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Managing the external financing constraints of social enterprises: A systematic review of a diversified research landscape

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Abstract

Social enterprises, located between non-profit organisations and for-profit firms, often struggle to acquire external funding. An increasing amount of research on the external financing of social enterprises stems from a fragmented body of the literature anchored in a variety of subject areas (e.g. entrepreneurship, public sector management, general management and strategy). We systematically review 204 academic articles published between 1998 and 2021 to bridge the knowledge gaps in these subject areas by: (1) mapping the field of the external financing of social enterprises at the individual, organisational and institutional levels; (2) synthesising the findings to develop an overarching framework; and (3) discussing theoretically sound future research avenues. We find that research at the individual level focuses primarily on investors' perspective of the ideal characteristics of a social entrepreneur. Research at the organisational level often addresses the dual logics of social enterprises and their impact on the successful financing of these businesses and the role of investor–investee collaboration. Research at the institutional level can be clustered into cultural, economic, political and legal factors. Overall, we stress the need for research that adopts an overarching view by considering all three levels of analysis simultaneously and using organisational and economic theories.

INTRODUCTION

Securing investments is one of the most important managerial tasks for successful ventures. However, acquiring external financing by traditional means such as bank loans and venture capital is especially challenging for social enterprises. As social enterprises 'pursue a social mission while engaging in commercial activities that sustain their operations' (Battilana & Lee, 2014, p. 399), they are located somewhere between non-profit organisations and for-profit firms (Shepherd et al., 2019).

Social enterprises' survival, economic success and the scale of their potential social impact depend on their access to (financial) resources (Austin et al., 2006; Doherty et al., 2014; Zhao & Lounsbury, 2016). While the savings of the founder may initially finance new ventures, new sources of external capital might be necessary as soon as these financial resources are depleted (Dushnitsky & Lenox, 2005). From an investment perspective, however, social enterprises are often perceived as having unfavourable risk and return characteristics, as they are not (primarily) guided by the aim of maximizing financial returns (Austin et al., 2006; Ometto et al., 2019; Yunus et al., 2010). At the same time, such businesses usually fall outside the scope of funding schemes for typical non-profit organisations because of their commercial activities (Lehner & Nicholls, 2014; Moore et al., 2012). Consequently, they regularly encounter difficulties acquiring external financial resources from conventional sources (e.g. Battilana & Lee, 2014; Moss et al., 2018), and thus need other innovative forms of financing (Calic & Mosakowski, 2016; Yang et al., 2020). Accordingly, the external financing of social enterprises is of increasing academic interest.

The proliferation of research has led to a rich but diverse evidence base spread over a variety of subject areas focusing on a distinct range of topics. For example, entrepreneurship research often focuses social enterprises' strategies and organisational success factors to convince potential investors (e.g. Anglin et al., 2020; Lehner, 2014; Moss et al., 2018), while the general management and strategy literature frequently investigates external communication strategies of social enterprises when they acquire financial resources (e.g. Cobb et al., 2016; Lyon & Owen, 2019). Moreover, articles from public sector management highlight how challenges in the political and legal environment affect the financing of social enterprises (e.g. Chan et al., 2019; Hall et al., 2012). This rich but fragmented knowledge might be detrimental to the advancement of future research if viewed in isolation. A similar heterogeneity crystallizes with regard to theoretical perspectives (e.g. entrepreneurship theory—Calic & Mosakowski, 2016; institutional theory—Stephan et al., 2015; signalling theory and gender role congruity theory—Yang et al., 2020; pecking order theory—Lyon & Owen, 2019; agency theory—Hörisch, 2019), sometimes even in similar research contexts. Moss et al. (2015) and Jancenelle and Javalgi (2018), for example, build on signalling theory and moral foundations theory, respectively, to examine the individual and organisational values that influence crowdfunding success, demonstrating contradicting results. While theoretical diversity often enriches our understanding of a complex phenomenon such as social enterprises (Doherty et al., 2014; Short et al., 2009), it may also hinder discourse across theoretical boundaries when rigid and conflicting paradigms bias researchers from seeing opposing explanations (Lewis & Grimes, 1999).

