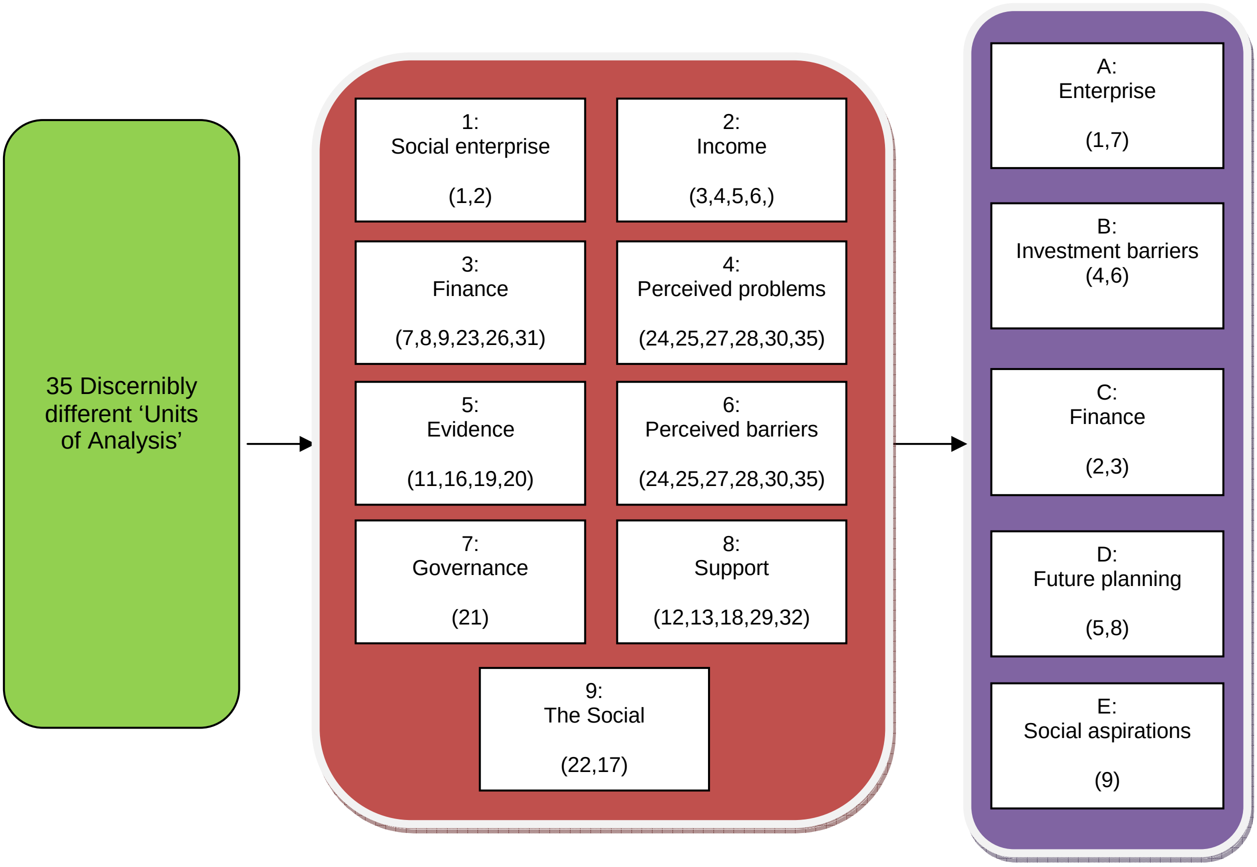
The method employed to analyse the sixteen transcribed interviews was 'Constant Comparative Method' (Glaser & Strauss, 1967; Lincoln & Guba, 1985). Constant comparative method is an iterative procedure designed for the qualitative analysis of text and is based on 'Grounded Theory' (Glaser & Strauss, 1967). Grounded theory methodology provides a set of analytic techniques that have been assimilated into most approaches to qualitative research (McLeod, 1995). Writers such as Lofland & Lofland (1984); Yin (1989); Patton (1990) and Miles & Huberman (1994) have defined stages in qualitative analysis based on grounded theory that depend on the systematic application of five fundamental ideas: immersion, categorisation, phenomenological reduction, triangulation and interpretation. In the current study, during immersion, 35 discernibly different concepts (units of analysis) emerged from the data; for example, 'lack of knowledge'; 'loss of control'; 'plan for growth' (see Appendix A for a complete list). During categorisation, nine categories emerged from the 35 units of analysis. During 'phenomenological reduction', five 'themes' emerged from the nine 'categories' (see Figure 1 below for a diagrammatic illustration of this process).

