

BANKWEST FOUNDATION

Social Impact Series

WESTERN AUSTRALIA

Issue #2
August 2015

Resourcing Social Enterprises: Approaches and Challenges

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The Bankwest Foundation has partnered with the University of Western Australia Centre for Social Impact (UWA CSI) to undertake a research program **Supporting Development and Growth in the Community Sector in Western Australia**. The aim of this program of research is to increase our understanding of the difference community programs make and what factors can enhance the resilience and long-term financial viability of Western Australia's emerging social enterprise sector. Improving the evidence base on the measurement of outcomes of community programs and of the financial sustainability of WA's social enterprises will support growth and innovation in the community sector and build community resilience. Outcomes of the research program will be delivered through the **Social Impact Series** and through community workshops and forums. The present paper **Resourcing social enterprises: approaches and challenges** is the second Issue of the **Social Impact Series**.

Citation: Barraket, J., Barth, S., & Mason, C. (2015). Resourcing social enterprises: approaches and challenges, Bankwest Foundation Social Impact Series No. 2, Bankwest Foundation, Western Australia.

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Published by
The Bankwest Foundation
Level 12C, 300 Murray Street
PERTH WA 6000

Acknowledgements

The Supporting Development and Growth in the Community Sector in Western Australia research program is funded by the Bankwest Foundation and led by Professor Paul Flatau, UWA Centre for Social Impact. Twenty-one people have to date participated in the research on which this report is based; our thanks are extended to them all.



INTRODUCTION

This is the second publication from the Bankwest Foundation Social Impact Series and includes preliminary findings from the **Supporting Development and Growth in the Community Sector in Western Australia** research program. This report is the first output of the Social Enterprise Financial Resilience project, which forms part of the program.

Despite increasing interest in social enterprise, there is limited understanding about the factors that support the capacity for social enterprise to deliver social objectives. In particular, we know little about how social enterprises access and use financial and other resources to sustain their businesses and how this can influence their organisational resilience. There are suggestions that social enterprise and small private for-profit businesses face similar barriers to accessing commercial finance (Burkett, 2010; Mavra, 2011). However, there are also factors specific to social enterprise – related to their organisational structures, their business purposes, and their operating environments - that influence how social enterprises attract, use and choose financial and other resources. With regard to financial resources, there is growing interest in and popular discussion about social finance in general and impact investing in particular. Yet, the financial needs, barriers and effects of certain forms of finance on social enterprise resilience and impact remains unclear.

The purpose of this report is to review the existing evidence about the resource needs and behaviours of social enterprises, and their barriers and opportunities to accessing financial and other resources. We augment this review with comments from workshops and interviews undertaken with 15 Western Australian social entrepreneurs, and seven social financiers and policy professionals in May-June 2015.

Unpacking the financial needs and behaviours of social enterprises provides a platform for better understanding of the factors that affect financial resilience of social enterprises in Western Australia and beyond, and the tools we need to support such resilience. Of course, organisational sustainability requires access to resources beyond finance; we consider in this report wider resourcing needs and their implications for financial resilience.

Organisational sustainability is a necessary component of successful social enterprise, but not an end in itself. In this report, we assume that organisational sustainability in general – and financial resilience, in particular – support social enterprises to generate social impacts consistent with their missions.

Financial resilience can be understood as an organisation's capacity to access financial opportunities and weather shocks that generate financial challenges.

SECTION ONE: WHAT IS SOCIAL ENTERPRISE?

Defining what is meant by social enterprise is an important starting point, particularly given present definitional uncertainty and the variety of organisational forms that exist under this broad umbrella term. Definitions often reflect different socio-cultural contexts (Kerlin, 2006), so social enterprise definitions in Australia differ from the UK and the US, which have different policy and social drivers. For example, in the UK there is little or no distinction between enterprising third sector organisations and social enterprise (Burkett, 2010) and in Europe the collective or participatory nature of some forms of social enterprise is often stressed in definitions (Defourny & Nyssens, 2010). In this report, we adopt the following definition developed within the Australian context. Social enterprises are organisations that exist to fulfil a mission consistent with public or community benefit, trade to fulfil that mission, and reinvest a substantial proportion of their profit or surplus in the fulfilment of mission (Barraket et al., 2010).