Attempts to bridge this scattered knowledge have been limited to date, with little cross-referencing between fields. This lack of synthesis makes it difficult to determine the true state of scholarly knowledge and translates into challenges for future studies—such as the potential misuse of existing research, an overuse of limited or inconclusive findings, or an underuse of research evidence (Rousseau et al., 2008). Against this backdrop, this study reviews, analyses and critically synthesises the current state of research on the external financing of social enterprises. The objective is to shed light on the academic knowledge on the financing processes of social enterprises. In order to create a holistic understanding of these processes, this systematic and integrative review unites the perspectives from the various above-mentioned subject areas, theoretical anchors and levels of analysis (Cronin & George, 2020; Crossan & Apaydin, 2010; Elsbach & Knippenberg, 2020). To achieve this and address the field's fragmentation, the following research questions guide our literature review of 204 articles:

How can knowledge be derived from the themes, insights and theories in the literature on external financing of social enterprises?

How do different theoretical foci assist in advancing future research on the external financing of social enterprises?

We make two main contributions. First, we contribute to the literature by offering an up-to-date and consolidated overview of research on the external financing of social enterprises that identifies emerging themes, explains existing contributions and illustrates inconsistencies. We organise, integrate and critically analyse the manifold body of literature relating to the external financing of social enterprises. By 'narratively integrating' (Elsbach & Knippenberg, 2020, p. 1277) the evidence of the individual studies in the field, we develop a conceptual framework from the insights of our review. This multilevel framework synthesises current research to provide a holistic picture of social enterprises' financing and integrates the diverse research lines on the topic. We use the framework to specify relevant actors, processes and theoretical anchors currently adopted in the literature. Furthermore, we identify connections between distinct research themes, levels of analyses, theories and literature streams. The framework advances our theoretical understanding of the topic by providing new perspectives and thus creating novel knowledge on the external financing of social enterprises. By proposing this new, multilevel perspective, the conceptual framework helps to foster a dialogue between the social enterprise and management research.

Second, we introduce an extensive future research agenda and propose theoretical anchors to develop the field—again considering the mentioned bridges across themes and levels of analysis. We deem this relevant, because conventional enterprises increasingly embrace certain elements of social enterprises due to mounting pressure to incorporate social and environmental objectives (Battilana et al., 2017; Doherty et al., 2014).

In the following, we first conceptualize social enterprises as hybrid organisations and highlight their peculiarities and financing idiosyncrasies before outlining the details of our method. In the findings section, we provide a descriptive overview before critically analysing extant research on the external financing of social enterprises at the individual, organisational and institutional levels, and synthesising these findings into a conceptual framework of financing social enterprises. Based on the findings and the framework, we develop a research agenda and end with a conclusion.

CONCEPTUAL BACKGROUND

Social enterprises' hybridity and financing idiosyncrasies

Social enterprises combine the commercial orientation of conventional enterprises with the social purpose of non-profit organisations (Battilana & Lee, 2014; Doherty et al., 2014). Research on such organisations is growing rapidly, as scholars study social enterprises in diverse geographical areas with varying levels of economic and institutional development (Gupta et al., 2020), but the underlying terminology varies. Social enterprises are often also referred to as social ventures (e.g. Lehner, 2014; Meyskens et al., 2010), social businesses (e.g. Akbulaev et al., 2019; Sonne, 2012), social start-ups (e.g. Yang et al., 2020), hybrid organisations (e.g. Addae, 2018) and hybrid ventures (e.g. Moss et al., 2018). A scarcer used term is (social) impact business (Thompson & Purdy, 2016). Moreover, so-called sustainability-oriented ventures often inherit the characteristics of social enterprises by combining a social and a commercial orientation (e.g. Hörisch & Tenner, 2020). Despite differences in how social enterprises are termed, the striking commonality is their hybrid nature (e.g. Austin et al., 2006; Doherty et al., 2014; Pache & Santos, 2013). In general, hybridity in organisations can be a combination of multiple organisational identities, organisational forms or societal rationales. Battilana et al. (2017) argue that social enterprises are prototypical for hybrid organisations, as they unite different organisational identities and contribute to different social rationales. While this hybridity likely results in conflicting institutional logics and tension between social and economic activities (Pache & Santos, 2013), both activities are core to social enterprises' functioning (Besharov & Smith, 2014). The concept of social entrepreneurship, which is closely related to the idea of social enterprises, reflects the above-described hybridity at the level of the individual entrepreneur or founder (Mair & Martí, 2006; Saebi et al., 2019; Zahra et al., 2009). Social entrepreneurship includes typical entrepreneurial characteristics, such as a high level of innovativeness and willingness to take risks, coupled with the motivation to achieve a social impact while creating economic value (Dacin et al., 2010, 2011; Peredo & McLean, 2006; Weerawardena & Mort, 2006).