Results

The five participant viewpoint themes that emerged from the interviews were interpreted by the researchers as: 'enterprise', 'investment barriers', 'finance', 'future planning' and 'social aspirations'. Participant quotations supplied below are examples of statements that support researcher interpretations of the themes. A diagrammatic representation of this analysis is outlined below in Figure 1.

Figure 1 – Phases of CCM Analysis for the Social Enterprise (Investee) Interview Data:

Immersion	Categorisation	Phenomenological Reduction
Units of Analysis (35)	Categories (9)	Themes (5)



NB. The numbers displayed above in Figure 1 in the 'categories' boxes correspond to the relevant units of analysis contained in that category. The numbers in the 'themes' boxes correspond to the relevant category contained in that theme. A full numbered list of the units of analysis can be found at Appendix A.

Theme A: Enterprise

This theme identifies the social enterprises' purpose, how long they had been established and their governance structure. The participant social enterprises provided the following services or goods:

1. Paediatric first aid training,
2. Support for disadvantaged youth through sport,
3. Support for disabled people from the black and mixed ethnicity (BME) community,
4. The empowerment of 7-18 year olds through the construction of online games with a social impact theme,
5. Fund raising for the firemen's charity through sales of memorabilia, toys and children's uniforms,
6. Managing a disused building to provide a location for small business start-ups,
7. Holistic help therapy,
8. Educational services for young people using dogs as a medium,
9. An arts centre providing low cost facilities for local groups,
10. A professional body for Neuro-Linguistic Programming coaching,
11. Social education and restorative justice for young people and ex-offenders,
12. Working with disabled people to increase their independence,
13. Support for young people through canoeing,
14. Secular meditation techniques to relieve the symptoms of stress,
15. Promoting environmental awareness in young people,
16. Promoting awareness of climate change.

As can be seen above the participant social enterprises engaged in a wide range of activities that included supportive, educational and health related activities for disadvantaged members of society, the provision of locations for 'social' trading activities and the raising of awareness of environmental issues. The participant social enterprises had been in existence for between 1-15 years, with the majority having existed for 1-5 years.

Most (n=14) of the organisations were set up as companies limited by guarantee; one was a registered charity, which was going through the process of becoming a community interest company (CIC); whilst one was already a CIC. The way the participants described the governance of their social enterprises varied from detailed and informative to very vague and inconclusive.

> *"Well we have a constitution according to requirements of a Community Interest Company and we have a board of four directors, two non executive and two executive directors. They meet with quarterly board meetings and we have three times a month* [that] *we will meet as directors."* (P4)

> *"We've got three directors. I have a steering group that's largely made up of councillors, end users and other relevant professionals. I have a national advisory panel. We meet up quarterly; the steering group meets up once a month."* (P11)
> *"We have a board of directors that are directors of the company. We have two directors that are, you know, paid employees and we have a group of sessional workers and volunteers who get paid for, you know, kind of what they do on a week-by-week, month-by-month basis. So we report back to the director to our, what would I say? How would I describe my directors? They're kind of interested but don't do a whole bunch."* (P8)

> *"Yeah, well I've got me and small committee of well-wishers and three volunteers at the moment."* (P14)

Theme B: Investment barriers

The participant's perceived barriers to investment were based around issues of confidence, loss of control of their business via equity and potential lack of understanding between investor and investee.

