Resourcing social innovation in Germany – an empirically based concept of matching social innovators with social investors

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Abstract

In recent years there is a growing interest in support for social innovations that aim at fixing social problems or satisfy social needs. Especially new financial instruments are debated that are about facilitating social innovators. Also in Germany there is a growing heterogeneity in financial instruments for social entrepreneurs available. But until today there is just a poor understanding of the field of social finance, the corresponding investor types, their motivations and expectations. We believe this is caused by the broad approaches often undertaken in the field. This is why we narrow down our focus on the challenges social mission organization leaders face with different social investment types available in Germany. Deriving from our findings we suggest a more refined understanding of the social finance landscape in Germany. Key to our approach is to differentiate social mission organizations not according their current income model, but according their potential of their business model to repay loans and interest in the future. In our conclusions we argue for a more balanced discourse regarding different types of organizations and against an often expressed favor of financially self-sufficient social innovators.

1 Introduction

The increased attention for social innovations being the remedy to persistently unmet needs within society has led to the question of how to foster and support social innovators as effectively as possible (Seelos & Mair 2012). However, despite this increased attention and the obviously powerful sources behind the idea (European Commission 2011; Noya & Clarence 2007) there is still the demand for more both in terms of implementing ideas and scaling already existing social innovations. Interesting enough, in the debate it has been stated that there is neither a lack of ideas nor a lack of money within the field of social innovation in the implementation stage (Emerson et al. 2008). Nevertheless, on the one hand side social investors often report that they find it hard to detect interesting social innovators to place their investments. And on the other hand side, the problem of lack of financial resources for social innovations has become an often repeated complaint (Moore, Westley & Brodhead 2012; Shanmugalingam et al. 2011; Edrey 2006).

An empirically based approach to capture the multiple facets of this problem and the demands on both sides, social innovators and social investors, is still missing (Nicholls 2010). Therefore our research questions deriving from this are: Which criteria are of importance in the matching process of social investors and social innovators? Which mechanisms may be used to overcome common barriers in this matching process (Mitchell, Kingston and Goodall 2008)? And finally: Can we distinguish different fields of social finance based on different types of social innovations?

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Especially the latter question is of great importance as the field of social innovation is lacking a unifying and commonly accepted definition and thus structuring. This is obviously due to the vast array of different issues being debated under this umbrella term. This is why we need to narrow our focus down. In the paper at hand we focus on a social mission organization perspective in Germany only. We use interviews with 39 social mission organization leaders as our empirical baseline. The paper is structured as follows. First we clarify on what social innovation is and present a typology of social innovations. Then we focus on social mission organizations as our organizational unit of analysis for financing. Shedding some light on the financing situation of social mission organizations in Germany gives us a good impression on the specifics one has to face in that specific country. Departing from a concept how investors and investees match, we present our findings from the interviews we conducted. We end with a short discussion on the findings and conclusions for future research.

2 Types of Social Innovation

Despite the recent hype on social innovation in theory and practice, there is no common understanding of social innovation. As it is obviously easy to understand what an innovation is, the a) term "social" and b) its relation to innovation is in need of explanation. A classical reference is the definition of Phills et al. (2008). For them, a social innovation is "a novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals. A social innovation can be a product, production process, or technology (much like innovation in general), but it can also be a principle, an idea, a piece of legislation, a social movement, an intervention, or some combination of them" (Phills et al., 2008, p. 39). This definition is a classical output related definition of social innovation as it stresses the solution and qualifies it in terms of effectiveness, efficiency, sustainability and justice. But the social dimension could also be explained from an input (e.g. Mulgan 2006; Mulgan, Tucker, Ali & Sanders 2007), process (BEPA 2010) or outcomes perspective (Pol & Ville 2009) (for an overview on this distinction, see Schmitz (in press)). This is why the BEPA (2010) definition is of great importance because it stresses that social innovations are social both in their means and their ends. This point of departure corresponds to the distinction made by Nicholls and Murdoch (2012) that social innovation can be perceived separately as a social process or social outcome.

It has been argued that strong social innovations are those that are social regarding all these dimensions (Schmitz (in press)). And thus a graduation of different social innovations can be drawn from this distinction. Another way to distinguish different types of social innovation has been suggested by Pol and Ville (2009). They distinguish between (a) pure social innovations, which are social innovations without any business innovation blend, (b) pure business innovations, and (c) bifocal innovations, which are both business innovations and social innovations. This distinction is also important in terms of financing because pure social innovations are those that are not addressed by the market because they lack the potential to generate profits. Borzaga and Bodini (2012) made another important distinction. Pure social innovations can occur in financially sustainable organizations (social business) or in subsidized organizations. However, it remains a question whether the former occurs as a bifocal social innovation or a pure type because the financially sustainable organizations are prone to market volatilities and forces. And this might cause a shift in operations and innovativeness. "Like any complex social reality, creating innovation environment is a matter of trade-offs. All other things being equal, financial incentives will indeed spur innovation. The problem is, all other things are never equal. When you introduce financial rewards into a system, barricades and secrecy emerge, making it harder for the open patterns of innovation to work their magic" (Johnson 2010: 232f.). This is another argument, why we favor social mission driven organizations to be well suited for strong social innovations.

3 Social Mission Organizations as Incubators for Social Innovations

One circumstance what makes it challenging to get grip on what social innovations are is that they can occur in each and every sector (e.g. Mulgan 2012). Some authors argue that social mission organizations are very important organizations in the process of social innovation and these types of organizations are rarely substitutable (e.g. Hubrich et al. 2012; Schmitz (in press)). In this paper we narrow the focus down on these types of organizations. In a recent report for the European Commisssion, Hubrich et al. (2012) distinguish four types of social mission organizations, whose primary focus is their specific social mission in favor of profits or other goals. The following figure sums up these four types.

