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Social Impact Investing in Germany: Current Impediments from Investors' and Social Entrepreneurs' Perspectives

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Abstract The paper provides empirical evidence on impediments of the emerging social impact investment field in Germany. The study is based on 19 in-depth interviews with social impact investing funds, investment advisors, and social entrepreneurs as investees. It takes an explorative approach because of the nascent stage of research on the subject. By systematically relating the perspectives of the actors involved, the study gives a broad empirical picture on the major challenges for social impact investing in Germany. Results reveal nine critical problem areas we have arranged along three dimensions: financial returns, social returns, and relationships and infrastructure. They comprise investors' and social entrepreneurs' practices, institutional settings which are still heavily influenced by peculiarities of the German welfare systems, as well as undeveloped framework conditions in the social investment market. By interpreting the results through a lens of conflicting institutional logics, we further contribute to this research stream by showcasing social impact investing as a core area of friction between the logics of the market and civil society.

Résumé Cet article avance des données empiriques sur les obstacles au domaine émergent de l'investissement à impact social en Allemagne. L'étude repose sur 19 entretiens approfondis réalisés avec des fonds d'investissement à impact social, des conseillers en placement et des entrepreneurs sociaux en tant qu'investisseurs. Elle inclut une approche exploratoire en raison du stade embryonnaire des recherches sur le sujet. En reliant systématiquement les points de vue des acteurs concernés, l'étude offre une idée générale empirique des principaux défis pour l'investissement

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à impact social en Allemagne. Les résultats révèlent neuf problèmes essentiels que nous avons présentés selon trois dimensions: les retombées financières, les retombées sociales, et les relations et les infrastructures. Ils comprennent les pratiques des investisseurs et des entrepreneurs sociaux, les cadres institutionnels qui sont encore fortement influencés par les particularités du système de sécurité sociale allemand, ainsi que les conditions-cadres peu développées dans le marché de l'investissement social. En interprétant les résultats dans la perspective des logiques institutionnelles contradictoires, nous contribuons, d'autre part, à ce courant de recherche en montrant l'investissement à impact social en tant que domaine central de friction entre les logiques du marché et la société civile.

Zusammenfassung Der Artikel fasst empirische Ergebnisse einer Studie zu Hemmnissen für den noch jungen Social-Impact-Investment-Markt in Deutschland zusammen. Die Studie beruht auf 19 detaillierten Interviews mit Social-Impact-Investment-Fonds, Intermediären sowie Sozialunternehmen als Empfänger der Investitionen. Da sich die Forschung zu diesem Thema noch in den Anfängen befindet, wurde in der Studie ein stark explorativer Ansatz gewählt. Indem die Perspektiven der involvierten Akteure zueinander in Beziehung gesetzt werden, systematisiert der Artikel erste umfassende empirische Erkenntnisse über die wesentlichen Schwierigkeiten für Social Impact Investing in Deutschland. Die Ergebnisse zeigen neun kritische Problemfelder, die entlang von drei Dimensionen angeordnet werden: finanzielle Renditen, soziale Renditen sowie Beziehungen und Infrastruktur. Darunter finden sich die teilweise in Konflikt stehenden Praktiken der Investoren und Sozialunternehmen, die institutionellen Rahmenbedingungen insbesondere hinsichtlich der Besonderheiten des deutschen Sozialsystems, sowie die noch un(ter)entwickelten Rahmenbedingungen im Social-Impact-Investment-Markt. Wir interpretieren die Ergebnisse aus der Sicht gegensätzlicher institutioneller Logiken und leisten hier einen Beitrag zur Forschung, indem wir Social Impact Investing als einen zentralen Kristallisationspunkt der Spannungen zwischen den Logiken des Marktes und der Bürgergesellschaft im Rahmen hybrider Organisationen und Lösungsansätze interpretieren.

Resumen El presente documento proporciona pruebas empíricas sobre los impedimentos del emergente campo de inversión con impacto social en Alemania. El estudio se basa en 19 entrevistas en profundidad con fondos de inversión con impacto social, asesores de inversión y emprendedores sociales como inversionistas. Asume un enfoque exploratorio debido a la etapa inicial de la investigación sobre este tema. Mediante la relación sistemática de las perspectivas de los actores implicados, el estudio ofrece un amplio cuadro empírico sobre los principales desafíos para la inversión con impacto social en Alemania. Los resultados revelan nueve áreas de problemas críticos que hemos distribuido en tres dimensiones: rendimiento financiero, rendimiento social y relaciones e infraestructura. Comprenden las prácticas de los inversores y de los emprendedores sociales, los escenarios institucionales que todavía están muy influenciados por las peculiaridades de los sistemas de bienestar social alemán, así como también las condiciones marco no desarrolladas en el mercado de inversión social. Mediante la interpretación de los resultados a través de una

lente de lógica institucional conflictiva, contribuimos también a esta corriente de investigación exhibiendo la inversión con impacto social como un área fundamental de fricción entre la lógica del mercado y la sociedad civil.

Keywords Social entrepreneurship · Social enterprise · Social impact investment · Institutional logics · Venture philanthropy

Introduction

Accessing financial resources is a key challenge for social enterprises (SE) to finance organizational growth and scaling social impact. Since conventional funding sources in the social sector such as philanthropic grants and state spending are often tied to specific projects and limited in their amount, they do not allow investments in overheads or product and service development (Brown 2006). As a potential solution, approaches from venture capital (VC) markets have recently gained increased attention in this context (Bugg-Levine and Emerson 2011; Grabenwarter and Lichtenstein 2011; Hebb 2013), a trend that is corresponding with the increase of income generating activities of social enterprises (e.g., Priller et al. 2012; Thompson and Williams 2014). Financial instruments in the discussion are private equity, (unsecured) debt, and hybrids of these (convertible debt or mezzanine capital) (Martin 2013). However, the idea is that investors do not exclusively target financial returns. The concept of *impact investing* (Bugg-Levine and Emerson 2011; Hebb 2013) rather refers to proactively pursuing social and ecological together with financial goals.[1] In *impact first* forms of impact investing (Bozesan 2013; Freirich and Fulton 2009; Hebb 2013), the creation of measurable social impact is at the forefront, and financial returns are seen as an additional benefit, which can range from the mere repayment of capital (i.e., 0 % return) up to a risk-adjusted market rate return (Hebb 2013; Petrick and Weber 2013). In this paper, we will focus on this form of investment and use the term *social impact investing* to clearly distinguish our research subject from *finance first* approaches of impact investing that have a stronger commercial orientation.

While social impact investing has gained attention first in the UK and the US, a steadily increasing number of private impact investing funds spread across the globe in recent years (for a list of funds see Achleitner et al. 2011a), and marketplaces for social impact investing capital have emerged in wealthy economies as well as in the development context (Alto 2012; Guézennec and Malochet 2013; Koh et al. 2012; O'Donohoe et al. 2010). Not only is venture philanthropy extending its scope to repayable investment approaches (Hehenberger and Harling 2013; Mair and Hehenberger 2014), but also mainstream private and institutional investors such as high net worth individuals (HNWIs) and pension funds are increasingly becoming interested in the phenomenon. These new entrants to the market have started to use their influence to foster a positive social and environmental impact or good

[1] Accordingly, the approach goes beyond the related idea of "socially responsible investing" (SRI) that follows a logic of negative screening, i.e., exclusion of investees that do not meet certain ethical standards (Barnett and Salomon 2003; Johnsen 2003).

governance standards in the organizations they invest in (Wood et al. 2013; World Economic Forum 2013). This development is supported by policy initiatives. The most recent and probably far-reaching one is the *Social Impact Investing Taskforce* of the G8 set up by British Prime Minister David Cameron in late 2013 which also cooperates with the OECD to foster impact investing in all member countries (Social Impact Investment Taskforce 2014b).[2] Other examples include the Big Society Capital initiative[3] in the UK or the “90–10” scheme in France that obliges companies to invest 10 % of their employee savings in government-recognized solidarity companies or revenue sharing funds (Jégourel and Maveyraud 2008). Also the European Commission has passed the “Regulation on European Social Entrepreneurship Funds”[4] and set up its own investment vehicle, the Social Impact Accelerator (SIA)[5] in 2013. Estimations on the total volume of impact investments worldwide in 2009 range from $50 billion with a capacity to grow up to $500 billion within 5–10 years (Freirich and Fulton 2009), or from $400 billion up to $1.000 billion in this time horizon (O’Donohoe et al. 2010), depending on different projections as well as the types of investment that are classified as impact investments.