At a workshop recently conducted in Western Australia as part of the national Finding Australia's Social Enterprise Sector 2015 project, it was observed that definitions of social enterprise, grounded in the assumption that all social enterprises are structured as not for profit entities, limit financial access for some types of social enterprise (Barraket, 2015).

While 'social enterprise' is an umbrella term in common use, social enterprises are in practice diverse in their purposes and structures.

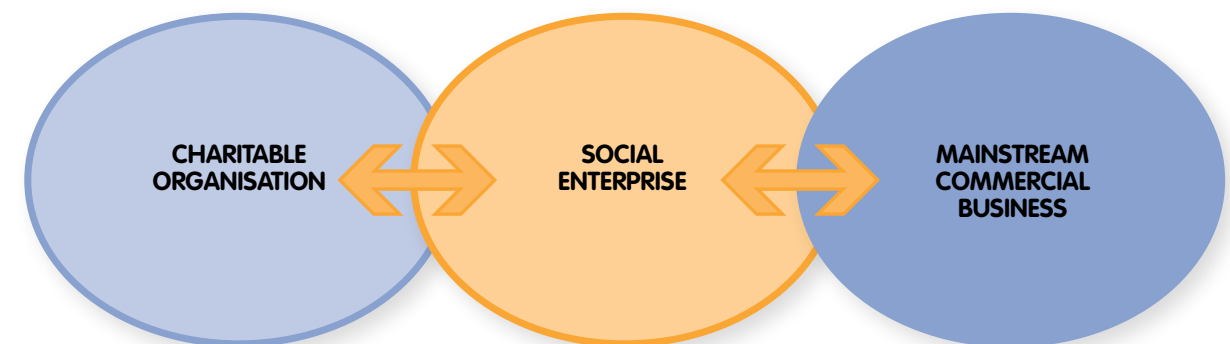
Financiers' lack of understanding of social enterprise is often cited as a barrier to accessing external financial resources, such as debt or equity (Burkett, 2010). Therefore it is important to understand the motivations and various forms of social enterprise structure. Social enterprise development agency, Social Traders, has identified three main motivations that drive the structures and activities of social enterprises.

Social Enterprise Motivations	Examples in Western Australia
Employment training and support for marginalised groups	Dismantle Western Australia Disability Enterprises
Provision of services in direct response to social, cultural environmental or economic community need	Bottle for Botol Sprout Ventures Space Cubed
Income generation for charitable purposes	Anglicare WA Op Shops ASHOIL

(Adapted from: Social Traders, 2013)

In the absence of a common legal status and operating model to identify a social enterprise in Australia, social enterprises are structured in a number of different ways. Factors that inform social enterprise structuring include: their mission; the goods and services in which they trade; and their origins (for example, whether they started as a new venture established by a social entrepreneur or community group, or as an additional offering created by an existing not for profit organisation). Social enterprises often represent a hybrid form of organising, sharing characteristics of both business and not for profit organisations (Battilana & Lee, 2014), which can influence their resourcing behaviours and capabilities.

Figure 1. Social enterprise on an organisational spectrum



SECTION TWO: RESOURCES USED BY SOCIAL ENTERPRISES

Social entrepreneurs draw upon resources in the same way as conventional entrepreneurs (Meyskens, Robb-Post, Stamp, Carsrud & Reynolds, 2010). A resource can be defined as either intangible or tangible and social enterprises require a mix of both tangible (financial, human and organisational resources) and intangible (capabilities, organisational styles, values and partnership) resources to fulfil their missions. The following outlines the resources that social enterprises typically use.