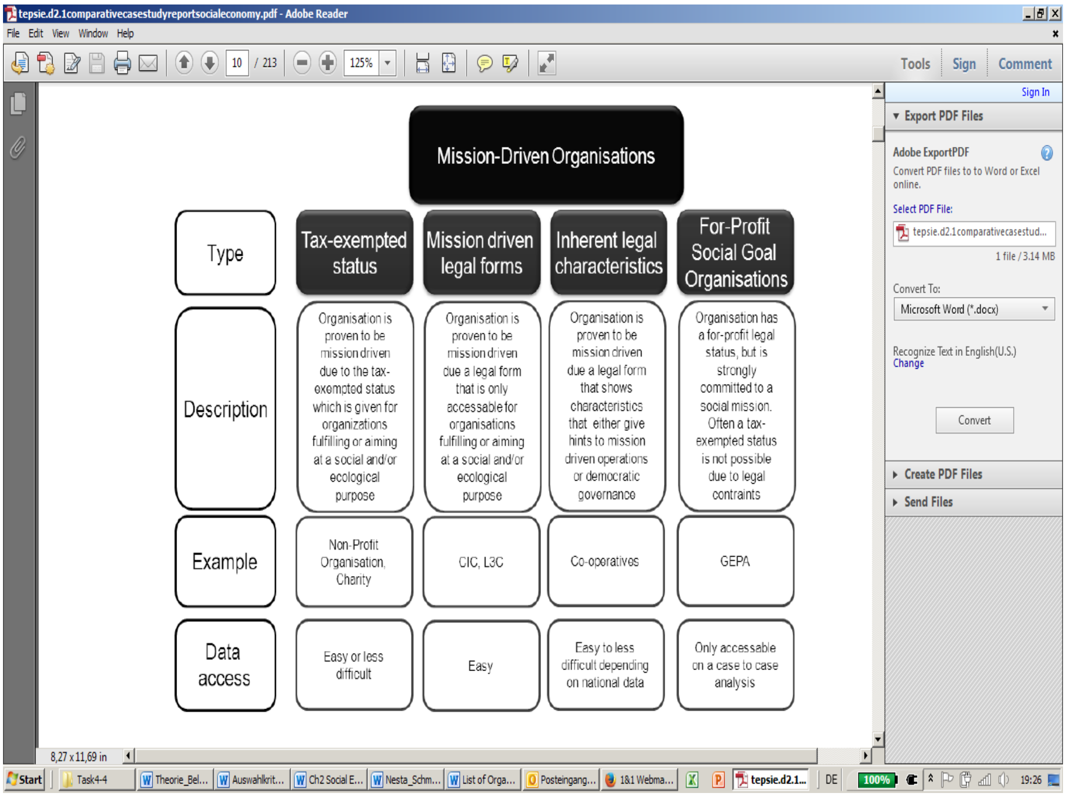
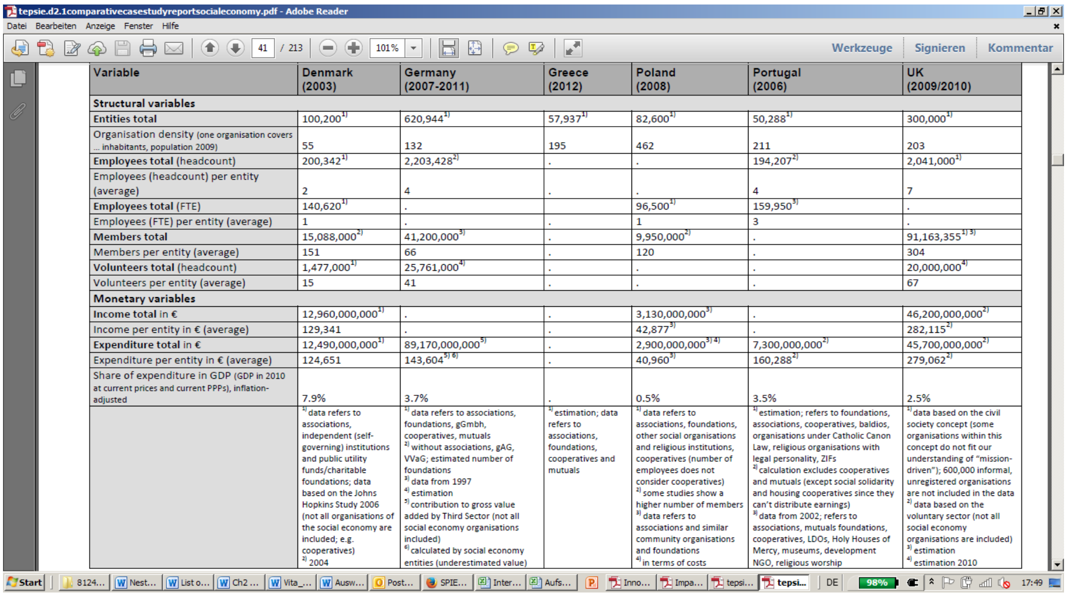


Figure 1: The scope of the social economy – the range of mission-driven organizations (Hubrich et al. 2012: 10)

In terms of financing these organizations in the German context, two further notes should be made in advance. First, social mission organizations are relatively small in Germany with an average of 41 volunteers and annual expenditures of 143,604 Euros per entity. The following table gives an overview in comparison to 5 other European countries.