In Germany, to date, few investors (e.g., high net worth individuals and family offices, institutional investors, foundations and NPOs, and governments) are familiar with the concept of social impact investing, and there is only a small (but growing) range of intermediary organizations such as social venture capital funds (SVCFs) and investment advisers (IAs). SVCFs collect capital from investors (e.g., HNWIs and family offices, institutional investors, foundations, NPOs, and governments) and then identify and manage investments. IAs provide incubation, business support or corporate finance advice to innovative social ventures to improve their “investment readiness” (Gregory et al. 2012) and establish contact with investors.[6] SVCFs and IAs focus on social enterprises in fields such as education, work integration or social services (Petrick et al. 2014; Petrick 2013), organizations that often operate close to or within the boundaries of the German welfare system. The number of ‘deals’ is still very low (Hochstädter and Scheck 2014) and the total market volume was estimated at €24 Mio at the end of 2012 (Weber and Scheck 2012) with an estimated average of 10-15 deals of over €100.000 closed per year (Petrick and Weber 2013). Despite some efforts from foundations, intermediaries, or politics[7] the infrastructure for impact investing is still in an early development stage (Weber and Scheck 2012; Hochstädter and Scheck 2014).

On the research side, systematic examination of social impact investing and its drivers and barriers is still in its infancy. With few exceptions (Achleitner et al.

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[2] https://www.gov.uk/government/groups/social-impact-investment-taskforce.

[3] http://www.bigsocietycapital.com/.

[4] http://ec.europa.eu/internal_market/investment/social_investment_funds/index_en.htm.

[5] http://www.eif.org/what_we_do/equity/sia/index.htm.

[6] Since SVCFs usually represent the capital supply side of markets, we will include them when we refer to the “investor perspective” in this paper.

[7] The German Federal Ministry of Family, Senior Citizens, Women and Youth commissioned the public bank Kreditanstalt für Wiederaufbau (KfW) in 2011 to develop a ‘promotion program for social enterprises’ that works as a ‘matching fund’ with a private lead investor.

2011a; Alemany and Scarlata 2010), empirical studies mostly draw on anecdotal evidence and do not provide a comprehensive view of the specific challenges that arise in the field, particularly with regard to specific markets, welfare regimes, or philanthropic cultures (Kerlin 2006, 2010). Moreover, most studies focus on the investor perspective, often represented by SVCFs (Alemany and Scarlata 2010; Evans 2013; Mendell and Barbosa 2013; Miller and Wesley 2010), and very few shed light on the perceptions of, and implications for, investees (Davison and Heap 2013). What is more, social impact investing also yields interesting theoretical perspectives. It is not only a financing tool for social entrepreneurs stimulating their innovative activities, but an innovation in itself that has been suggested to change and redefine institutional logics (Moore et al. 2012b; Nicholls 2010). It does so by combining two traditions of capital allocation that have been at odds with one another historically, namely gift-giving, state spending, and mutualism for the creation of public goods prevalent in the social sector and practices of mainstream financial investment management from the commercial sector (Nicholls 2010). Accordingly, as one of the sharpest points of friction between the logics of the commercial capital market and the third sector, social impact investing could be an interesting case study in terms of observing competing or conflicting institutional logics (Thornton and Ocasio 2008; Pache and Santos 2010) within organizations, as well as in in the emerging field (Fligstein 2001) of social investment markets.

In this paper, we therefore provide a systematic empirical review of the major challenges for social impact investing in Germany. Taking a qualitative approach with semi-structured interviews, we enclose the perspectives of intermediaries, such as SVCFs and IAs, and investees and take into consideration the specific preconditions for social enterprises in the German third sector. Given the current political attention for helping social innovations to flourish and diffuse, understanding the capacity of social impact investing for fostering social entrepreneurship is highly relevant. We complement the empirical analysis by discussing the first theoretical implications of our findings, referring to the discussion on institutional logics (Thornton and Ocasio 2008) as a potential means for further analysis to understand the drivers and impediments of this phenomenon.

We will begin with a review of previous literature on impact investing and add some of our own conceptual thoughts. We will then introduce our research methods and a structured presentation of our results. After a discussion of the latter, we draw out some conclusions relevant for practitioners in the field as well as for further research.

Social Impact Investing

Defining Social Impact Investing

The scholarly literature specifically on social impact investing to date is limited (Brown 2006; Evans 2013; Hebb 2013; Jackson 2013; Mendell and Barbosa 2013; Moore et al. 2012b; Nicholls 2010; Silby 1997). It is grouped under the larger umbrella of *social finance* (Moore et al. 2012b; Nicholls 2010), a concept that has

been developed to describe all kinds of practices to pursue social and ecological goals with financial capital, including microfinance and traditional charitable grants and donations. While the idea of investing money with social or ecological goals is nothing new and can be traced back for centuries (Adam 2012; Ludlow and Casebourne 2012), the idea of leveraging venture capital mechanisms for social purposes is indeed relatively new. The term "impact investing" was fairly recently coined by the Rockefeller Foundation to describe the phenomenon (Bugg-Levine and Emerson 2011; Mendell and Barbosa 2013) and has been quickly adopted in practitioner and policy discussions. It describes the provision of financial capital (equity, debt or mezzanine) to support organizations in pursuing a social or ecological purpose for a limited time span with an entitlement of a financial return (such as dividend or interest payments).[8] This is usually accompanied by supportive management expertise for the organizational development of the investee, as already established within venture philanthropy (Hehenberger and Harling 2013; John 2007; Mair and Hehenberger 2014). However, the precise conceptual boundaries and terminology are still under discussion, and other terms such as "social investment" (Achleitner et al. 2011b; Ludlow and Casebourne 2012), "philanthropic" or "social venture capital investments" (Alemany and Scarlata 2010; Silby 1997),"solidarity investments" (Jégourel and Maveyraud 2008), or "community development investments" (Brown 2006) are used to describe widely congruent approaches.

Beyond the consensus that impact investing is a process of applying commercial investment approaches to generate financial returns *and* positive social and/or environmental impact (Hebb 2013; Mendell and Barbosa 2013; Wood, Thornley and Grace 2013), it is notable that authors in the scholarly literature have usually devoted little attention to clarifying definition issues. Although the conceptual boundaries are still fuzzy, two different perspectives can be distinguished in literature. First, there is a tendency of definitions that prioritize commercial returns and define impact investment as investing to create social and environmental returns "*beyond*" (O'Donohoe et al. 2010, p. 3; emphasis added) and "*in addition to* financial return" (Wood, Thornley, and Grace 2013; 75; emphasis added). That represents what is referred to as *finance first* impact investment (Hebb 2013).

We think that there is good reason to regard these investments as rather conventional when examining the potential and barriers of impact investing. In cases where the financial return plays the guiding role for investors and where investees are capable of producing risk-adjusted market rate financial returns, we may assume that a) there is less need for *impact* investment—'regular' investment will satisfy most of demand here—and b) there will be less and different barriers for impact investing.