> *"At the moment I'm probably not very confident* [talking to potential investors] *probably due to the fact I haven't got my numbers up to scratch on where it is I need to be, or what it is that I am going to be going forward with."* (P1)

> *"Depends how much of the stake* [in the business required by an investor], *I would consider it. Most definitely we would want them* [investor] *to be in line with our social mission. Anybody that we partner with, anybody that will invest in us has to sit with our ethical practice and ideals and our ethos of the company definitely."* (P4)

> *"A lot of the private sector just sees the people that we see as poor; the bottom of the pile, really. And I don't think they see the incentive of what we're trying to do which is to develop individuals."* (P3)

> *"I did make an approach to a venture capitalist. It was through a friend, who worked for them, and it was a sort of, a bit of, e-mail and telephone exchange, but that's as far as it went really. I'm in the sector because it has social foundation to it; I'm not really into things being done for profits or shareholders."* (P12)

Another barrier for the social entrepreneurs seeking financial investment seemed to be reconciling the social mission of the enterprise with what they believed was the primary financial motivation of potential investors.

> *"The main barrier I guess is that I don't actually see how this will ever give them a return. I don't see how it would give anyone a return. You know, we provide targeted services for society's most vulnerable people. I can't see that I could convince anybody that they could get a return on their money, even a minimal one to be honest".* (P8)

> *"Probably my principles, I would imagine is my main barrier. I think as an organisation we're easy to invest in but I turn down investment because I won't take money from my enemies or people who I think are.....*[My enemies]" (P11)

Some social entrepreneurs found it difficult to consider changing from the familiar grant funding environment to loan funding and expressed an aversion to risk.

> *"Grant funding yes; loan funding definitely not. Honestly, it's just that we're in the situation now where we have to try out different kinds of things and there's no guarantee that we'd be able to pay a loan back, so it's just too risky for us."* (P15)

Other social entrepreneurs believed their businesses were too small to attract investment or lacked the detailed organisational structures needed to secure investment.

> *"It's an expression, which isn't a very nice one you know, it's 'pissing in the wind' and I think only big companies have anywhere near the right information. Little social enterprises like us, I mean how are we going to manage that?"* (P2)

> *"I think there has to be a certain size for things to work and we're not that size. I'm expected to have the same policies and procedures as, I don't know, the Cooperative Society or something, do you know what I mean?"* (P8)

Theme C: Finance

This theme characterised the diversity of views the social entrepreneurs had towards finance and their future. Some social entrepreneurs were interested in seeking external investment to allow them to grow and were open to providing a return on the investment.

> *"In order for us to exploit that* [planned growth] *I think that we need to be accessing more commercial focused funding rather than just our grant funding. Because it's an exciting opportunity for a return on the investment, which I understand is what people that are loaning need to have guarantees about."* (P12)

There was a mixed response to the notion of 'payment by results' contracts based upon their prior experience of these contracts and political view point.

> *"We're just at the end of a two and a half year contract doing payment by result. Yes, it hasn't been a bad experience so probably we would move forward with something like that."* (P13)

> *"Yeah, we've sort of burnt our fingers on that kind of stuff* [payment by results]. *So the answer to that is; only if the results were very carefully negotiated. We had a contract, it was unfortunately with someone who had a national government contract and their hands were tied. We said that we would get ten disabled people onto apprenticeships, and we didn't get them on the apprenticeships because the training provider wouldn't work with us on that."* (P12)

> *'I think it's* [payment by results] *the capitalist approach and it doesn't meet anybody's needs?'* (P11)

Other views on finance revealed a combination of self-finance, grant funding applications and other somewhat naive approaches.

> *"I buy and sell on the internet mostly, I would think that probably brings in about 50% of the income; sometimes more. And then the rest comes from 'Stall Lets', which is minimal. I mean I shouldn't think they even cover the costs."* (P6)

> *"At the moment, we're pretty much doing everything for free. We've had a small grant from* [Name of local foundation] *for equipment, but apart from expenses, we're not sort of charging at the moment. Hopefully that will be changing in the next six months and then it's probably going to be a bit of a mixed economy. But you know, in the end it's going to have to become self funding, otherwise it's not a business is it?"* (P14)

> *"Grants have changed over the last seven years. We were getting a lot of money from the Youth Opportunities and the Youth Grants, which were applied for by young people. When that stopped we had to refocus and look for other grants. A lot of our money has come from local* [name of local company] *because we are within 10 miles of a tip. We're also near* [name of an airport] *so we have the airport fund and things. I do try and stick locally for grants. I won't touch again the lottery; I won't touch anything that has a 10 page application. Too much time; it's easier for me to find 5 grants that will give £2000 pounds each than to spend days, hours and hours on a lottery grant for the same amount of money."* (P9)