Variable	Denmark (2003)	Germany (2007-2011)	Greece (2012)	Poland (2008)	Portugal (2006)	UK (2009/2010)
Structural variables						
Entities total	100,200[1]	620,944[1]	57,937[1]	82,600[1]	50,288[1]	300,000[1]
Organisation density (one organisation covers … inhabitants, population 2009)	55	132	195	462	211	203
Employees total (headcount)	200,342[1]	2,203,428[2]	.	.	194,207[2]	2,041,000[1]
Employees (headcount) per entity (average)	2	4	.	.	4	7
Employees total (FTE)	140,620[1]	.		96,500[1]	159,950[3]	.
Employees (FTE) per entity (average)	1	.	.	1	3	.
Members total	15,088,000[2]	41,200,000[3]	.	9,950,000[2]	.	91,163,355[1] [3]
Members per entity (average)	151	66	.	120	.	304
Volunteers total (headcount)	1,477,000[1]	25,761,000[4]	.	.	.	20,000,000[4]
Volunteers per entity (average)	15	41	.	.	.	67
Monetary variables						
Income total in €	12,960,000,000[1]	.	.	3,130,000,000[3]	.	46,200,000,000[2]
Income per entity in € (average)	129,341	.	.	42,877[3]	.	282,115[2]
Expenditure total in €	12,490,000,000[1]	89,170,000,000[5]	.	2,900,000,000[3] [4]	7,300,000,000[2]	45,700,000,000[2]
Expenditure per entity in € (average)	124,651	143,604[5] [6]	.	40,960[3]	160,288[2]	279,062[2]
Share of expenditure in GDP (GDP in 2010 at current prices and current PPPs), inflation-adjusted	7.9%	3.7%	.	0.5%	3.5%	2.5%
	[1] data refers to associations, independent (self-governing) institutions and public utility funds/charitable foundations; data based on the Johns Hopkins Study 2006 (not all organisations of the social economy are included; e.g. cooperatives) [2] 2004	[1] data refers to associations, foundations, gGmbh, cooperatives, mutuals [2] without associations, gAG, VVaG; estimated number of foundations [3] data from 1997 [4] estimation [5] contribution to gross value added by Third Sector (not all social economy organisations included) [6] calculated by social economy entities (underestimated value)	[1] estimation; data refers to associations, foundations, cooperatives and mutuals	[1] data refers to associations, foundations, other social organisations and religious institutions, cooperatives (number of employees does not consider cooperatives) [2] some studies show a higher number of members [3] data refers to associations and similar community organisations and foundations [4] in terms of costs	[1] estimation; refers to foundations, associations, cooperatives, baldios, organisations under Catholic Canon Law, religious organisations with legal personality, ZIFs [2] calculation excludes cooperatives and mutuals (except social solidarity and housing cooperatives since they can't distribute earnings) [3] data from 2002; refers to associations, mutuals foundations, cooperatives, LDOs, Holy Houses of Mercy, museums, development NGO, religious worship	[1] data based on the civil society concept (some organisations within this concept do not fit our understanding of "mission-driven"); 600,000 informal, unregistered organisations are not included in the data [2] data based on the voluntary sector (not all social economy organisations are included) [3] estimation [4] estimation 2010

Table 1: The social economy in selected European countries, key statistical information (Hubrich et al. 2012: 41)

Second, in a recent study Scheuerle et al. (2013) found that social mission organizations – when selecting cooperation and financial partners – in Germany find soft factors like integrity, competence and loyalty more important than long-term profit orientation or financial strength. Thus, financial partners will be selected carefully in terms of an ethical fit. Not every financial partner then is equally suited for social mission organizations and their very strategy determines the selection of financial instruments and investors. Also the personal fit of investors and social mission organizations is of importance. Especially social mission organization leaders want to know investors intensively and check their value base (Kuhlemann 2011). And this might explain the problems impact investors have to find social mission organizations to invest in (Duffy 2013)[3]. Thus, ethics are an important driver behind the access to finance for social mission organizations (Edery 2006).

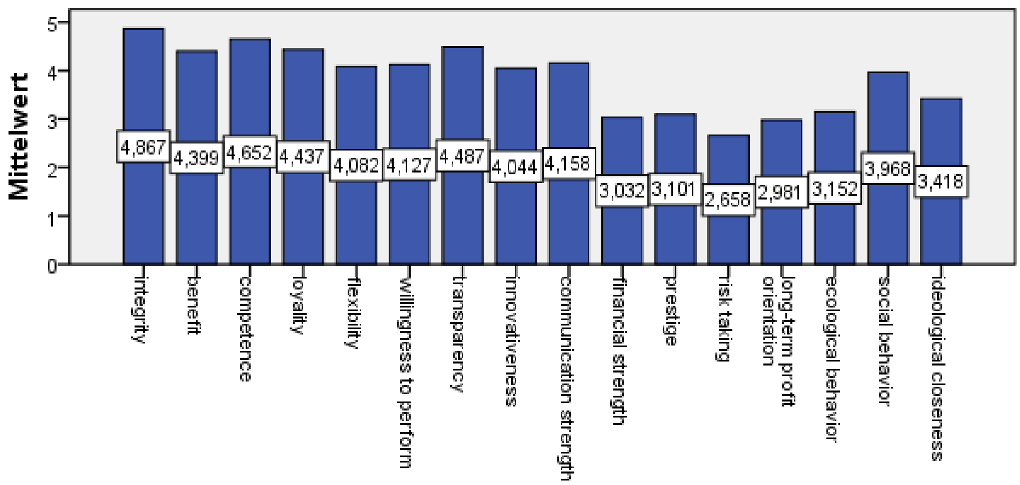


Figure 2: Important values for partnerships (Scheuerle et al. 2013)

3 In a recent research report, Duffy (2013) lists some critical points regarding impact investing. A) There are significant tensions between impact investing and the social enterprise sector as they require more complex and time consuming reporting standards and push smaller niche services in the background. B) The ability to repay the investment is taken as an indicator for a good social impact. C) Striving for scaling is mixed up with increased social impact. D) Interest rates are too high and have a negative influence on the development of other financial instruments. E) Social investment actors are making profit with social mission organizations. F) Negative stereotypes about social intermediaries and their motivations.

4 Financing Social Mission Organizations in Germany

In recent years there is a growing interest in financing social innovations that aim at fixing social problems or satisfy social needs (Mulgan et al. 2011). Also in Germany there is a growing heterogeneity of financial instruments for social entrepreneurs available (Achleitner et al. 2011). But until today there is just a poor understanding of the field of social finance[4], the corresponding investor types, their motivations and expectations (Duffy 2013). Often enough the debate is misleading because claims for new financial instruments are based on the scaling imperative and thus are analyzing what should be done to close this gap (Emerson et al. 2007; Antadze & Westley 2010; Mulgan et al. 2007). It is a fact that there are many relatively small social mission organizations in Germany (Hubrich et al. 2012; Spiess-Knafl et al. 2013; Scheuerle et al. 2013) and one can understand the wish to grow these organizations to address social needs more broadly, but many social mission organizations report that they do not want to grow (Schmitz & Scheuerle 2013). What is more, social investors and social mission organizations hardly find each other (Emerson et al. 2008) what causes claims of social mission organizations regarding lack of funds for their operations and also complaints from social investor´s side to find proper organizations for investments. So far we narrowed our focus down to financing social mission organizations, as we think that financing for-profits or public sector organizations is quite different. Interesting enough, in the social finance literature, our focus on social mission organizations matches with the assumptions made there. See the following figure which shows the social investment spectrum. Apart from the pure business on the right hand side, the other organizations would fit to our definition of social mission organizations.