Social impact investing on the other hand takes place where investors are willing to waive some of the return that a given level of risk would have to generate. In the case of trade-offs between social and financial returns, they put *impact first*.

[8] As in commercial venture capital (VC) investments, the deal structuring process follows different phases (Alemany & Scarlata 2010). These comprise a due diligence process, the valuation of the enterprise, as well as contractual agreements that define legal conditions, governance and participatory rights, as well as terms of repayment.

Therefore, we tend to delineate the core of the impact investment concept where social/ecological impact is actually ranked higher than or at least equivalent to financial returns. Although we acknowledge that demand may arise from investees who find the social sector specialist approach of the impact investor attractive, in principle, most of the demand for *social* impact investing stems from organizations usually not capable of producing market rates of financial returns; and supply of impact investment is tied to potential social/ecological impact more than to financial return expectations. Therefore, in this paper, we focus on the second category of *impact first* approaches to impact investing. Definitions see measureable social and ecological impact as dominant goals here, with the potential for a financial upside (Freirich and Fulton 2009; Hebb 2013; Petrick and Weber 2013). We refer to this approach as "social impact investing".

Impediments for Impact Investing

So far, very few authors have provided profound conceptual work on social impact investing or a systematic analysis of arising empirical problems. We found that the impediments for impact investing in Germany recurring in the literature can be arranged along three dimensions: *Financial returns*, *social returns*, and the *relationship* between individual investors, investees, and the surrounding *infrastructure*.

Concerning impediments related to financial returns, the literature has highlighted both investors' and investees' perspectives. Regarding the investor and SVCF perspective, authors have raised principal agent problems resulting from asymmetric information (Alemany and Scarlata 2010; Evans 2013; Achleitner et al. 2013) in pursuing the agreed goals and the generation of both financial and social returns. Alemany and Scarlata (2010) further discuss difficulties in the valuation of the SE during the deal structuring process (also see Social Impact Investment Taskforce 2014a). Evans (2013) points out that there is no widely accepted framework that allows social impact investors to determine if there will be a trade-off between social and financial returns in their investment and how to cope with it.

On the investee side, among others Moore et al. (2012a) stated that a lack of management skills or sustainable business cases might lead to a missing financial returns prospects and thus a lack of absorptive capacity for investments. Moreover, recent studies highlighted difficulties of (potential) investees with repayable and interest-bearing forms of financing due to their very fragile income situation in Germany (Spiess-Knafl 2012).[9]

Secondly and concerning *social returns*, we see a broad discussion about the impact of SE in the literature and difficulties of measuring or even quantifying it (Antadze and Westley 2012; Ebrahim and Rangan 2010; Mildenberger et al. 2012; Repp 2013; Flockhart 2005). Although standardized measures of success are very relevant in the social investment sphere, approaches as required by impact investors,

[9] Of 203 German social enterprises, 13.8 % had several shareholders, from which the shares of 80 % had a value of under €50.000 (Spiess-Knafl 2012, p. 165). 28.1 % of the organizations had a loan (Spiess-Knafl 2012, p. 166), although this number is substantially lower for smaller organizations (5.2 % of the organizations with an annual income under € 50.000).

such as the IRIS[10] or SROI[11] metrics, are currently still rather uncommon in Europe (Krlev et al. 2013). The lack of evaluation and impact measures for social/environmental and economic performance considerably contributes to the high transaction costs for investments to date. What is more, it is often criticized that financial remuneration of such returns is to date still inadequate (Social Impact Investment Taskforce 2014a). All this worsens financial return prospects which highlights the interdependent nature of the impediments at hand (Clark et al. 2012; Jackson 2013; Meehan et al. 2004; Repp 2013; Hehenberger and Harling 2013).

Thirdly, the *relationship* between investors and investees may be burdened by investees' value dispositions (Achleitner et al. 2013; Glänzel et al. 2013): It has been shown that willingness to take risks scores very low among the most important values for SE in Germany and that they perceive various forms of risk as inhibiting their capacity to innovate; they also value a focus on financial results and partners' financial strength as rather unimportant. All this might be at odds with investment logics.

The often difficult relationship between investors and investees is further complicated by the (lack of) *infrastructure* of the social impact investing market as a (potentially) emerging organizational field (Fligstein 2001). For instance, in Germany there are no tax incentives for public benefit oriented investments (Weber and Scheck 2012). Even more, the constitutional framework for third sector organizations in Germany (and elsewhere) often prohibits the accumulation of reserves and the development of a sufficient asset base that would be relevant for repayable funding instruments (Flockhart 2005). Further, the lack of adequate 'pipelines' for investments among intermediary organizations has been highlighted (Brown 2006; Emerson and Spitzer 2007; Freirich and Fulton 2009; Moore et al. 2012a), recently also for Germany (Weber and Scheck 2012; Hochstädter and Scheck 2014). Mendell and Barbosa (2013) also point out the need for secondary markets for investments that enable investor exits and increase liquidity in impact investing markets, although such markets have been emerging recently in some countries (cf. also John 2007), but not in Germany.

In general, the policy and legal framework in Germany seem to pose challenges for impact investing to date. Its conservative, corporatist–statist welfare state system based on social security systems (Esping-Andersen 1990) seems to leave little flexibility for surplus generation which would be a precondition for investment. This had been for long to protect social service providers from commercial competition and to allocate funds in accordance with their financial needs based on the "principle of subsidiarity". Although in recent years, there has been an introduction of market-like mechanisms in some fields of social and health policy (Henriksen et al. 2012, p. 472ff), the vast majority of service providers operates in competitive,

[10] **I**mpact **R**eporting & **I**nvestment **S**tandards; http://www.iris.thegiin.org/about-iris.

[11] **S**ocial **R**eturn **o**n **I**nvestment; a recent study has shown that the UK has so far been the World's most SROI-affine country with the vast majority (70) of all 118 SROI analyses conducted between 2002 and 2012 having taken place there. Nevertheless, the absolute numbers of mere 70 in the UK, five each in Austria and the Netherlands, and three in Germany underscore that this method is not very widespread in Europe so far (even in the US where the resource-intensive SROI analysis was invented, so far only seven full-scale SROIs have been conducted) (Krlev et al. 2013).

hard to enter quasi-market structures which usually have a triangular constellation: Public bodies purchase social enterprise services from SEs to be provided to beneficiaries legally entitled to use these services, e.g., the elderly (elderly care), parents (childcare), or people with disabilities (job creation). Prices in these markets are often not determined by demand and supply, but through regulations and in some areas negotiations between service providers and service purchasers about fixed service fees, leading to fierce cost competition (Bachert and Schmidt 2010).

Literature examining the relationship between the impact investing approach and SEs active these quasi-markets has not been existing at the time the research was conducted. However, there had been hints that these markets' characteristics may be a problem for impact investing in SEs, because they yield rather low income prospects, high entry barriers, risk aversion, and also certain types of cultural aversions (Nock et al. 2013; Weber and Scheck 2012).

Research Objectives

The research we did was meant to check in how far the impediments identified in the general literature are observable in Germany as well and which additional barriers are in place due to German particularities for which the literature had been very scarce. We have organised our research along the three problem dimensions recurring in the literature: A *financial return* dimension, a *social return* dimension, and a *relationship and infrastructure* dimension. Consequently, the guiding question then is: What are the impediments for social impact investing in Germany, related to financial returns, social returns, as well as relationships and overall infrastructure?

Our analysis comprises the perspectives of the investors (represented through SVCFs as their investment intermediaries), the investees, and the framework conditions in the German ecosystem, which is in particular the third sector. In doing so, we take an explorative approach with a broad focus and provide a systematic summary of the different issues and barriers.