> *"What I'd really like is someone rich like Simon Cowell, who seems to like dogs a lot at the moment, to give us a lump of money to just be able to be sustainable really for a few years and deliver services that we want to."* (P8)

Theme D: Future planning

This theme characterises the approach the participant social entrepreneurs have towards their future planning, which doesn't seem to be very well structured. They talk about consolidation rather than growth, spending disproportionate amounts of time trying to secure grant funding, ill prepared business plans and ambivalent approaches to marketing.

> *"Well I suppose it's more or less consolidation at the moment, rather than growth. We are probably not even thinking about growth, as I was saying it has been a massive transition coming out of the public sector. We are just fighting to stay alive at the moment, so once we clarify our business model, which is still under development then we can kind of take a look and think about how to make it grow, but at the moment it needs to be all about survival."* (P16)

> *"At the moment, it's really just about getting enough money in to keep the wolf from the door over the next three or four months. I'm being quite honest with you, we've got three or four month's money in the bank and then that's it, and it's always like that. I have to be getting in sort of £5k, £10k, £15k, £20k dollops and that takes up most of my time."* (P12)

> *"Yeah, we have a* [business plan] *document. It's out of date and need's revisiting, but it's not in enough detail to go to a bank. I spoke to* [intermediary] *and I spoke to* [intermediary] *and they both said the same thing, 'Give us your business plan'. I think well that's all well and good but you know we had a look at all that last year. The world has changed significantly since 18 months ago and I don't even know where to start with my business plan now because I don't know where the market's going."* (P2)

> *"We've got testimonials and pictures; very visual, you know, videos. I've got, like I say, the hearts and minds stuff but in terms of business vision, I'm probably not crystal clear about that."* (P8)

> *"Marketing is something we've been discussing a lot with the trustees; I don't have a marketing plan, which is one of the major issues. Obviously if we don't have a plan, don't plan, plan to fail. In terms of how we market ourselves we don't have a marketing plan, we don't have a marketing budget or advertising budget. Mark, who works on reception, he's the marketing assistant. He doesn't have time to do any kind of marketing, so it's a bit hit and miss."* (P13)

Two of the participant entrepreneurs displayed a more organised approach to future planning that included reference to specific documentation already available or in production.

> *"I'm an accountant and accounts trainer, so I've put together my ten year plan spreadsheet-wise on how it could potentially pan out. I tend to look at the worst case scenario anyway. I think my figures are fairly conservative and today I just put together the worst case scenario as in what do we actually need to break even?"* (P10)

> *"Well I have* [documentation] *this business model, which I am going to type up over half term and that shows straight in one sheet. The model basically says implementation top left where you show partners, deliveries, social value proposition, sales and marketing. Then on the right you've got the market, i.e. who your customers, your macroeconomic environment, who your competitors are and then at the bottom you've got all your finance, cost of deliveries, what your surplus stock profit will go to and what the revenue is. I'm about to produce that, that I can share, plus I have a time line that shows a pictorial representation of the progress the company has made since August last year. We have all of that* [balance sheet] *and we've closed our first financial year and our accountants are just finalising that so we should have that very soon."* (P4)

Theme E: Social aspirations

This theme is characterised by the participant social entrepreneurs' social aspirations and their lack of clarity in how they measure their social impact. It is generally accepted that measuring social impact is a very problematic process as to date there is no universal agreement on acceptable tools for its measurement. However, some of the social entrepreneurs in the current study display a certain naiveté in their attempts to measure social impact and provide evidence that would convince a potential investor to invest in their social enterprise.