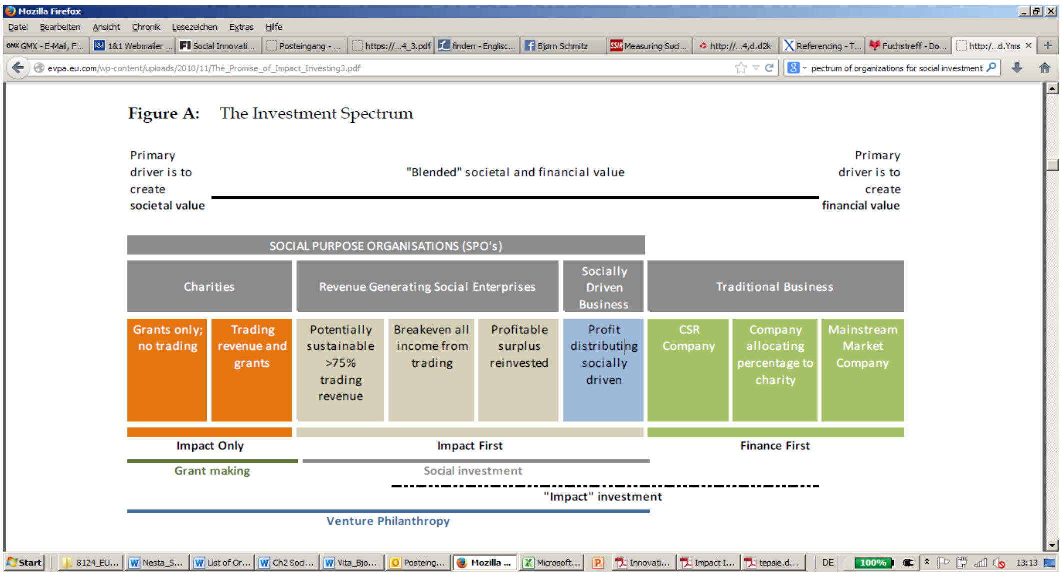


Figure 3: The social investment spectrum (EVPA 2010:5)

Furthermore, due to the diversity in legislation and welfare regimes in different countries, we found it reasonable to further narrow down our focus on just one country – Germany. Traditionally, the financing of the German third sector – and the third sector overlaps with the spectrum of social mission organizations – is heavily based on public funds. The following table gives an overview here , also showing differences in fields of operations.

4 We use the term social finance as follows. Social finance covers all possible sources of income for social mission organizations.

The civil society sector at a glance: Germany, 1995

Field	Employ-ment	Volun-teers	Expendi-tures	Revenue from: Govern-ment	Philan-thropy	Fees	Total revenue millions*
Culture and recreation	5%	33%	9%	20%	13%	66%	12,232
Education and research	11%	1%	9%	75%	2%	23%	12,281
Health	30%	7%	35%	94%	0%	6%	47,566
Social services	38%	8%	26%	65%	5%	30%	35,929
Environment	1%	5%	1%	22%	16%	62%	1,031
Development and housing	6%	2%	5%	57%	0%	43%	7,545
Civic and advocacy	2%	5%	1%	58%	7%	36%	2,036
Philanthropy	0%	2%	7%	10%	3%	86%	8,972
International activities	1%	2%	1%	51%	41%	8%	837
Religious worship	3%	19%	2%	95%	0%	5%	2,167
Professional and unions	4%	4%	5%	2%	1%	97%	6,972
Not elsewhere classified	-	13%	-	-	-	-	-
Totals:	**100%**	**100%**	**100%**	**65%**	**3%**	**32%**	**137,567**
	FTE	FTE	millions*				
	1,480,850	**1,211,474**	**137,547**				
Totals as a percent of:							
Economically active population	3.6%	3.0%					
Gross domestic product			4.0%				

updated: 1/18/2005

* Local currency.
"-" = Data not available.

Table 2: Revenue structure, employment and volunteers in the German Third Sector (Center of Civil Society Studies 2005)

There is no comprehensive more recent data on the third sector but budget cuts from governmental side should have proliferated the idea of social entrepreneurship and earned-income strategies. Mature organizations might also react and search for innovations (Schmitz and Scheuerle 2012). However, it is misleading to think earned income strategies are most common for start-up social mission organizations. Young and Ginsfelder (2011) found that for most of the social enterprise ventures in the U.S. philanthropy capital is the primary source of income. And also in Germany philanthropy capital is of high import. The following table taken from a very recent study gives an overview of sources of income of social mission organizations in Germany.

CSI Financials

Primer field of operations	Service Charges	Customer Charges	Grants	Donations	Foundations	Sponsoring	Member fees	Others
Education and Science	20,7%	16,8%	14,7%	9,8%	10,7%	16,8%	2,9%	7,6%
Work Integration	24,2%	36,9%	15,8%	2,3%	0,7%	0,3%	0,1%	19,6%
Social Inclusion	24,9%	14,1%	17,7%	5,4%	9,1%	1,6%	9,6%	17,8%
Social Services	27,7%	7,9%	20,0%	10,8%	10,7%	10,5%	3,7%	8,7%
Total	20,8%	21,0%	15,4%	10,3%	7,1%	8,0%	5,0%	12,6%

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Table 3: Sources of income of social mission organizations by primer field of operations (Spieß-Knafl et al. 2013: 30)

When taking a look at German Ashoka fellows this diversity in sources of income is even more striking. The spectrum covers pure earned-income models (e.g. MEU, Kind in Diagnose or Regionalwert AG), pure philanthropic funded models (e.g. discovering hands), almost complete public funded models (e.g. apeiros, Papilio, and a lot of hybrid funding models mixing these different sources of income (e.g. DORV-Projekt, streetfootballworld, iq consult). And taking a look at future prospects, it is rare that social entrepreneurs seek for complete earned-income financing. Instead some seek for an increase in public funds. But another reason for this might be that social mission organizations find it hard to get access to capital because they lack assets, are legally not allowed to sale shares, they are not focused on generating returns and they lack exit strategies (Karaphillis et al. 2010). In a recent study for 10% of all social mission organizations in Germany the primer source of financing are donations (Spiess-Knafl 2012). For 8% of the social mission organizations financing of foundations is the prime source of income (ibid.).