Methodology

For the empirical part of the study, we took a qualitative research approach which is an appropriate and effective strategy for early-stage research on a specific topic to gain understanding in situations where there is limited knowledge (Bryman 2004).

Sample

The data for the study were gathered from a series of semi-structured interviews with leading representatives from 21 organizations active in the German social investment market. On the one hand, these included 14 high-profile social entrepreneurs: They were selected based on desktop research about their growth plans and how to finance growth; six of them already had signed a social investment deal or were in final negotiations; the rest of the investee part of the sample was

ready for and willing to take investment as far as could be seen at this stage of the research. On the other hand, the sample included five investment intermediaries selected based on their respective relevance to the social finance market in Germany: Three of the most relevant SVCFs in Germany investing nationally and internationally; one venture philanthropy fund working with interest-free loans beyond grants; and one newly emerging IA organization that works on building an "investment pipeline" to connect investors and SCVFs with social enterprises. Based on our research agenda, case selection of investors and intermediaries was straightforward, as the field is quite small in Germany and actors are few in number. Regarding investees, we applied a purposeful sampling approach (Patton 1990) to maximize diversity of characteristics such as fields of activity or governance structures in the sample to comply with the explorative nature of the study. This also includes a range of organizations who operate within the quasi-markets of the social welfare system and build their income models to receive predefined fees for specific services from a public authority or a social security system (see Table 1). Interviewees were contacted in person or via email, if needed with a follow-up call. Except one, all individuals contacted agreed to be part of the study.

Data Collection

In preparation of the interviews we first reviewed documents and online data to provide information on the interviewees. Due to the nascent state of the field, interviews were highly explorative in nature, semi-structured and based on

- A set of standard core questions formulated in a rather open way to stimulate discussion about recurrent themes in the literature (business model of investees, sources of income, trading history, finance mix experiences with acquiring investment capital, investment readiness), particularly drawing on results from the so far still limited previous empirical work on social entrepreneurship in Germany (Jansen et al. 2013; Spiess-Knafl et al. 2013)
- and an individual set of additional questions (Gläser and Laudel 2009; Kleemann et al. 2009) to allow dealing with interviewees' specifics and issues emerging in the course of the discussion, as some answers demanded further exploration. This required improvisation of additional questions on the spot and thus a less rigorous approach, but it allowed identifying and discussing barriers which had remained relatively unnoticed by previous research.

Data were collected between December 2012 and March 2013, and a total of 21 interviews were carried out during that period. Each interview was conducted by two researchers to ensure some basic level of inter-researcher objectivity (Helfferich 2005). All interviews were conducted in 2013 in the context of a European research project and a consultancy study.

Data Analysis

To raise objectivity and ensure validity, interviews were followed up and analysed in several discussion rounds between interviewers and fellow researchers: One

Table 1 Sample organizations

Organization	Field of activity	Legal form	Founded	Income model[a]
Social enterprises				
SE 1	Child day care	gGmbH[b]	1998	*Quasi-market*, *market*
SE 2	Multigenerational housing	e.V.[c]	1990	*Private grants/donations*, quasi-market, market
SE 3	Job orientation	e.V.		*Public grants; market*
SE 4	Civic engagement of youth	e.V. & gGmbH	2006	*Private grants/donations; market*
SE 5	Work integration	e.V./GmbH	2008/09	*Quasi-market;* market; public grants; private grants/donations
SE 6	Work integration	GmbH[d]	1998	*Market*; public grants
SE 7	Work integration	e.V./GmbH	1961/2005	*Market*; public grants
SE 8	Work integration/organic food	GmbH	2010	*Market*; public grants
SE 9	Work integration/breast cancer screening	gUG[e]	2006	*Market; quasi-market*; private grants/donations
SE 10	Sustainable apparel	GmbH	2012	*Market*
SE 11	Regional economic development/sustainable nutrition	AG[f]	2006	*Market*
SE 12	Consultancy for social entrepreneurs	gGmbH/GmbH	1994	*Public grants;* quasi-market; private grants/donations; market
SE 13	Insolvency advice	e.V.	2009	*Private grants/donations*; public grants
SE 14	CSR consultancy/family services	gGmbH	2010	*Private grants/donations*; market
Investment intermediaries				
In Int 1	Social venture capital fund	GmbH/GmbH & Co. KG[g]	2010	*Market*
In Int 2	Social venture capital fund	GmbH	2003	*Market*
In Int 3	Social venture capital fund	Foundation/GmbH	1997	*Market*
In Int 4	Venture philanthropy fund	GmbH		*Private grants/donations; market*
In Int 5	Investment advisor	gGmbH	1980/2003	*Private grants/donations*

[a] Most important income sources in *italic*

[b] Charitable Ltd

[c] Registered Association

[d] Ltd

[e] Charitable (Small) Ltd

[f] Corporation

[g] Limited partnership with an Ltd. as general partner

round immediately after each interview to jointly identify the main themes and major outstanding points; then after the interview had been transcribed and any additional documents acquired during or after the interview, one round with the entire project team to discuss main themes (Lucius-Hoene and Deppermann 2002; Maykut and Morehouse 1994) and to link them to the overall research setting as well as to previous and coming interviews; and one final round to discuss all findings and relate them to the overall research process and research questions. To validate some of the more unexpected or controversial findings in the first interviews, these were also discussed with interviewees in subsequent interviews. We arranged our findings along three emerging domains (financial returns, social returns, and relationship and infrastructure). Further, we developed causal propositions as a condensed expression of the implications of our findings.

Results

Concerning the impediments for social impact investing in Germany, we found eight problem areas for impact investing in Germany. We organized these along the three dimensions already derived from the literature: a *financial return*, a *social return* and a *relationship and infrastructure* dimension.

Financial Returns

As impact investing is about generating some form of financial returns, a first question is whether or not this can actually be achieved when addressing social problems. It is obvious that investments must generate some form of income to repay the investment, so there must be sources of income for investees. But they also need the management skills to develop and implement sustainable business models. Both issues also influence financial risk perceptions, on both investees' and investors' sides. These emerged as central criteria to look at when assessing the state of and potential for impact investing.

Insecure Income Models

Most SEs are active in social welfare quasi-markets under public legislation in Germany. Therefore, structural characteristics of these quasi-markets heavily influence whether revenue-generating SEs in Germany can build sustainable income models to qualify for social impact investing. While a high degree of innovativeness (e.g., solutions that span across different thematic fields) may increase the chances of securing funds from foundations or similar financiers, it is also likely to decrease their competitiveness for public (quasi-)market income opportunities. This is due to a lacking fit with public commissioners' rather narrow terms and 'siloed' funding structures. For instance, terms do hardly allow funding *preventive* interventions for endangered populations in many fields. Beneficiaries need to be obviously suffering from a severe problem such as unemployment or waywardness first. Also, an SE might work on integration of (potentially) delinquent youth in the job market to

decrease the likelihood that they get involved in criminal activities. But public administration bodies in youth aid, work integration and justice system might forward funding responsibilities to each other instead of collaborating.

The complexity of income generation in this context is illustrated by the following quote:

> Some time ago, I spent 1 year researching which commissioner is responsible in which area. And in this 1 year period I did not finish. So—this is all so frittered in Germany. It is always that someone else is in charge. And everywhere there are different regulations." (SE 5)

Investors, with their perspectives shaped by regular commercial markets, often do not have experience with these quasi-market specifics. The medium- and long-term income situation of SEs here is not only influenced by their performance or demand of target groups, but might more regularly be subject to, for example, political changes. Different investees also mentioned that these characteristics often tie the income models of SEs to enormous insecurities and thus high risks in the long run.

Proposition 1a SEs experience insecure income models due to a mismatch of highly innovative social enterprises with inflexible public welfare funding structures that impede social impact investments.