Tangible Resources	Examples
Financial Capital	Loans, grants, equity, earned income
Physical Capital	Infrastructure such as office buildings, training materials, equipment.
Natural Capital	Primary resources for value-adding/processing
Intangible Resources	Examples
Human Capital	Human resources including, paid staff, members and volunteers
Intellectual Capital	Product or service knowledge and innovation
Social Capital	Networks, trust and relationships

While the resources that social enterprise draw upon may be similar to that of private for-profit businesses, social enterprises as a group are ‘multi-resource’ organisations relying on both paid and volunteer workers, and a mixture of income streams (Barraket et al., 2010; Gardin, 2006).

At present, there is limited documented evidence of how social enterprises manage a mixture of monetary and non-monetary resources and how the multi-stakeholder nature of these organisations influences their resourcing decisions. However, taking the Social Traders’ typology of social enterprise purposes into account, the mix of resources used by social enterprises will differ according to their motivations for operating. For example, a charitable trading venture that seeks to maximize profit or surplus might seek to minimize the costs of human resources within its operations, while a social enterprise that exists to generate employment (commonly referred to as ‘work integration social enterprise’, or WISE) will purposefully maximize particular types of jobs within its operations to meet its mission.

Social enterprises seek both business sustainability and social impact and therefore have to acquire and maintain resources that enable mission fulfilment as well as satisfy key stakeholder groups. The management of sometimes competing demands can influence social enterprises’ mission, resource acquisition and human resource mobilisation (Doherty, Haugh & Lyon, 2014). In particular, tensions can occur in terms of organisational identity when a social enterprise draws upon a wide range of resources or recombines resources in new ways in response to resource constraints and stakeholder requirements. When this is inconsistent with the current mission of the organisation, mission drift can occur. This can result in an unclear organisational identity, which can affect the ability of social enterprises to attract necessary resources (Smith et al., 2010) or operate effectively.

Mission Drift occurs when the organisation diverges from its main mission and objectives or changes the nature or quality of the service it provides (Cornforth, 2014).

However, some strategic change to resourcing strategies may be necessary for a social enterprise as a result of scaling up, forming alliances or offering new services. This can have a significant impact upon stakeholder perceptions and organisational legitimacy (Nicholls, 2010b), which can influence how resources are allocated. A particular challenge for social enterprises is knowing how much time and resources should be spent on the social purpose and what proportion of resources should be concentrated on building a commercially viable business model. In order to manage the resources of a multi-stakeholder organisation, there are three broad, and not always mutually exclusive, strategies for organisational sustainability:

Strategy	Features	Challenges
1. Separate social and commercial missions	<ul style="list-style-type: none"> Enterprise operates as two distinct parts One part functional charity, one part purely enterprise focused on generating revenues 	<ul style="list-style-type: none"> Risk of committing too much to charitable side with less focus on business development Risk of focusing too much on revenue streams rather than charity resulting in lack of legitimacy with community stakeholders
2. Integrate social and commercial missions	<ul style="list-style-type: none"> Achieve social objectives by employing marginalised labour market Achieve social mission by delivering a product or service Synergies between social and commercial 	<ul style="list-style-type: none"> Decisions about resource allocation become more complex because link between resource and outcome not always clear Resources devoted to one area of social enterprises may adversely affect commercial viability but may increase legitimacy
3. Build alliances with for-profit businesses	<ul style="list-style-type: none"> Formation of partnerships with for-profit businesses i.e. preferred supplier relationships 	<ul style="list-style-type: none"> Locus of control may shift from internal to external as social enterprises may be closely aligned with partner and less influenced by own actions

Source: Moizer & Tracey (2010)

Each strategy has costs and benefits in terms of efficiency of resource use and organisational legitimacy, which can either provide opportunities or barriers to future financing and resourcing options. At present there is limited evidence as to whether particular business models, sources of finance or certain structures or alliances make a social enterprise more or less successful (Meyskens et al., 2010). Much greater research is needed into the extent of social enterprise demand, availability of capital and the opportunities and barriers for accessing various forms of capital (Lyon & Baldock, 2014). This is considered in relation to sources of finance for social enterprises below.