Turning to an investor perspective, most authors are just mentioning the availability, features and pros and cons of several instruments without discussing the suitability for social mission organizations or critically reflecting the conditions of these (e.g. Achleitner, Mayer, Spiess-Knafl 2013). The following figure gives a short overview on several instruments.

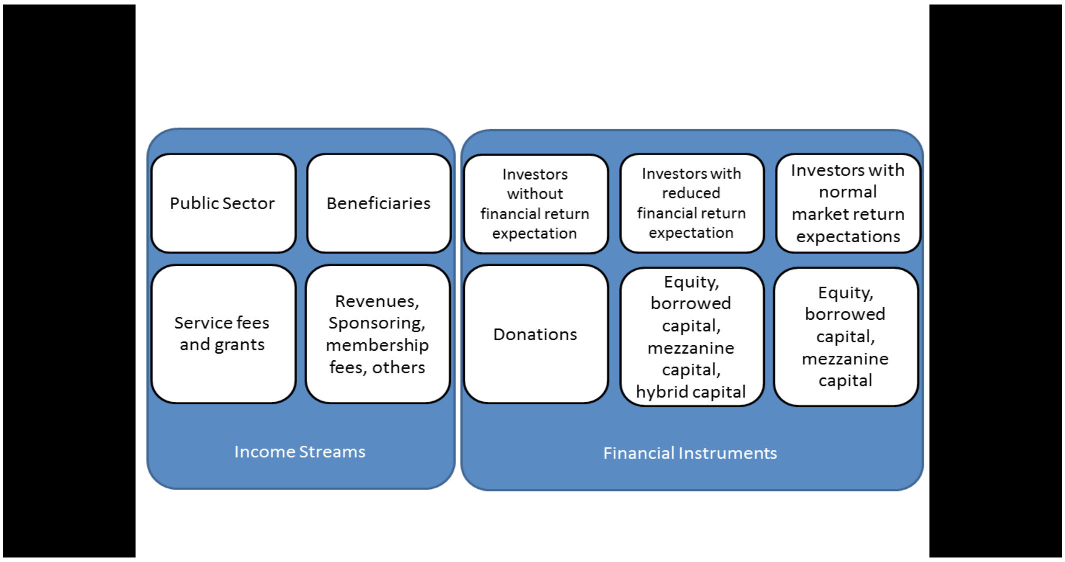

Figure 4: Financial instruments and income streams of social mission organizations (adopted from Achleitner, Mayer, Spiess-Knafl 2013)

It is not our aim to explain in more detail the different forms of financial instruments and their pros and cons (for an overview see Achleitner, Mayer, Spiess-Knafl 2013 or Emerson et al. 2008). But taking a closer look at the figure above reveals some confusion with sponsoring activities as these are neither an income stream equivalent to revenues paid by beneficiaries nor are they financial instrument in the meaning used here. But what is more interesting is the differentiation of investors according to their return expectations. Apart from ethical suitability problems, some authors called for a differentiated finance instrument landscape recognizing the financial needs in different phases of social innovations, like funding for research and development of concepts, seed funding of promising ideas, funding of pilots and prototypes, finance for embedding successful models, and funds for scaling (O' Sullivan et al. 2011; Nicholls & Pharaoh 2008).

5 A conceptual departure for matching innovators and investors

So far we have narrowed down our focus on the financing of social mission organizations in Germany. We have presented a spectrum of social mission organizations, a spectrum of financial instruments and a spectrum of according investor types. In terms of matching these types, we find some fruitful attempts in the literature that may guide our research. Nicholls and Pharoah (2008) suggested an indealtypical relationship between supply side actors, demand side actors and types of finance that connect both side. The following figure illustrates these relationships.

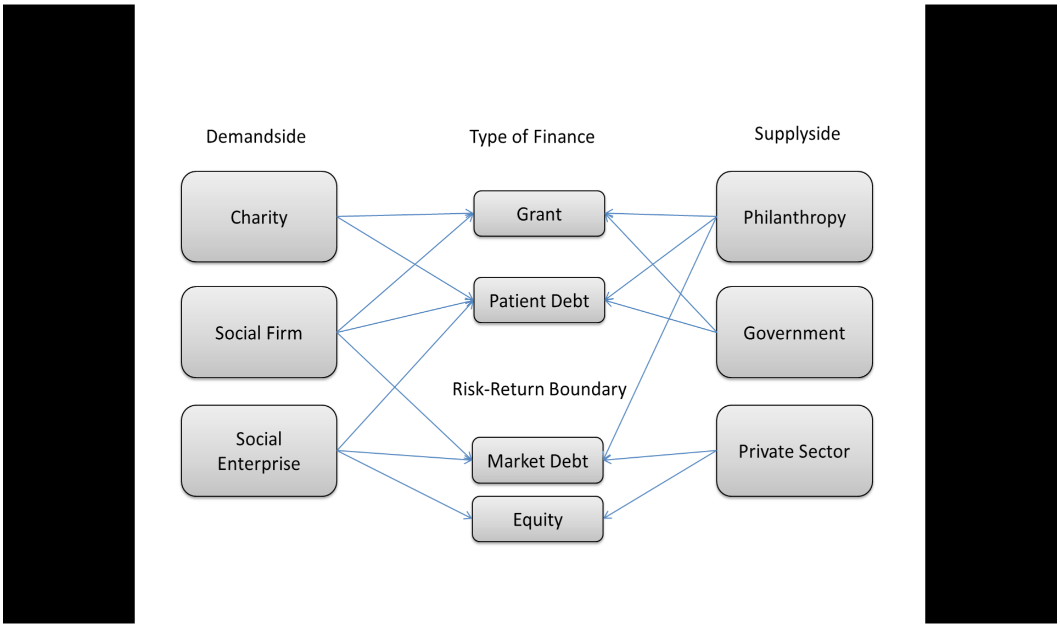

Figure 5: Social Investment Relationships by Type of Finance (Nicholls & Pharoah 2008: 41)

This is a very fruitful approach revealing the ideal-typical and possible relationships between social investors and types of social mission organizations, but it lacks a more refined understanding of soft barriers mentioned above like normative matching between social investor and investee which are of importance, too. Thus, the following analysis of interviews with social mission organizations leaders is focused on necessities, experiences and barriers regarding specific social investors and types of social finance. Thus, the aim of this paper is to hear the voice of the investees about their ways of financing their organizations with the aim to generate further hypothesis for future research. Thus, the findings are structured according to different forms of financing and some special findings (personal risks, honor effects and networks).