Another aspect arises from potential conflicts between the logics of (impact) investing and usual forms of SE funding that do not require repayment or interest payments. Besides the fact that this is usually prohibited, as can be the case with public or social security funding sources calculating the cost-covering service fees, this also bears a legitimacy perspective. As it was stated in the interviews, some SEs feared that private donors could 'vote with their feet' if they were to learn that their funds may (at least in part) be used to pay off profit-seeking investors. In Germany, particularly after a relatively recent series of misbehaviours and embezzlements of funds in large non-profits, the idea among private donors and foundations that every cent has to reach those in need ("Jeder Cent kommt an!") is very popular and widespread. The funds should be employed directly 'on the spot' instead of helping to build organizational capacity and infrastructure—or to pay off investors (who usually are able to invest in overhead costs which, are necessary to scale an organization's impact). The employment of funds 'where they are needed' is a more or less explicit claim among many German donors:

> "Even worse [than public sources] are foundations and their private founders and private donors, especially the smaller the sums the more demanding they are, and they are like: Hey wait a minute, 100 percent must get to the children! But afterwards still they want to see proper accounts. And they don't think about who's the one in charge for doing the accounts. (…) [We invest in] overhead. Exclusively overhead—capacity building, management, administration, controlling, marketing, distribution, public relations, general management." (Investment intermediary 3)

Proposition 1b Insecure income models due to conflicts between various forms of funding impede social impact investments.

Another more profound problem remains when looking at organizations that work outside the funding structures of the welfare state. This problem is inherently connected to achieving social impact: Severe social problems often simply cannot provide opportunities for sufficient revenue generation to pay off investors. The reason for this is obvious: Marginalized groups affected by social problems are not in the position to pay for the services SEs provide when the latter are not covered by the social security system. As a result, we can say that the more severe the social problem to be solved, the larger in principle the potential for social impact generation (e.g., the poorer the target population, the larger the potential impact). However, under private market conditions, the potential to generate income by solving such severe social problems is particularly low (as the necessary economic resource base is simply not there in the direct socio-economic ecosystem). The alleged promise that SEs can overcome these market failures is hardly redeemed, at least in the sense that they manage to create market returns (Austin et al. 2006; Seelos and Mair 2005). Therefore, we can rather speak of a persistent market failure that implies the need for continuous philanthropic funding for specific social problems, expressed by one of interviewees (an 'impact first' investor) like this:

> "You should not pretend that there is much money to make while at the same time doing good. (…) [We] have to find people who are ready to give their money for problems where there is no market and who do not want it back and instead appreciate the social impact, the social return." (Investment intermediary 3)

What is more, the social impact created by a particular intervention can have lasting and multi-dimensional effects (e.g., as public goods): Those who invest in youth crime-prevention are usually not the ones who profit directly from the expected lower youth criminality outcome. Similarly, those who invest in environmental protection usually do not reap the economic returns of their efforts.[12] So the market fails in rewarding those who invest in solutions to complex social problems financially, although they create profound social impact. That often makes it extremely hard for them to develop sustainable income models.[13]

Proposition 1c Insecure income models due to persistent market failure impede social impact investments.

Limited Business Skills of Social Entrepreneurs

Most social entrepreneurs in our sample did not have a business background. Some of the investment intermediary interviewees stated that even organizations that are willing to attract investment capital lack the skills to develop and implement proper

[12] Other areas stated by our interviewees in which such problematic constellations impede the development of sustainable income models include (some parts of) education, job market qualification, child and youth care as well as also parts of the elderly care field.

[13] The social impact bond (SIB) model has been designed to overcome this problem. However, the first SIBs are currently only tested in the US, the UK and one in Germany; so the model is far from being widely used.

business plans. And many SEs were very frank in confirming this impression. This reinforces the aforementioned general difficulties to build SE business models. Yet, long learning and development processes are not very attractive to finance: SVCFs prefer investment-*readiness*—also on behalf of their capital providers. Therefore overall, this leads to a rather low number of organizations ready and qualifying for social impact investment based on their stage of development, growth plans, levels of competencies and income model maturity.

Proposition 2 Lacking business skills of social entrepreneurs impede social impact investments.

Differing Risk Perceptions

Related to the previous aspects, SEs in the sample perceived the risks of taking up repayable capital as quite high. The interviewed SVCFs considered social impact investment as highly risky as well. They (have to) see risks involved in breaking new ground due to innovative approaches, since often both have limited experience or knowledge in this emerging area. Particularly business models based on income from the welfare market are not a common ground for investors in Germany. This bears potential for conflict, since investors try to protect themselves with contractual conditions that minimize their risks. The typically offered mezzanine constructions (that combine elements of a loan and an equity investment) yield co-decision rights interest payments, and repayment of the investment on pre-defined terms. Those conditions, however, are perceived as very restricting and non-favourable by many social entrepreneurs:

> "So basically, I am the loser [laughs] as a social entrepreneur. I did not understand, honestly, when I first looked at these contracts, I did not understand at all why I have to hand over shares for money that I have to pay back, virtually like a loan. I did not get the point, and actually I still don't get it. But that's the VC business. I hand over shares because the investment is subordinated. Because it still is risk capital." (SE 5)
> "[SVCF] has offered to provide us with money for 8 % interest. Well, and I thought: I'd rather go to my Volksbank and ask them: Can you lend us money for 3 %? So, 8 % I deem unattractive for the social sector." (SE 3)

On the other hand, one may argue that risk is *not* different to the 'classical' VC business, since there investees also break new ground by offering innovative products or services, and just the parameters are different. Interestingly there were even statements that considered the risks in impact investment lower compared to classical VC. Interviewed SVCFs argued that a certain ethos among SEs might overweigh structural aspects:

> "I suspect the default rate is lower, because the self-inflicted ethical and moral self-conceptions of social entrepreneurs are higher in comparison to those of entrepreneurs in technology. (…) In total, there is less risk, I would say due to these different ethical-moral attitudes of social entrepreneurs." (Investment intermediary 2)

However, if this is true the risk premium should actually be lower than in conventional VC—which is rarely the case. Thus, the risk premium could actually be inflated in many cases of social impact investing.

Proposition 3 Difficulty in accurately perceiving risks impedes social impact investments.

Conclusion: Financial Returns

Concerning the financial returns dimension in social impact investing, there is a set of interwoven barriers in Germany. In particular, investment-readiness (Gregory et al. 2012) is affected by insecure income models, the capacities, stage of development, strategic plans and normative orientation of SE investees, as well as their business and management skills. This has a negative effect on the risks perceived by investors and investees in providing/taking up investment capital. A German particularity in this respect is the complex welfare system in which many potential SE investees are active.

Social Returns

The second dimension valued highly by social impact investing literature and practice is social returns in addition to financial returns. Our findings indicated that there are at least two important aspects in this dimension: Does the generation of social impact play an adequate role in the contractual relationship between investors, intermediaries and investees, in other words: are social returns accounted in similar ways to financial returns? And is social impact actually achieved by the investment, i.e., beyond "deadweight" (Rauscher et al. 2015) or "beyond what would otherwise have occurred" ("additionality criterion"; see Brest and Born 2013, p. 25)? We will start with the first question, which relates back to the last point of the previous section, and then turn to the second.