> *"Our aim really is to charge people who can pay and to be able to offer some totally free kind of provisions for other people as well. We are a not-for-profit organisation so we're not having shareholders but we want to be business-like. We want it to be sustainable. We want to create employment for other people and volunteering opportunities and educational opportunities. So we are a business with a social kind of mission."* (P8)

> *"I don't collate it* [impact measurement]*, they collate it. They give me the information. I could basically then do a graph that says you know this is how many clients we have and children centre clients we have, and this is how many people who have got confidence. So yeah it is easy to collate once the data has been collected."* (P1)

> *"We're rurally isolated so we are the only centre of excellence in a rurally isolated area. So that in itself means that we have a great social impact on the area."* (P9)

> *"This* [social impact] *is something we have been considering for a few months, and we have got a longer term strategy worked out for social impact, which measures our social impact. So for now, it's more like collecting examples of themes that we've had and I don't know how to put it really…"* (P16)

Some of the participant social entrepreneurs were making more structured attempts to measure social impact through some of the recognised available tools, but there was no description of how this data was being collated in any structured way in order for them to provide evidence for a potential investor. It was evident that the social entrepreneurs did not see measuring social impact as a major priority in developing their businesses to attract external financial investment.

> *"The one that we've currently been using is what we call My-Map, which is a self-measure. People are asked at the initial consultation, they fill in two questions on things that are appropriate for them, i.e., what is actually concerning them most at the moment regarding their health? And then the second question is there anything else that you feel you'd like to be addressed through these treatments? And then after a period of four treatments, you revisit it and at the end as well and then the patient can say, 'Yes, between out of 1-6, I feel,' etc., etc. The problem is we don't collate the data; it's just actually lying about at the moment."* (P7)

> *"So say, for example, it was something like somebody who has done NLP to help them stop smoking then the Social Impact of that is potentially on the NHS, on their children, on their family. It's identifying what the social impacts are, and then I don't know how we measure them. But it's one of the things we need to look more closely at is to how we do actually do the Social Impact measures."* (P10)

> *"Okay, say we're doing foundation learning and using paddle sports as the method to engage young people who are at risk of being NEET. We'll be measuring people's attitudes, their self-esteem, and their confidence. It might link into maybe their literacy, their numeracy, so the hope is that at the beginning of the project they will be at a certain level, mid way through we would review that, see what we need to change to make a bigger impact, and review it the end with the person and then it's also reviewed sometimes by schools or parents as well. So we*

do that kind of external sort of evaluation with them in terms of Social Impact, that's probably as much as we do and it's probably quite a basic system?" (P13)

Some of the participant social entrepreneurs were aware of the possibility of measuring their social impact through Social Return on Investment (SROI), but expressed some anxiety about becoming engaged with it.

> *"Ah, this* [measuring social impact] *is an area that I don't have a great deal of confidence in. In the past I used to be involved in community arts projects and we had grant funding for various projects. So, I've done evaluations of those sorts of projects but I'm very aware that measuring Social Impact for something of this nature is a very different thing really. I'm aware that there are different models. I've come across Social Return on Investment, which has been quite scary. But I realise that's about sort of converting what you're doing into a monetary value, so that you know whatever impact you've had you can see how much that's saving people, less crime or whatever."* (P14)

> *"We did a big exercise last year because we were applying for some transition fund money. We get police data, for example, criminal records. They'll give them to us, we'll do the analysis and then we'll ask them how much it costs when you're sending out a policeman to an antisocial behaviour* [incident]*, if somebody carries out vandalism. So we kind of do that in a sketchy way but obviously with the Social Return on Investment we've tried to do that, we've looked at a particular project in a particular community to try and define much more closely what the value of the work we are doing is. But again even that to me doesn't seem as precise as I was expecting."* (P2)

There was one social entrepreneur who was receiving help from a SE support agency to complete an SROI evaluation.

> *"First of all, I have an online questionnaire that every child that participates in the program and every adult that leads that program complete, at the end of every program. I've got data from over 100 children at the moment and staff. I am working with* [name of SE support agency] *starting the first week of November to do a Social Return on Investment assessment."* (P4)

Discussion

The analysis of the interview transcripts revealed the range of activities that the participant SEs engaged in, as well as the age, size and the overall structures of the SEs. Perhaps more importantly, this theme provided insight into the governance of the participant SEs, which often lacked the skill sets demonstrated by prior research to be perceived as important to investors when making investment decisions. This finding supports prior research that reported SEs seeking investment from the SIM often did not have sufficiently robust governance structures (Hines, 2005; Hill 2011; Howard, 2012). The characteristics of the social entrepreneurs, their management teams and skill sets revealed in the current study do not resonate with those described as extremely important in accessing finance and being considered IR, such as broad management skill-sets, robust and clear governance structures and detailed long-term financial projections (Mason and Harrison, 2001; Kollmann and Kuckertz, 2010; Mason and Kwok, 2010; Muzyka *et al.* 1996; Vasilescu, 2009: Hill, 2011).