6 Findings
Problems with conventional ways of financing

Conventional banks are very reluctant when it comes to financing of social mission ventures. Often they wait until the concept is proven, but sometimes the proof of concept does not help as well, as the following quotes show:

> "After we have been in the market for about 10 years, the Sparkasse (German bank group) was willing to give us the first loan." (SE 1)
> "It is a success story, but I will not get a positive response for a loan of 20,000 Euro form a bank because I do not have the equity. […] I got the guarantees and made the interest and repayment calculation totally transparent. But the investment goal has not attracted interest of the banker. I got mad. I said, I am doing this for 20 years, you see what we built, would you give a little bit?" (SE 8)

What is more interesting is that some social mission organizations report about decisions not to finance the organization by bank loans, as they see a conflict arising and a misfit between the social mission and the ethics of banks. Also the pressure to generate profits to pay back the loan and interest rates is noteworthy. The following executive expresses this fear as follows.

> „We made the decision not to ask for bank loans any longer. We also have canceled the offer of the [name of bank] in recent weeks for example. We do not follow up on it any more. We do not want to make debts, because we also think, we stand for, as all actually that are in front of the blister, to do something with the money business and the current economy and how it works. And there a [name of bank] program does not fit and a program from [venture capital organization] does not fit. […] The necessity to generate money does change the way I do things, because I adjust everything I do to make sure generating the money. In case I am in a situation I have to pay interest additionally even if these are very little, I am connected to the drip and there are people that – because they want their money back and they want their money back quickly – that want to reign into the things, and they want to do this with the aim to maximize their capital or to secure it, but actually want to maximize it. And that does not fit with the thought to create social value. Social and financial values are two different things. If you understand money as a means to and end and not as an end than much is changing in the way one does things." (SE 4)

Also it is reported many times that banks do not understand the business of social mission organizations. Thus their due diligence or risk analysis is made for conventional businesses and thus social mission organizations would fail.

> "Banks work as follows that they make decisions in the backoffice […] based on documents, based on numbers and documents. And that has annoyed me tremendously ten years ago that this procedure is in place, that numbers and documents and so forth are much more important than the perception of the person sitting in front of you […]" (SE 3).

Here we see that a personal fit and contact is requested from the interviewee. But the most urgent issue is that banks want to make money with giving loans. But many social mission organizations neither are able to repay these nor are able to pay interest.

> "But we will never generate the money, never! Well never!"(SE 18).

State Financing

State financing is the most common way of financing social mission organizations in Germany. But that does not mean that this is easy accessible money. When planning to build new sites one has to face several obstacles due to bureaucracy as the following quotes show.

> "[…] especially when we want to build something, we have to get permissions from approximately 16 agencies. And normally these are not fast and they do not talk to each other, thus we have to make a lot of ways between the agencies. And this is a financial burden. Especially the planning. And for this planning you do not get grants and support and no sponsorship from the state, but one has to solve this somehow differently." (SE 2)

What is more, this bureaucracy and complexity in administration is a barrier especially for small organizations because it takes time and knowledge.

> "Due to the complexity in administration, we are unable to do it somehow." (SE 18)
> "The greatest uncertainty is the incredible jungle [jungle of bureaucracy] of new fields, where every day something is approaching you which you never have heard from before." (SE 5)

What is more, state financing causes high transaction costs and often does not cover all the costs a supported program creates. Some executives report, that state funding causes deficits what makes further funding a necessity.

> "Also the financing of a program from public funds causes a deficit. And here one has to check how one can compensate this deficit. Either, one has own commercial sources, a commercial venture, this is reasonable, this is the way we have worked ever since, that we can finance the deficits occurring elsewhere." (SE 1)

Funds from foundations or fellowship programs

Funds from foundations are a very important source of financing for social mission organizations. Especially in the start-up phase these funds help to set up an organization and to implement the innovation. But it is not easy to get funds from foundations as finding an entry to these organizations is difficult. In Germany foundations are not encouraged for high transparency standards and thus they often appear as operating beyond a thick veil.

> "Yes, I had really trouble to understand the foundation support landscape." (SE 18)

As a result, most financing from foundation is based on personal contacts the leaders of the social mission organizations have. And this makes the relationship very volatile as when the contact person leaves the foundation, the financing may be in danger.

> "It is very clear, the current financing is based heavily on the names [name of foundation leader] and [name of foundation leader]. Should it be that they will not make the decisions themselves on financials in their foundations in the future for whatever reason, we are of course facing a very uncertain situation." (SE 6)

Another social entrepreneur reported that it was necessary to come up with a prototype to get an initial financial support. Here the financing for the prototype was done by private savings.

> "With the prototype we could work and I was able to generate first revenues. Only due to this I got financing for it. Thus, without a prototype and first revenues it would have been pretty hard." (SE 17)

Venture Capital Financing

The literature is full of stories about the promises of venture capital financing. Nevertheless there are also critical voices (Edwards 2008; Eikenberry 2009). As well some social mission organizations reported restraints regarding venture capital financing (VC). A big issue with VC is the loss of autonomy most social mission organizations fear, as the contracts with VC normally would mean equity or quasi-equity financing and the VCs demand a say in decision-making processes.

> "The first time I got the contracts, I have not understood, I have not understood at all, why I should give shares for getting money which I have to pay back, just like a loan. […] Actually these are very bad contracts. The only thing we could negotiate was a rebuy option." (SE 17).

Social venture funds are also seen critical because they tackle the organization´s autonomy.