Bounded Financial Quantification of and Accounting for Social Returns

Beyond the possible overvaluation of financial risk, there is a related tendency to *undervalue* social returns created in social entrepreneurship. Financial returns might be lower due to a trade-off with social impact, but if the SE has to generate and pay market rates of financial returns, then it is obviously not compensated for the creation of social returns in monetary terms. Some SEs argue that investors' decision-making is still predominantly shaped by economic reasoning, and that investment terms and conditions are frequently oriented towards usual VC parameters, while social returns rather have a tick-box character:

> "Honestly speaking, the contracts are not at all 'social'. So they are plain, straightforward venture capital contracts with all the nastiness you can possibly imagine in the VC business." (SE 5)

However, this might be an extreme position, and we witness two contrasting perspectives here: From their individual investee perspective, SEs experience that their social value creation is not profoundly accounted for in investment contracts. SVCFs on the other hand have to take a portfolio perspective. They strive to compensate for potential losses, and in comparison to commercial venture capital they cannot accomplish this by generating returns through lucrative exits (Moehrle 2014). Thus *individual* investment conditions need to reflect this *collective* investment objective of SVCFs, which might only be to avoid losses for the capital providers with zero returns. Nevertheless, the individual investee might experience the conditions offered to him/her as rather challenging.

This seems to reflect a more general lack of quantification of social returns in financing organizations that create social impact through savings which—as stated above—often accrue at other points. Interviewed social entrepreneurs claimed that there is an urgent need to account for the savings of costs to the entire socio-ecological system achieved through SEs' efforts. Otherwise the social impact achieved by SE for society remains largely unnoticed (externalities), instead of contributing to the sustainability of business models:

> "I strongly believe, more than ever before, that social and ecological achievements have to be honored and valued financially. (…) At the core it is about extending financial accounting in order to make economic activity based on social-ecological standards pay off financially (…). And with that we would have a gigantic momentum at our hands if we could tie this to the very regular financial accounting." (SE 11)

Proposition 4 Inability to adequately value social returns by investors and SVCFs impede social impact investments.

Pressure for Impact Demonstration

Although SEs perceive their social impact not a very relevant criterion in negotiations about the terms and conditions in investment contracts, SVCFs still require evidence on social returns. This is because from the SVCF perspective, transparency on the social impact actually created through investment (i.e., beyond "deadweight") is relevant not only as indicators for performance, but also for legitimizing investments towards the actual money sources as well as to attract new investors to the field. Therefore the funds impose high requirements for reporting on SEs. However, while it might be easy to provide *output* data by the social enterprises (such as the number of beneficiaries that participated in a certain intervention), there is a lack of tools to grasp *outcomes* (such as improved well-being or changes in biographies) or clearly attribute social impact to SEs' engagement (Rauscher et al. 2015; Antadze and Westley 2012; Ebrahim and Rangan 2010). From the SE perspective, not only are current impact measurement tools and procedures not really suitable for linking mission with investment. Efforts to prepare measurement and reporting are often perceived to exceed reasonable degrees.

Proposition 5 The pressure to demonstrate social impact together with a lack of efficient measurement tools impedes social impact investing.

Conclusion: Social Returns

Summarizing the relevance of the social return dimension in the impact investing process, certain limitations still prevail: First, the creation of social returns (evidenced to go beyond what would have occurred anyway and without the investment) does not yet play such an important role in the contractual relationship between investors and investees. To make lasting progress on that issue, however, it would be necessary to demonstrate impact in ways more suitable for investment relationships. Although there are a variety of impact measurement approaches available (e.g., SROI[14] or IRIS[15]), they are often either too time-consuming for SEs to use or not useful in the contractual impact investing relationship.

Relationships and Infrastructure

Research on regular venture capital markets shows the important role of trust and personal relationships in investment decisions (Franke et al. 2006; Harrison et al. 1997). Our data analysis reveals that this also holds for social impact investing, which is not surprising given its nascent state of development in Germany and the fact that formerly separated fields start to interact. Arrangements and procedures are still far from being standardized and negotiated between individuals whose particular characteristics as well as cultural and professional backgrounds often differ considerably. This is complemented by an only slowly emerging infrastructure for social impact investing in comparison to more mature and established markets where arrangements and procedures are much more standardized.

Deviating Language, Attitude and Convictions

Different SEs—with their professional biographies tending to be rooted in the third sector—stated that they often have the impression of speaking 'a different language' to actors from the business sector. Moreover, SEs frequently perceive investors' and SVCFs' patterns of thinking, evaluation, and communication to be shaped primarily by financial return orientations, and explain their attitude by their roots in the venture capital and corporate finance sectors. The scope of our analysis did not really allow us to make a judgment on how far this perception is driven by clichés rather than actual experience, although it resembles findings from other hybrid contexts (Dufays and Huybrechts 2015; Battilana and Dorado 2010; Buttle 2008). However, this perception forms a relevant barrier for social impact investing, since

[14] For more information on the **S**ocial **R**eturn **O**n **I**nvestment method, please see http://redf.org/learn-category/sroi/.

[15] For more information on the **I**mpact **R**eporting and **I**nvesting **S**tandards, please see http://iris.thegiin.org/.

as a sort of self-fulfilling prophecy it complicates the interaction between SEs and SVCFs.

Yet, results were somewhat more differentiated and not as straightforward on a second look. Members of each group—and particularly pioneers like SEs and SVCFs—among themselves face communication and cultural barriers. This explains that it is not always the income model or financial or social return expectations of an organization that determine 'fits' between investors and investees. Instead, for example a female interviewee emphasized the importance of personal and habitual traits (age, sex, appearance, manners and body language):

> "It's not institutions negotiating with institutions, but people with people. I believe you have to be careful which funder you are going to and which kind of person this funder is personally into. And once I have analyzed this—and it's the same with foundations—and I know the person working on that practically accepts only a 35-year-old with a PhD, well then I will have to send a 35-year old with a PhD, even if I have to 'rent one' for a day. And so there is also a glass ceiling; above a certain volume of money, women don't need to start putting effort in something." (SE 3)

Also the professional backgrounds of the persons involved seem to matter. For instance, one SE interviewee with professional roots in the private business sector started to 'get along' and reach mutually beneficial agreements much better with partners from his origin sector than with foundations' representatives. Such cross-sector biographies that facilitate collaboration might become more common in the future, since there was also some evidence that SEs gain in attractiveness of SEs as employers for young business school graduates.

Further, we detected a general skepticism against investment-based organizational growth by many SEs. This can be related to the strategic assessment of growth options of many SEs. They anticipate the previously outlined difficulties of building up a business model, developing the necessary management skills, and the resulting problems and pressures of paying back investments in the short-term. It was very often put forward by the interviewed SEs that it takes a long time to demonstrate that the SE model works, which might be at odds with an obligation of repayment or paying interest and returns:

> "So just in the last 2 years, the team and I have finally managed to come up with a financial plan and a business case, with a functioning model. So—now I know what works. But (…) it took 2 years, 2 years until we really knew which business concept is sustainable. (…) Now we know how it works, (…) but it took us longer than we had expected. That's very often the case with social entrepreneurs." (SE 14)

Thus, facing the expectation of a painful learning process, many organizations prefer to grow slowly, or even not to grow at all and rather consolidate and stabilize their position. And if they decide to grow, they often reject the idea of taking investment capital and the assigned obligations:

I think it is better to grow slowly and without constraining oneself with debt. So we said we don't take debt. We grow according to how much money is available." (SE 3)

Proposition 6 Deviating language, attitudes and convictions regarding investment-capital funded growth of investees and investors, due to different professional backgrounds, impede social impact investment.

Conflicts About Autonomy and Co-decision Rights

The strategies to cope with the different goals, risks and insecurities within impact investing differ between SEs and SVCFs, which also brings up a conflict concerning investee autonomy that became obvious in the study. SEs strongly emphasize non-pecuniary rewards: Besides aiming at solving a social problem, this can be personal ambition such as striving for individual development and prestige, or following the motivation of compassion (Miller et al. 2012). As for "regular" business entrepreneurs, autonomy and room for managerial freedom are closely linked to these goals (Amit and Zott 2001; Hamilton 2000). Even more, SEs stated that autonomy is particularly important and plays an even more crucial role as non-material compensation for hardship, insecurity and potential financial losses than in commercially oriented entrepreneurship, since they can hardly expect high financial returns as compensation in the future.