The participant social entrepreneurs also discussed the barriers that they perceived to securing investment. These included a lack of confidence in talking to investors, a fear of losing control of their SEs and the perception of a lack of understanding between investor and investee, particularly in relation to the social mission and triple-bottom line. Issues of lack of confidence were rooted in ill prepared business plans and poor insights in how to develop their SEs. This finding supports prior research that reported business plans as being perceived by investors as crucial to the IR of an SME (Howard, 2012). In relation to equity type finance, participant social entrepreneurs in the current study had concerns about the amount of equity that would be required by the investor and how this could affect the overall control of their SEs. The social entrepreneurs also described concerns that the investor should be aligned with the ethos and social mission of the SE. This finding supports research that proposed the 'pecking order' theory (Myers, 1984) and 'equity aversion' (Van Auken, 2001; Silver, *et al.,* 2010). One of the participant social entrepreneurs expressed doubts that his SE could ever produce a financial return on investment because the focus of the SE was on helping vulnerable people rather than creating surplus income. This finding supports prior research that reported the 'discouraged borrower' effect where the entrepreneur is discouraged from applying for debt finance because of the perception that they will be financially unsuccessful (Kon and Storey, 2003; Fraser, 2005). Also, many of the participant social entrepreneurs were experiencing difficulty moving away from a grant funding culture and were anxious about taking on debt funding because they were concerned about their abilities to repay loans. Some participant social entrepreneurs also indicated that they believed that investors were only interested in the larger social enterprises, which had the ability to service debt and had robust governance structures in place. All of these factors suggest that the current SIM is one characterised by 'information asymmetry', in which the consumer (i.e. social enterprises) lacks the necessary information to make informed choices (Van Auken, 2001; Silver *et al.*, 2010). This offers support to prior research with SIFIs operating in the SIM that suggested that SEs lacked the information and knowledge to be able successfully secure social investment (Hazenberg *et al.,* 2013)

Nevertheless, two of the participant social entrepreneurs exhibited more confidence in their ability to provide potential investors with a financial return on their investment. This confidence could prove to be a positive dimension when seeking financial investment when supported by the necessary documentation required to inform the potential VC investor's due diligence process (Zacharakis and Shepherd, 2001). One of the participant social entrepreneurs was prepared to operate on a payment by results model but another had experienced problems with this system in the past and was reluctant to become involved again. One other participant social entrepreneur objected to payment by results on political and moral grounds. These findings support prior research that proposed a 'bootstrap' outlook towards seeking external investment (Deakins *et al.,* 2008) with entrepreneurs preferring to self-finance rather than take on financial and contractual risk. Many of the remaining participant social entrepreneurs were still pursuing grant funding applications during a climate of decreasing grant funding opportunities. This finding provided evidence of the participant social entrepreneurs' inability to change their mind-sets away from their prior but rapidly diminishing grant-funding environment. This finding supports the findings of prior research that identified this phenomenon in the SIM (Howard, 2012).

Analysis of the data also revealed that two of the participant social entrepreneurs were more concerned with survival than growth and were still embedded in a grant-funding culture to survive. Those SEs that aspired to growth had ill-prepared business plans and no realistic ideas about their future marketing, which was not perceived as a priority for the SE. These findings support research by Howard (2010), which found that charities and SEs are often unprepared for the investment they seek and will therefore struggle to scale-up their ventures. However, two of the SEs in the current study did display some commitment to scaling-up and were preparing relevant documentation to support their applications for financial investment. These two SEs seemed to be displaying passion and drive, which are the personal characteristics required for successful pitches to investors (Howard, 2010). However, despite the positive outlook of two of the sixteen SEs, the findings of this research demonstrate the problems that many SIFIs have in identifying credible, investment ready SEs for investment. This offers support to recent research that explored SIFI perceptions of IR in the SIM and found that the majority of applications to SIFIs lacked credible and detailed business plans (Hazenberg *et al.*, 2013).