What drives resourcing behaviours of social enterprise?

There are a number of factors that influence social enterprises’ resourcing decisions including supply and resource availability, as well as organisational factors such as path dependency. The latter can inform poor resourcing decisions and calls for social enterprises to be aware of how learned behaviours and organisational culture can influence what and how resources are mobilised.

Path Dependency describes how firm histories can influence organisational features, regardless of their actual efficiency (Sydow, Schreyögg & Koch, 2009).

The following external and internal drivers can influence the resourcing behaviours of social enterprise:

1. The institutional environment

The policy and institutional environment is an important predictor of how social enterprises are able to access resources. In the UK, Hall, Alcock and Miller (2012) observed that much policy focus – including financing initiatives such as the Social Investment Fund (SIF) – had been on the early phases of social enterprise development (Hall, Alcock & Miller, 2012). Conversely in Australia, government investment through the Social Enterprise Development and Investment Funds (SEDIF) has focused more strongly on consolidation and growth of existing social enterprises, with limited attention to the needs of those at earlier stages of development. At state government level, in both Western Australia and Victoria, there has been some governmental investment in both start-up and expansion of existing social enterprises. As both social financiers and social enterprises in the first stage of our research noted, however, there have been notable challenges in aligning the products available with the needs of social enterprise:

“A large number of organisations come to us for early stage financing start up and they don’t have strong balance sheets, they don’t have security they can provide. It’s reasonably often when we assess it we believe it’s reasonably high risk and they struggle in that circumstance...Resourcing at that early stage when they’re trying to get it off the ground is tough and that is very, very consistent.” (Social financier interview A)

2. Source of origin of the social enterprise

The origin of a social enterprise can influence its resourcing decisions. For example a social enterprise that started as a business from inception will have different resourcing strategies to a social enterprise that was formed as a spin-out from a charity or public service organisation (Smith et al., 2010). Related to the issue of path dependence, origins may have a limiting effect on social enterprises' capacity to access new resources, or to access resources in new ways. It has been found, for example, that social enterprises that rely heavily on grants can have diminished ability to compete for contracts (Hall et al., 2012), as these require different financial management and other competencies. One of the social financiers interviewed noted that capital raising and generating income through the market required substantial changes in systems and culture of traditional not for profits:

"We actually have observed through our portfolio that that transition from planning and capital raise and implementation is really tricky for most organisations and that's irrespective. If they're an existing not-for-profit, there are a whole lot of systems and processes and cultures and everything that they've got to overcome to become market facing and implement an enterprise." (Social Financier Interview B)

3. Legal form and governance

Legal forms also predict what resources social enterprise can leverage, for example non-profit distributing legal forms often have restrictions on utilising equity. Collective social enterprise and multi-stakeholder governance can also complicate resourcing decisions as a wide range of stakeholder interests have to be met. One participant in our first project workshop who runs a profit for purpose social enterprise noted, for example, that they had greater flexibility in accessing different types of resources because they were not structured as a typical not for profit:

"We're a company, and I don't have a board because ... the founders decided not to have a board. ... for example [with] resourcing if I need to get some cash because I'm a company now I've got institutional or private investors that gives me another option." (Social Enterprise Workshop Participant)

4. Type and purpose of Social Enterprise

Factors such as the type of social enterprise and/or the industry that they operate in will influence resourcing decisions related to human resources and supply chains. For example, WISE employ disadvantaged individuals as part their social mission and a fair trade social enterprise will source ethical and socially responsible producers. The mission of a social enterprise has a strong influence on resourcing behaviours.