On the other side, investors/investment intermediaries try to minimize risk exactly by intervening in this autonomy through restrictive contract conditions and claiming formal co-decision rights (cf. risk perception above). They argue that even without experience in the entrepreneur's niche of activity, they usually do have experience with early stage business and managing innovation generally and thus, among other reasons, do have a justified interest in enforcing their right to (co-)determine the organization's path by gaining and exercising co-decision rights:

> "The structuring of organizations is important, to define processes and assign responsibilities clearly. Organizational charts, organizational structures and decision paths. (…) The classic management know-how. This is not very common in the social sector." (Investment intermediary 2)

This can be another burden for impact investing as the following quote shows:

> "So, it is a great success for start-ups if the founders can act freely and without fear and make decisions with sort of a business sense and rationality, but also with a certain aggressiveness and readiness to assume risks which are required in start-ups. And when I look at a standard [VC] participation agreement containing six-digit contractual penalties for all sorts of actions—just to make *risk* capital fraught with *low* risk (…)—then you as a founders start asking yourself questions how much this pays for you." (SE 10)

Moreover, the question of weighing of social and financial returns against each other additionally contributes to the controversial character of the subject and the issue of who should be given which (co-)decision rights.

Proposition 7 The conflict between the need for autonomy of the SE (as a compensation for dimmed financial income prospects) and investor claims for control and co-decision rights impede social impact investments.

Lack of Intermediary Structures

Some of the aforementioned problems presumably could be addressed by investment advisers and further intermediary organizations, e.g., by "translating" between investors, SVCF, and investees, providing support to set up mutually satisfactory agreements concerning autonomy and co-decision rights, storing and developing relevant knowledge and tools, or creating more transparency in supply and demand in social impact investing. However, our analysis confirmed that such structures are largely missing in Germany to date, and that this has aggravating consequences for both parties, mostly because it induces high transaction costs. These overstrain the capacities of many SEs on the one hand and further decrease the attractiveness of investment deals for investors on the other, since the investment sums in SE are usually already very low.[16] Moreover, according to SEs there is limited transparency on capital supply, and a principle of St. Matthew that lets investors and investment intermediaries always focus on the same candidates. Currently different intermediary activities have started to overcome these problems, for example by providing pro bono support and network access. But it will take some time to build up a solid "investment pipeline" here. Moreover, one investment intermediary also mentioned a time-consuming administrative outlay in the set-up of investment funds in Germany in comparison for example to the UK or Switzerland due to legal requirements and financial supervision rules. Intermediaries could provide help here as well.

The missing intermediary structures are also reflected by a rather narrow supply of investment capital according to the SEs in the sample. For instance very few investors/investment intermediaries in Germany provide social impact investment capital in the range of €200.000 to €500.000. So access to capital is extremely limited. Generally, there is rarely a specialization regarding investment sizes or themes (such as elderly care, health services etc.) that could decrease transaction costs for instance in the due diligence process, due to the competitive advantage developed through familiarity with a niche.

Proposition 8 Disproportionately high transaction costs and a lack of intermediary structures impede social impact investments.

Conclusion: Relationship and Infrastructure

The crucial role played by trust and personal relationships in investment decisions forms a third and final complex of barriers to social impact investing in Germany. Overall, the field and the actors crowding it are still very much rooted in their

[16] The matching based program of the Kreditanstalt für Wiederaufbau (German Bank for Reconstruction and Development) even makes this problem more virulent, since the investment sum is split in two here and an additional partner has to be included in the coordination process.

respective fields of origin. Further and more diverse intermediaries and investment advisors are needed to bridge the gap between investors and investees both on symbolic and cultural levels as well as in more structural terms, such as the disproportionately high transaction costs still involved in social impact investing.

Discussion

Our results confirmed most of the barriers mentioned in the general literature on impact investing for Germany, such as issues of investability, financial return prospects and investment willingness (financial dimension), social impact demonstration and remuneration (social dimension), and problematic actor constellations together with the lack of supportive infrastructure (relationship and infrastructure dimension). Beyond these, Germany's complex quasi-market environment interferes with the idea of surplus generation or paying rents for innovative approaches based for example on prevention. For innovate action there are hardly any funds budgeted in this system, which wakes it particularly difficult for investors to find attractive investment opportunities. Table 2 summarises these impediments taking investees' and investors' perspectives respectively:

From a theoretical perspective, institutional logics (Friedland and Alford 1991; Thornton and Ocasio 2008) seem to be helpful in explaining the barriers and tensions detected. Institutional logics are defined as "the belief systems and associated practices that predominate in an organizational field" (Scott et al. 2000, p. 170). Both SEs as well as SVCFs may be conceptualized as hybrid organizations that combine different institutional logics to various degrees (Dufays and Huybrechts 2015; Pache and Santos 2013; Skelcher and Rathgeb Smith 2014; Mason et al. 2007) yet they are still dominantly linked to different organizational fields (Fligstein 2001).

Accordingly, there is some evidence in our results that SEs are still shaped very much by a social sector logic, while impact investors and investment side intermediaries mostly follow the logics of commercial finance markets. This holds for both structural and symbolic manifestations of institutional logics (Friedland and Alford 1991; Thornton and Ocasio 2008): On the one hand, the compensation system in German welfare markets is somewhat at odds with a social impact investing logic, and on the other hand legitimacy problems emerge when combining philanthropic private donations with return and interest payment to social impact investors. As previous studies showed for other contexts (Battilana and Dorado 2010; Lounsbury and Crumley 2007; Lounsbury 2002), we also have seen that professional backgrounds have a significant impact on shaping the way in which both investees and investors execute their agency, i.e., the ways in which they manage demands are influenced by the institutional logics they are exposed to. This holds particularly under the circumstances of tension and uncertainty often prevalent in the nascent field of social impact investing due to the lack of experience and guiding principles. The actors generally seem to rely more on the practices, tools, and habits prevalent in their respective field of origin. SEs react to demands from market logics quite substantially according to social sector logics.

Table 2 Impediments in social impact investing

Dimension	Problem area	Third sector/social enterprises	Financial market/social impact investors
Financial returns	Income models	Prevalence of quasi-markets and philanthropy; cost coverage logic and no/restricted remuneration of preventive approaches; subject to different insecurities	Strong influences of commercial markets, return creation logic; secure income model as key criterion for investment decision
	Business skills	Additional competencies; subordinated criterion in organizational development	Core competence; key criterion for investment decision
	Risk perception	Focus on risk of failing to achieve social impact; weighting financial risk against social return (beneficiary orientation);	Focus on financial risk; Weighting financial risk against financial return (capital provider orientation); restrictive investment condition versus high moral standards of SEs as security
Social returns	Valuation	Social return perceived as compensation for financial return	Social return taken for granted and perceived as addition to financial return
	Demonstration	Complex social impact generation; success measures based on individual theory of change	Legitimacy towards capital providers; success measures standardized and comparable
Relationship and infrastructure	Language and attitude	Agency shaped by professional biographies in social sector; commitment to scaling through internal/non-refundable capital	Agency shaped by professional biographies in VC sector; commitment to scaling through investment capital
	Autonomy and co-decision	Autonomy as a compensation for dimmed financial prospects for social entrepreneurs	Claim for co-decision rights as risk coping strategy
	Intermediary structures	No investment advisors; no track records; no investment pipelines	Few VSCF; disproportionately high transaction costs; no diversification and specialization in supply

For them, social value creation remains the primary goal, and commercial activity and value patterns are only a means to achieve it (Nicholls 2010). Similarly, they see growth as a means to this end, not as a means in itself or to fulfill a business plan. And because social value is a primary objective that is complex and needs constant adjustment, organizational practices are often highly individualized and customized to the specific situation, and so are rationalities and measures of success. A comparable quantification is therefore still very demanding.