> "It is stressful in the way, that one is not the only master in the house any longer, but decisions have to be discussed and sometimes were made for a different option as one self would make it. And it comes with all these reporting stuff for the investors and the preperations for meetings and the work afterwards what is a considerable amount of work." (SE 2)

What is also striking is that the social venture capital market in Germany is in a state of infancy. There are only a few players available and these players know each other very well.

> "But because the social venture market is that small, everybody knows each other and additionally they arrange with each other. Yes. That means, they meet at events and say, what do you know." (SE 17).

But the biggest problems with venture capital are the high interest rates. Most social mission organizations are unable to repay these and thus VC can be perceived as only suitable for a very small share of social mission organizations.

> "[name of organization] has offered me, they would give us money for an interest rate of 8%. And then I thought, I would rather go to my [name of bank] and ask: Can you give us money for 3% interest rate? Well, I find 8% not attractive for social organizations." (SE 18).
> "Well I was ealed, that I was not accepted at [name of social venture organization] because they really push. And they want mega-interest rates, this is why I said, this is not attractive to me." (SE 19)

Sponsorships

Some use sponsorships of corporations to keep the organization running. This is especially the case for those entrepreneurs that had former contact with the business world or were socialized within it. Often it turned out that these sponsorships do come with very little barriers (no reporting or transparency requirements).

> "No transparency of the cost structures, but they are calculate it simply: 'Is the matter worth it to me or not?'" (SE 4).

In terms of give and take, the corporations usually use the sponsorship activities in the CSR activity reporting. But sponsoring is a very volatile financing stream especially in terms of economic recession.

> "[name of organization] was with us, with a support amount of 106,000 Euros per year, but now in the economic crisis they cut it down to half the amount, and with the perspective to finish the support next year" (SE 6).

Earned-income

Earned-income strategies have often been perceived as a remedy against the lack of financial self-sufficiency. But many examples show that the earned-income model, which is the heart of the business model, is not able to cover all the costs. As a result, the social mission organization is additionally depended on further funding streams.

> "We generate about 500,000 to 600,000 Euros from the newspaper; then we have to add 100,000 Euros from commercials and then fines from judges of about 30,000 to 90,000 Euros. The rest of our capital is generated from donations. These are also of about 500,000 to 600,000 Euros." (SE 10)

Donations

For 10% of all social mission organizations in Germany donations appear as the highest share of funds in the financing mix (Spiess-Knafl 2012). And often enough donations sum up to more than 50% of the total budget. And this causes a lot of fundraising activities.

> "Currently we have a share of donations of about 60% of a million euro budget, which has to be fetched by [name of employee] and me every year." (SE 14).

Honor effects

Some social mission organizations work with high profile investors or have godparents or patrons which just support by allowing using their name. We suggest using the term honor effects for this kind of support. These honor effects are used to attract other funds.

> "Well, I called [name of director of foundation] and said, I need money for an internet forum for the topic compatibility of dads and the job, are you interested? And that was like winning the lottery, he directly said, finally a man who has a good idea regarding compatibility, I do not want to hear things from women. And that was my entry. […] With this I went to the senate and said, […] I have acquired the [name of foundation] and do you want to join? And they said, what, you have the [name of foundation]? That is perfect and super. […] And then I got the other 40%." (SE 19).

Also won awards or fellowship programs can be a plus in generating funds.

> "What is a plus, are awards or won fellowship programs. "[…] one gets good contacts. This needs to be said. Thus, establishing a network, but in how far this is reasonable for us as a social enterprise is a different kind of thing." (SE 2).

Networks

What is mentioned very often is that key to financing social mission organizations is a broad and diversified network.

> "I did a small time, I have used every event to ask a question in the plenum and in within the 90 seconds of the question I tried to place some words on what one is doing and that one needs support very urgently. And that worked out very well…" (SE 4)
>
> "Well it was relatively easy for us, because I am working in that field for 20 years now. Thereby I knew all the cost units at least in Bavaria. Well, an extremely good network." (SE 17).

Often there is a wide range of contacts and thus as a result a considerable diversity of financing instruments used to fund the social mission organization. This is why most of the successful social entrepreneurs are good networkers, have empathy and charisma to convince others easily for their cause.

> "Yes. A network is important, definitely the – I would say – key position, that has to be filled in either way." (SE 5)

Personal risks

Most financing is only possible because the leader of the social mission organization (often in start-ups) is willing and able to take a considerable amount of personal risk.

> „Currently we have loans of about 200,000 Euros, but these are warranted by me personally." (SE 1)

> "I would not suggest anyone to do it with a bank loan, because: There are so many possibilities to fail during the project." (SE 5).

> "I have about 120 private loans that I have to convert. […] I guaranteed with my name and with everything that I have to repay these loans." (SE 8)

Additionally, most start-up financing comes from private savings. What is more, without not paying oneself any wages, a social mission venture would not exist at all (e.g. SE 5 or SE16). What is more striking in terms of social problem solving is, that this personal risk which is part of an entrepreneurial spirit is necessary to offer solutions that go beyond more secure ways of funding. Otherwise some people´s problems would be addressed by anyone.

> "People come to us, for whom there are no cost regulation from the government, and I think, no big social welfare organization would do this, no old-people´s home would take them without the cost regulation being clarified" (SE 8)The personal risks are even more higher when it comes to scaling the organization.

> "Thus, the development of a concept does not bring a risk. But the investment to scale a concept, also beyond the first project, the willing to go to other places, to make it bigger, to hire employees, to further invest, this is prohibiting the transfer and the scaling for the transfer." (SE 1)

7 Discussion and Conclusion

Social mission organizations are facing a lot of challenges and obstacles when it comes to financing. E.g. banks will hardly give money because they do not understand the business of social mission organizations, especially start-ups and they find it hard to calculate the risks of such initiatives. What is more, the market of social impact investment is problematic in Germany. We have seen that the market is too small in Germany and that the few players have similar conditions. These are important reasons to understand why the social venture capital market in Germany is beyond expectations. What is more, these investments are threatening the autonomy of the organizations and cause a high reporting effort what is time and money which is not spend in the social cause.
The following table sums up the challenges social mission organizations have with different types of financing.