"Certainly for the social enterprise that I'm involved with as a chair ... we're very clear what we're trying to do with our social purpose. If the board is going to make decisions about putting resources in, there is no way we can get away from the fact they've got to have an answer about [the values that deliver them]." (Social Enterprise Workshop participant)

5. Skills and Experiences of founders and managers

The competencies and past experiences of the social enterprise founder/managers can influence resourcing behaviours of an organisation. For example, Sunley and Pinch (2012) find that past experiences of those involved in establishing social enterprises – particularly their exposure to charitable and/or public sector forms of organizing – have a significant effect on their resourcing decisions. One workshop participant observed that this was apparent in the diversity of social enterprises and their starting points, even within the workshop group of 15:

"...there is a younger feel where people are starting, and they're founding on a very different premise, right from the beginning...It makes a lot of difference in terms of how the board, right from the beginning, is going to make decisions about staffing and financing and all of those sorts of things." (Social Enterprise Workshop Participant)

6. Organisational identity

How an organisation sees itself and its operating characteristics can affect its approach to resourcing choices. This is particularly relevant, for example, to community sector organisations that establish a social enterprise after the organisation has existed for some time. Managing both a social service identity and a business identity can create tensions when resourcing decisions in pursuit of profit are perceived as a threat to the values of the not for profit organisational identity (Jager & Schoer, 2014).

Main sources of finance of social enterprises

Like other forms of business, the main source of finance for established social enterprises is the internal financial resources created through trading profits or surpluses. In terms of external sources, social enterprises have traditionally utilised grants and philanthropic funding to a greater degree than their commercial counterparts. However, in recent years there has been an increase in the external financing options available. In the UK, a recent survey found that in the 12 months prior, 48% of social enterprises sought to raise external finance from a range of options such as grants, loans, overdrafts and equity (Social Enterprise UK, 2013).

In the Australian context, social enterprises draw upon a range of financial sources, although data collected in 2009 suggests they tend to make very limited use of debt and equity finance (Barraket et al., 2010). The latter partly reflects constraints of finance related to particular legal structures, discussed above. In addition to earned income (directly from sales to consumers, or from competitively awarded contracts with government or other businesses), the main sources of finance for Australian social enterprise include:

1. General purpose funding (such as grants) from government;
2. Contributions from individual members; and
3. Philanthropic grants and bequests

In view of the drivers of resourcing approaches amongst social enterprises and the barriers to accessing mainstream finance discussed further below, many social enterprises adopt 'bricolage' and 'bootstrapping' behaviours, especially in resource constrained environments. This is similar to the experience of small private for-profit firms.

Bricolage is 'making do, a refusal to be constrained by limitations, and improvisation' (Baker & Nelson, 2005).

Bootstrapping is the process by which firms 'avoid the need for external financing through reducing overall costs of operation, improving cash flow, or using financial sources internal to the company (Ebben & Johnson, 2006, p. 851-2).

Social enterprises have been found to engage particularly in ‘social bricolage’ which involves ‘social value creation, stakeholder participation and persuasion’ (Di Domenico et al., 2010). The implications of bricolage for social enterprise growth and sustainability are not yet clear, however, it may explain why some social enterprises may not seek conventional business loans or equity finance because they have adapted to reconfiguring redundant resources (Sunley & Pinch, 2012). In some cases, ‘begging, borrowing and stealing’ practices consistent with bricolage can negatively affect an organisation’s balance sheet (where, for example, they rely heavily on the use of borrowed physical capital), and thus their capacity to raise external finance through conventional means. Bootstrapping is another form of resourcing adopted by social enterprise. There are few studies in the social enterprise context, however, insights can be gained from the for-profit experience.

Social enterprises may adopt similar strategies in response to resource constraints. There are suggestions from studies of small to medium enterprises that bootstrapping changes over time as a wider range of financing options become available. However, some enterprises still choose to use bootstrapped resources despite adequate finances (Brush et al., 2006). This may relate to organisational identity or to mission (for example, bricolage may be a core feature of social enterprises that seek to minimize environmental degradation through repurposing discarded resources).