The theme 'Social aspirations' revealed that the SEs in the current study had social aspirations that centred on supporting the disadvantaged in society but they often didn't have any coherent procedures to measure the social impact they were having on their beneficiaries. One participant SE relied on the beneficiaries to provide evidence of attendance, which the SE then collated. This process enabled the SE to produce graphs demonstrating numbers of beneficiaries engaged with but did not really demonstrate any social impact. Another SE argued that because they existed in an isolated rural area they must be having a great social impact but had no evidence to support this claim. Other participant SEs alluded to a variety of measurement tools and intervention models of assessment but none of these tools were tools that have been accepted in the mainstream of social impact measurement. Three of the participant SEs described various stages of involvement with SROI measurement but only one of those was receiving support to actually conduct this evaluation. Overall, the measurement of social impact was not perceived as a major priority for any of the sixteen SEs participating in the current study. This is problematic for SEs seeking investment finance as social mission is one of the five areas of focus for the social investor and considered to be central to the business aims (McWade, 2012). The lack of robust social impact data also compounded information asymmetry (Van Auken, 2001; Silver *et al.*, 2010) in the SIM and meant that potential investors had incomplete information upon which to robustly base their investment decisions. This also offers support to prior research by Hazenberg *et al.* (2013).

SUMMARY

Research into investment criteria in the SIM has been carried out, with McWade (2012) identifying five areas of social investor (supply-side) focus. These were (1) the social mission and its centrality to the overall business aims; (2) a solid and concise business plan; (3) a skilled and credible management team/board; (4) the company's financial viability and (5) a clearly defined exit plan. Indeed, McWade (2012) identified that whilst the social mission is important to social investors, this criterion supplements rather than replaces the financial due-diligence that occurs in the mainstream investment market. These findings were also partially supported by research by Hazenberg *et al.* (2013) that identified SIFI perceptions of IR as being based upon financial sustainability; robust governance structures; broad and complimentary management team skillsets; clearly defined and scalable social missions and impacts; and a willingness and desire to seek investment and become IR. Findings from the current study revealed that (1) although social mission was central to participant SEs motivation, social impact could not be effectively demonstrated; (2) none of the sixteen participant SEs had current, solid and consise business plans to support potential applications for investment; (3) the management team/board of the participant SEs could not be described as skilled and credible; (4) the SEs financial viability was often insecure and (5) exit plans for potential investors did not exist. Although, according to McWade (2012), social mission supplements rather than replaces financial due-diligence for social investors, the participant SEs in the current study did not appear to be in a position to provided evidence of either. Often the social entrepreneurs revealed naiveté in their approach to securing investment by having inadequately formed business plans and anecdotal social impact measurement techniques. The social entrepreneurs also felt that the social finance sector did not understand social enterprise or value social impact enough. This suggests that rather than the SIM suffering from a 'supply-side' resourced based problem, it is actually demand-side inadequacies centred upon a lack of IR that is limiting the growth of the SIM. There is also a lack of knowledge and information about the SIM amongst demand-side organisations that could be overcome through IR programmes and funds (as has now been recognised through interventions such as the Investment Contract Readiness Fund). However, further research to test the findings presented in this paper amongst a larger sample of SEs would provide additional evidence for the conclusions made.

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APPENDIX A

Units of analysis

1. SE purpose
2. Longevity
3. Sources of income
4. Availability of grant funding
5. Grant funding
6. Trading
7. Equity
8. Contracting
9. Investment capital
10. Lack of knowledge
11. Business plan
12. Assistance
13. Partnering
14. Lack of time
15. Double bottom line
16. Documentation
17. Social impact measures
18. Paid assistance?
19. Plan for growth
20. Marketing
21. Governance
22. Social mission
23. Loans
24. Lack of confidence
25. Loss of control
26. Payment by results
27. Lack of understanding (PE&SE)
28. Confidence
29. Support
30. Barriers to investment
31. Self-financing
32. Paid support?
33. Fatigue
34. Size matters
35. Risk averse