Instrument/ Investor Type	**Challenges for Social Mission Organizations**
Loans from Banks	• Banks do not understand the business of social mission organizations • Social mission organizations are often far from being able to repay loans or even interest • Misfit between values between banks and social mission organizations • Lack of equity of social mission organizations
Social Venture Capital	• Fear of losing autonomy because VC demand having a say • Very high interest rates • Complex contracts, also causing distrust • Very small market in Germany, no competition among VC
Grants (foundations)	• Hard to find the foundation that fits • Highly diversified and not transparent landscape of foundations • Relies very often on personal contacts
Public funds	• Bureaucracy and complexity • High transaction costs for getting funds • Project financing never covers 100% of the costs
Sponsorships	• Sometimes possible sponsor does not fit the values of the social mission organization
Donations	• Many social mission organizations rely heavily on donations • Fundraising activity takes time and money
Earned-income	• Used as an additional funding stream but often enough not sufficient for self-sufficient operations • Not applicable for many social mission organizations

Table 4: Overview of detected problems with financial products

In contrast to these challenges, three facilitators to generate funds could be revealed. A) The role of networks, b) the importance of honor effects and c) the willingness and ability to take personal risks have been pointed out. And we found that the role of values and personal contacts should be given more attention.

We have used the scheme of Nicholls and Pharoah (2008) (see figure 5) as a point of departure for our analysis. But the results have shown that it is necessary to be more specific on the demand side and on the supply side. Especially the demand side is tricky. It is worth to classify organizations not according to what they are right now in terms of income structure (e.g. being a charity because of donations being the primer source of income; or being a social enterprise because of an earned-income model) but according to what the business model potential is. From the business model perspective some or most social enterprises would not qualify for a market debt because they are unable to repay the amount of money plus interests. And in some cases the organizations might appear as a charity but is about to develop to a financially self-sustainable business-model. Here, the differentiation in phases also sheds some light on this specific aspect. Generally, for organizations that are able to repay loans or social venture capital in the future plus the according interest are in a position that their financing mix can be more heterogeneous as also the other financial sources are possible too. The following very simple figure is illustrating this.

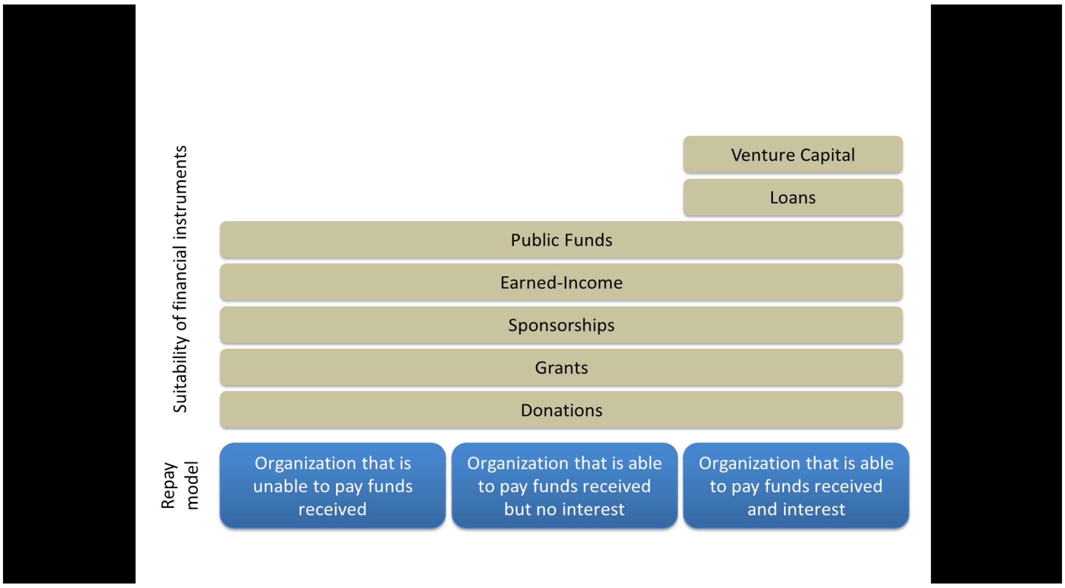

Figure 6: Suitability of financial instruments for social mission organizations according to their repay possibilities

It is a fact that most social mission organizations are constantly depended on external funding sources which they will never be able to pay back. What is more, it is quite obvious that these organizations are very innovative too as they got awards and won fellowships. Often it appears that there is no financially self-sufficient business model possible because of the social problem these organizations address. But what does that mean for the funding of social mission organizations? Should we focus on those social mission organizations and respectively those solutions that are financially self-sufficient and organizations that are able to pay back loans and according interest rates? And should we neglect these not self-sufficient organizations? We believe that this would be disastrous.

The social mission organizations landscape is characterized by high diversity and so should the social finance landscape (see also Social Innovation Europe 2012). The increased discussion on social impact investing and social venture organizations is misleading. "The first caveat is that rising expectations for market-rate returns can crowd out social ventures working in areas that simply cannot demonstrate a return in the short run, but in the long run can create greater prosperity for society" (Milligan & Schöning 2011: 167). Measuring Impact and Evaluations should not slow the pace or minimize the potentials of further innovation (Lawry 2009).

And it comes as no surprise that these investors find it hard to pour their money in organizations that fit to their criteria. Thus, we need a more refined and structured understanding of the landscape for social innovation financing.

For a refined description of the social innovation financing landscape some criteria appear reasonable for structuring, like innovation phase, distinction between program and structural financing, legal form, sector belonging of social mission organization, repay modalities, socialization of the organization leader, country, and social problem. With these criteria we can develop a more refined model of different social capital markets and it is worth distinguishing different markets (Emerson & Spitzer 2007).
For future research it would be necessary to test the rich diversity of assumptions that derive from the qualitative research findings presented here in a quantitative study. As this study was about financials only, it should be added that there are several other resources needed for social mission organizations, like pro bono support or access to networks (John 2007; Glänzel, Schmitz & Mildenberger 2012; Shanmugalingam et al. 2011). Often enough these other resources are worth even more than funds and in future research these aspects deserve more attention.

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