In a workshop with 15 Western Australian social enterprises as part of this research project, a number of participants identified their organisations’ preference for utilizing internal resources to initiate new ventures or grow existing ones. This was particularly prevalent for those operating under not for profit structures:

“I mean from a not-for-profit point of view from my own - it’s a very small organisation [but] we have always tried to fund from within. So not actually expose ourselves to borrowing money in order to set these things up. So I guess there’s always been a reliance from lots of other not-for-profits like ourselves on grants to get things kicked off, or funding from within by generating income through something else.” (Social Enterprise workshop – participant)

The multi-resource and multi-stakeholder nature of social enterprise means that bricolage and bootstrapping may be common strategies for mission fulfilment. That is, while mainstream finance may seem more efficient, sometimes the relationship building central to bricolage and bootstrapping is both a means of accessing resources and a vehicle for mobilizing community or corporate support for the social issue(s) a social enterprise is trying to address.

Barriers to accessing external finance amongst social enterprises

While not all social enterprises are small businesses, there is remarkable synergy between small businesses and social enterprises in relation to accessing mainstream external finance. Common constraints to accessing finance for small businesses include information asymmetries, the relatively high transaction costs of small loans, and poor credit ratings (Neeley & Van Auken, 2009; Ebben & Johnson, 2006; Cassar, 2004). Personal traits and experiences of individual entrepreneurs can also affect the financing strategies of small firms (Neeley & Van Auken, 2010; Neeley & Van Auken, 2009; Winborg & Landström, 2001).

Despite limited research on the access to and use of finance by social enterprises, available evidence suggests that social enterprise face similar constraints to small businesses when accessing commercial finance (Burkett, 2010; Mavra, 2011). The shared main barriers are identified below:

1. Information Asymmetry

Social enterprise is a relatively new concept and is largely unfamiliar to commercial lenders and investors. Studies in the UK and Australia have found that a lack of investor and funder familiarity with social enterprise business forms constrains development, particularly at points of expansion (Burkett, 2011; Mavra, 2011). The more familiar an organisational type is, the greater legitimacy it has in the eyes of external stakeholders, including financiers.

“The challenge of attracting finance for social replications can therefore be seen as symptomatic of a general lack understanding of social enterprise.” (Mavra 2011, p. 16).

2. Transaction Costs

The size of loans required by many consolidating or expanding social enterprises, as well as small businesses, is often not of a scale that is appealing to mainstream lenders. Social enterprise that rely on a diverse range of inputs and costs also have complex financial reporting which can limit transparency and thus complicate the transaction costs for financial institutions seeking to work with social enterprises (Burkett, 2010). During one interview, a social financier reflected on the difficulties of being ‘caught in between’ grant funding and debt finance that social enterprises face as they grow:

“[Accessing finance is a problem] start-up or smaller enterprises, charitable organisations and potentially those that don’t want \$500,000 of capital; they want \$300,000 or \$200,000. So it’s sort of the size of the capital as well I think.” (Social Financier Interview B)

3. Skills and experience

Similar to small businesses, a lack of financial management skills can hinder access to financial resources for some social enterprises. Burkett (2010) found that the majority of key social enterprise managers rated their financial management skills around five out of ten and none had an educational background that included financial management. It must be noted that this was based on a small sample of small social enterprises and is not representative of social enterprises as a whole. What national data does tell us is that, as a group, social enterprises draw primarily on internal sources and grant finance, which in part reflect traditional practices of not for profit organisations, who make up the large majority of the social enterprise field.

In addition to the same financial barriers that social enterprises share with other small businesses, social enterprises also face distinct challenges owing to their hybrid forms and purposes. These are set out in points 4 to 6 below.

4. Formal Business Structure

Social enterprises can be constrained in accessing certain types of finance depending on their formal business structure. Such legal constraints include prohibitions on utilising equity that are central to some traditional not for profit legal forms (Barraket et al., 2010). It is also notable that past research conducted by the authors finds that the quality of professional advice on hybrid business structuring— from, for example, lawyers and accounting professionals – is lagging behind the needs of social enterprises in some cases (Barraket et al., 2010).