On the other hand, although SVCFs' practices and value dispositions are also shaped by social purposes, their actions are also likely to be influenced by their professional backgrounds and the associated belief systems and practices, which are frequently those of the VC or banking sector. Thus, the primary value practices are

oriented towards the aversion of financial risks according to the exercise of fiduciary responsibility. The means to achieve this consists in a sound business plan to be implemented by the investee with clearly verifiable milestones, ideally in quantitative terms which are easily communicable to SVCFs' primary stakeholders: Capital providers like HNWI. Also investors' practices tend to be more standardized (e.g., in due diligence processes).

Nevertheless, new strategies could be observed in our sample supporting the proposition that social finance yields new institutional logics (Nicholls 2010). Their development is driven for instance by people with professional backgrounds in both sectors. Moreover, particularly SEs seem to be able to deal with other institutional logics without completely adopting them. Similar processes have been shown for other contexts in which actors cope with differing institutional demands by pragmatically performing practices in ways that are in line with their pre-existing self-conceptions and patterns, or by preserving dual identifications with different institutional logics (Lok 2010; Reay and Hinings 2009). However, practices and value patterns and thus institutional logics intermix in both SE and SVCFs, qualifying them as what has been labeled "assimilated hybrids" (Skelcher and Rathgeb Smith 2014, p. 11): "In the assimilated hybrid, the core logic remains but the organization adopts some of the practices and symbols of the new logic." Our findings also support the propositions made by Pache and Santos (2013, p. 913) who argue that hybrids employ strategies of *selective coupling* of institutional logic elements "to manage the incompatibility between logics". The exact mode of doing so are shaped very much by the institutional origins of the respective organizations (ibid.; also see Dufays and Huybrechts 2015; Billis 2010; Pache and Santos 2010).

Limitations and Further Research

Our findings are subject to some methodological limitations. First, our sample is rather small and concentrated on Germany, where social impact investing is still in its infancy. While the sample size is reasonable to provide an overview on key issues from an empirical perspective, theoretic generalizations, for instance regarding the role of institutional logics, can only be preliminary and need further examination, e.g., regarding differing national contexts and maturity of social impact investing markets. Such research should also comprise strategies of the actors to cope with conflicting or newly emerging institutional logics.

Moreover, we cannot verify that all of the barriers occur in social impact investment only. Many seem to be similar to the challenges in regular venture capital or other forms of investment. For example, conflicts between autonomy of the investee and control by the investor also may occur in conventional venture capital investments. Yet, the specific circumstances in social impact investing—such as the lack of visibility regarding financial return in the future—seem to make such conflicts more virulent in social impact investing. Additional research might focus on such differences. Further, the exact requirements of investors concerning impact assessment and how results can feed into investment decisions and management are an important perspective.

For overcoming the barriers we found, ways to adjust investment tools to the requirements and needs of SEs provide a further research perspective. This comprises, for instance, how different instruments can be connected or how credit enhancement tools (GIIN 2013) can be provided. On the other hand, it also appears useful to learn more about the demands and perspectives of original capital providers such as HNWIs but also of institutional and retail investors, all of which have presumably very diverse strategies and motivations to engage in social impact investing.

Finally, adequately functioning social impact investment processes between investors, SVCFs and investees still do not guarantee an actual social impact for the target group and the fostering of social innovations. Further research should therefore not only examine how responsibilities and tasks for the development of the field are best distributed (i.e., investors, investees, intermediaries, politicians), but also how social impact investing contributes to the development of beneficial effects for the target groups and social innovations in general. This also comprises a perspective on social risks (Geobey et al. 2013), i.e., how interventions and investment practices might have negative social returns. This topic is widely neglected in impact investing research so far.

Conclusion

Our analysis revealed that the social impact investing field in Germany today still faces various challenges related to the valuation of social and economic returns on both sides, as well as the necessary infrastructure and relational issues.

Various interrelationships crossing the different problem areas can be detected: For instance, differing perceptions of financial risk have consequences for approaches to autonomy of investees and co-decision rights; the same holds for the valuation of social returns, which can also burden relationships and erode the investees' motivation to opt for social impact investments. Even more, barriers are also mutually reinforcing, and strategies to cope with them can make the situation even worse. For instance, the lack of efficient and generally accepted social impact measurement tools may force SVCFs to impose often challenging reporting requirements on investees, requiring them to measure and report impact extensively. This diverts lots of resources from actually achieving impact (cf. Salamon et al. 2010, pp. 14–15 for a similar finding in the US context).

In conclusion, social impact investing still needs to overcome substantial and interrelated impediments to take off as a field in Germany. Moreover, the emphasis on stable income models and financial risk perceptions still seems to dominate over social impact also in an impact first approach, which leads to a rejection of investment capital by many SEs.At the moment, the initial idea of easily accessible investment capital to come along with some additional flexibility in comparison to foundation or public money is often countered by high transaction costs. Therefore, it is currently hard to say whether social impact investing will be able to fulfil this promise in the future. An alternative path for social impact investing could be that of an 'innovation detector' that identifies and supports a limited number of highly

innovative approaches combining solutions to social problems with good prospects for sustainable business models.

In all of these scenarios, however, there is a clear potential for the social impact investing field to grow and contribute to social impact creation. Yet, this potential can only be tapped when we come to a better understanding of the barriers, for which this paper has made a first attempt. A next step will have to consist in a differentiated view on these impediments in order to assess which ones of them are structural or inherent 'in the nature' of the subject and which ones can be overcome—and by whom and at which levels. While some problems might be solved by the actors involved (investors, investees and intermediaries), supporting policies might be indispensable for others.

Accordingly, further development of infrastructure and social impact measurement is not only key to social impact investing but "perhaps the most important enabler of this new paradigm" (Social Impact Investment Taskforce 2014a, p. 5). It is also essential to catch up with more mature markets and to further enhance social impact creation by SEs. Intermediaries are necessary to lower transaction costs, to overcome cultural and communicational barriers, to set up mutually satisfactory agreements concerning autonomy and co-decision rights, and also to develop the field more generally. Efficient metrics for social value quantification would not only help social enterprises and investment intermediaries in legitimating their activities and gaining access to resources. They could also attract public bodies as funders or risk-takers (guarantors), since it would provide more substantial evidence that the public ultimately benefits from such value creation (e.g., through reduced criminality as a result of preventive interventions). Moreover, an adaptation of models that combine and leverage different financing forms across sector boundaries would help to advance the field of social finance and improve capital access for SEs.

To develop best-practice examples, it might also be worth for actors in the field to test investments in new ventures and spin-offs from established welfare organisations, which may be well-positioned due to their relatively high risk-absorptive capacity in comparison to small start-ups and also exhibit innovative activities through "social intrapreneurship" (Mair and Marti 2006; Schmitz and Scheuerle 2012). Finally, a further diffusion of social impact investing (and related concepts such as social impact bonds) also needs support from policy-makers. This holds for the legal and tax environments or the compensation system on public welfare markets, but also generally for a favorable (yet critical) climate for social impact investment solutions in the welfare sector and beyond.

From a theoretical perspective, we found that investors (and their agents, such as SVCFs) and investees often act according to the practices used within their respective fields, particularly when facing risk. The concept of institutional logics (Friedland and Alford 1991; Pache and Santos 2013; Thornton and Ocasio 2008) provides valuable insights to understand such processes, as well as for combinations and new developments of institutional logics in social impact investing.

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