DE GRUYTER Entrep. Res. J. 2015; 5(2): 83–85

Editors' Corner

Jill Kickul* and Thomas S. Lyons

Financing Social Enterprises

DOI 10.1515/erj-2015-0006

In this Special Issue of the *Entrepreneurship Research Journal*, we examine emerging and evolving strategies and tools for financing social enterprises. This is a very young subfield of social entrepreneurship; one that has been dominated by practitioners and only recently has attracted scholarly interest. However, it is a vital topic because of the need for more and better resources to bring scale to the pursuit of social and/or environmental mission. It is an immensely fertile field for research.

Dees, Emerson, and Economy (2001) remind us that financing for social entrepreneurship should be driven by the human and physical resources required to deliver on the social value proposition (SVP) of the enterprise, which, in turn, must be guided by the activities necessary to accomplish the mission. As SVPs become more ambitious and activities more sophisticated, more capital is required in forms that are appropriate to the organizational structure and life cycle stage of the enterprise.

Traditional forms of financing for social entrepreneurship are no longer adequate to the task. They are often short-term, categorical, and transactional in nature (Wei-Skillern et al. 2007), when what is needed are financial resources that free the social entrepreneur to focus on mission achievement (not fundraising) at a scale that yields transformation. This has led to experimentation that has pushed the boundaries of traditional financing, such as Crowdfunding and program-related investments. However, even this has not proved to be enough.

The newest idea in good currency in the social entrepreneurship financing arena is social impact investment, which combines financial investment and social and/or environmental impact. Social impact investors seek both financial

***Corresponding author: Jill Kickul,** Stern School of Business, New York University, New York, NY, USA, E-mail: jkickul@stern.nyu.edu
Thomas S. Lyons, Baruch College, City University of New York, 55 Lexington Avenue B9240, New York, NY, USA, E-mail: Thomas.Lyons@baruch.cuny.edu

and social return on investment. As the Monitor Institute notes, some may value ROI over SROI (financial-first investment), while others put SROI first (impact-first investment) (Kickul and Lyons 2012). Social impact investment addresses many of the limitations of traditional social enterprise financing and makes it possible for social entrepreneurs to pursue double and triple bottom line activities.

One of the challenges presented by social impact investing is increased pressure to measure and monetize social impact. If investors are seeking SROI, they rightfully want a clear idea as to exactly what they are getting for their investment. This has opened yet another related research frontier for exploration.

The editorials and papers in this Special Issue represent forays into this under-studied realm of social enterprise financing. In their invited editorial, Brandstetter and Lehner raise important considerations regarding the compatibility of mixed (traditional and social impact) financing portfolios. They introduce a four-step process for aligning the social and the financial perspective, which requires the quantification of social impact. Maximilian Martin, in a second editorial, advocates for what he calls "synchronic" hybrid financing approaches. He suggests a combination of debt and equity capital, mezzanine capital and grants. He ties the appropriate mix of these capital forms to the legal structure, life cycle stage and business model of the social enterprise in question. Raith, Dohrmann and Siebold provide a framework for categorizing and analyzing the business models of social enterprises that permits correlating social value monetization and revenue generation. They find a positive relationship between the two and suggest that modest changes in an enterprise's business model can significantly impact both monetization and financial performance. Meyskens and Bird look at Crowdfunding as a viable alternative for social enterprises that are not yet in the position to generate ROI. They identify the different types of Crowdfunding models and platforms and link each to the social value creation goals of the social entrepreneur, helping the latter to make more informed decisions about the model and platform to utilize.

All of these perspectives assist us in pushing forward the boundaries of our knowledge with regard to financing social enterprises. As the field continues to evolve, we offer the following research questions for scholars and practitioners interested in social enterprise financing:

- How do social entrepreneurs align their mission-driven activities and goals with their funding strategy and financial sustainability objectives?
- In what ways can new funding models (e.g., social impact bonds) spur on how social enterprises measure and scale their impact?
- How do successful social entrepreneurs overcome funding challenges? How do they use existing resources to do "more with less"?

- In what ways beyond providing capital can impact investors assist social enterprises to further innovate their business models?
- Given the new forms of social organizations (e.g., hybrid firms, B Corps), what new forms of financing options will become available?
- What tradeoffs do social enterprises encounter during the early stages of funding as they try to achieve their social mission and objectives?

Hopefully, these questions along with the articles included in this special issue will inspire further investigation in this space.

References

Dees, J. G., J. Emerson, and P. Economy. 2001. *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*. New York: Wiley.

Kickul, J., and T. S. Lyons. 2012. *Understanding Social Entrepreneurship: The Relentless Pursuit of Mission in an Ever Changing World*. New York: Routledge.

Wei-Skillern, J., J. E. Austin, H. Leonard, and H. Stevenson. 2007. *Entrepreneurship in the Social Sector*. Thousand Oaks, CA: Sage.