5. Legitimacy Challenges

Established legal forms of incorporation are important signals of business legitimacy and as a result hybrid social enterprises which do not fall under one legal form or another often lack legitimacy which in turn can constrain access to debt and equity finance. New legal forms such as the UK Community Interest Company (CIC), L3C in the US and the Italian Social Cooperative model represent public policy efforts to legitimise social enterprises to support their ability to garner resources in pursuit of social goals. However, there is limited evidence to date that this new legal form has been able to leverage new investment in the social enterprise sector in the UK (Nicholls, 2010a).

6. Board Structure and Culture

For social enterprises to be ‘impact ready’ in terms of accessing social finance, the organisational culture and attitudes of the board and senior managers has an important role of play (Barraket & Yousefpour, 2013). This includes being aware of how particular governance models can allow social enterprises to operate as viable businesses (Low, 2006). A lack of an enterprising culture and failure to distinguish the roles of the board members can hinder the development of a sustainable social enterprise (Mswaka & Aluko, 2015; Barraket, 2015).

“The board ‘acts as a link to the external environment, which can facilitate access to resources.’ (Mswaka & Aluko, 2015 p. 59).

In 13 workshops conducted nationally in late 2014–early 2015 as part of the Finding Australia’s Social Enterprise Sector 2015 project (Barraket, 2015), participants identified problems with access to finance as one of the main inhibitors of social enterprise development. Access issues people described included: a mismatch between available products and social enterprise needs; disproportionately high administrative and transaction costs associated with securing social finance relative to the amounts required and the associated risks; significant geographic differences in access to suitable financial products; and difficulties attracting certain kinds of finance – particularly, equity –under non-profit distributing legal models. Social entrepreneurs and social enterprise managers who participated in the research also generally shared the view that the social finance market in general – and the impact investing market, in particular – is immature in Australia, and significant building of the field would be required to meet its potential.

SECTION THREE: BEYOND MAINSTREAM FINANCE: SOCIAL FINANCE AND IMPACT INVESTING

Developments in social finance in general and impact investing in particular are claimed to present new opportunities for resourcing social enterprise (OECD, 2014). Innovations to social and impact investing are opening new opportunities for social enterprises as it enables investors to place capital and funds in businesses that generate social or environmental value as well as seeking a nominal interest payment (Geobey, Westley & Weber, 2012). Information on the state of play of impact investing in Australia was provided in Snapshot 1.

The growing social finance market presents new opportunities for financing social enterprise. However, it not yet clear how past resourcing behaviours - including bricolage and bootstrapping, or grant reliance - might affect the ability of social enterprises to access social finance. Transitioning between resourcing strategies is a substantial challenge for some social enterprises. For these organisations to access more diverse development capital, significant support from intermediaries is required to encourage social enterprises to become investment ready (Foresters, 2014).

However, the question of finance for social enterprise is not only an issue of demand but also one of adequate (or adequately structured) supply. Despite an increase in social financing options such as development-driven intermediaries, impact investing, and social business angels (OECD, 2014) there is evidence to suggest that social investment as it stands, is not meeting the financing needs of social enterprise. In a recent report released in March, 2015 After the Gold Rush – The Alternative Commission on Social Investment, it was found that the current model of a ‘social investment market’ being promoted by the UK government and Big Society Capital is not actually increasing the number of social sector organisations accessing repayable finance. A number of factors may contribute to this, including – difficulty with navigating the investment market, lack of transparency over what investors want, and the cost of capital. As discussed above, recent research from both the Finding Australia’s Social Enterprise Sector 2015 project and interviews conducted for this research identify a mismatch between social finance products and the needs of social enterprises (Barraket, 2015).

While impact investing is relatively more developed in the UK and USA (Wood, Thornley & Grace, 2013), it is emerging in Australia across market segments (Addis, Bowden & Simpson, 2014). However, social enterprise demand, availability of capital and the opportunities and barriers to accessing this form of capital are not well understood (Lyon & Baldock, 2014). In particular, there is uncertainty over what forms of finance are most suited for social enterprise at different stages of the business life-cycle. The UK Investment Readiness survey found that those not for profit organisations that failed to attract finance were primarily seeking investment for ‘scaling up’ (Gregory, Hill, Joy & Keen, 2012). This report highlights that the demand for particular types of finance depends on the stage of the organisation and that barriers exist to accessing riskier growth capital either because of lack of availability or lack of investment readiness. Demand for finance should be segmented into groups such as ‘small and large, rich and light, spin-outs and start-ups’ (Floyd et al., 2015 p. 19) in order to tailor appropriate financing options.

In general, there is a lack of clarity over what impact investment is and the characteristics of a good social finance market. This is reflective of the immature nature of the field and explains why social enterprises often seek other forms of repayable finance such as loans from family and friends, unsecured loans from ‘angels’, soft loans and quasi-equity investments from trusts and foundations which all exist at the margins of the ‘social investment market’ (Floyd et al., 2015 p. 70).

What would help social enterprises increase financial resilience?

While the available national evidence indicates that the social enterprise sector is mature and sustainable (Barraket, 2010), it is clear that emerging social business forms, combined with changes in the operating environment and growing interest in social finance markets are changing the game with regard to the potential impacts and resourcing needs of the field. This report has highlighted some of the current practices and challenges related to resourcing social enterprises. We have noted that, in some ways, the resourcing issues faced by social enterprises are not dissimilar to those faced by small to medium enterprises. However, the particularities of social enterprises’ missions, identities and structures do generate unique challenges to maintaining financial resilience.

Based on the available evidence, there are a number of factors that could assist social enterprises increase their financial resilience. These include:

1. Review resourcing strategies

Social enterprises can develop financial resilience by being aware of how firm origin and learned behaviours can influence resourcing strategies regardless of their actual efficiency. This includes re-evaluating the long term effectiveness of current strategies and whether existing or past practices hinder the ability of the social enterprise to access other forms of finance. Transitioning between practices often requires changes to systems, capabilities and organisational cultures. These 'soft' issues need to be recognised and addressed by both social enterprises and their financiers.

2. Bootstrapping and bricolage

Understanding whether bootstrapping and bricolage resourcing behaviours can restrict sustainability and growth as the organisation progresses through different stages of the life cycle will enable a clearer picture of social enterprise financial resilience. More stories need to be told about social enterprises' resourcing strategies as they move through different phases of their life cycles.

3. The role of boards and governance models

The ownership and governance structures of social enterprise can restrict or enable access to certain resources, such as equity. Being aware of how governance structures can influence resourcing strategies is an important step towards understanding how to develop social enterprise financial resilience.

"For us the importance of good governance, getting the right people around an organisation, getting the right blend of social and commercial skills. If you describe that as a resourcing constraint, absolutely." (Social financier interview A)

4. Financial products/services for social enterprises at growth and expansion stages

Beyond the start-up phase there is a mismatch between financial products available and the needs of social enterprises. Access to adequate, and adequately structured, financial resources for social enterprises at growth and expansion stages will enable greater financial resilience. Again, support through transition is important.

"If you are successful in getting that money just from philanthropy and grant money you don't get support. It's low risk money, but you don't get support. Up the other end, if you went to the [Social Enterprise Development and Investment Funds managers] and looked for loan money there, you get monitoring but you don't really get support either. So there's a little bit of ... bank/customer kind of relationship there, where they will monitor you and see how you're going." (Social financier interview B)

WHERE TO FROM HERE?

As part of the Bankwest Foundation's **Supporting Development and Growth in the Community Sector in Western Australia** research program, the research team will be working with 15 social enterprises in Western Australia over the next four years, to better understand their resourcing behaviours and needs. This work will also consider the contextual factors that support or undermine social enterprises' financial resilience. The case studies generated will shed light on what works in what contexts and why. These will be used to generate further information and decision tools to assist social enterprises in Western Australia and beyond fulfil their social missions by increasing their financial resilience.

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