The success of social entrepreneurs and social enterprises depends on access to (financial) resources (Doherty et al., 2014; Zhao & Lounsbury, 2016). In particular, new ventures' access to resources can play an important role in their emergence (Brush et al., 2008), product development (Plambeck, 2012), growth (Villanueva et al., 2012) and competitive advantage (Clarysse et al., 2011). For social enterprises specifically, resource acquisition is a driver of their potential social impact (Austin et al., 2006) and therefore of special interest to society at large. Although entrepreneurs often fall back on personal savings at the outset of forming the enterprise, new financing options are required if costs and investments outrun those internal reserves (Dushnitsky & Lenox, 2005). Whereas initial financing processes via internal means (e.g. savings) might be similar in conventional and social enterprises, the acquisition of financial resources through external means in the later stages of the organisational lifecycle is especially challenging for social enterprises; thus, they use significantly less debt financing than regular ventures (Siqueira et al., 2018).

The reasons for social entrepreneurs' difficulties in tapping into the same capital markets as commercial ventures are manifold. First, social enterprises can be incorporated as for-profit and non-profit entities (Rawhouser et al., 2015), whereby a non-profit status and a concomitant non-distribution constraint removes the incentive to accumulate excess revenue (Brakman Reiser, 2013), which makes them unattractive to investors. At the same time, for-profit social enterprises cannot rely entirely on donations, grants or state-based support, as these are usually restricted to 'classical' non-profit organisations. Second, the hybrid mission of social enterprises rarely allows them to charge market prices for their products and services. This leads to difficulties in accessing regular financial markets because mainstream financial stakeholders usually emphasize the economic potential of the organisations they back (Austin et al., 2006; Ometto et al., 2019; Yunus et al., 2010). Third, social enterprises that operate in developing economies face environments in which quality resources are scarce or expensive (Zahra et al., 2008), or where institutional financing mechanisms are absent or weak (Kistruck et al., 2011).

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External financing sources for social enterprises

Despite—or maybe even because of—these challenges, special financing options that are compatible with social enterprise business models and adapt to the peculiarities of social enterprises have evolved. Social banks, which are financial institutions that specifically provide funding to organisations that aim to create social value (e.g. Bengo & Arena, 2019) are an option, as their products and services directly link with the societal goals of social enterprises (Geobey et al., 2012). In fact, social banks are usually value-based organisations that do not strive to maximize profit, but rather a fair balance between financial and social objectives, and can thus be regarded as social enterprises themselves (Cornée et al., 2020). Another option is impact investments that specifically aim to create non-financial impacts and financial returns at the same time (Glänzel & Scheuerle, 2016). Social impact accelerators are designed to support early-stage social start-ups by offering financial support, mentorship and education (Yang et al., 2020). Social (impact) bonds are investing instruments in which private investors provide capital for social projects. Only if predefined results are achieved, do investors receive a financial return with the repayment of their capital (Zheng, 2018). Social venture capital and venture philanthropy are similar concepts and these usually centre on using venture capital methods to achieve a positive social impact, while providing a high level of non-financial support (e.g. Achleitner et al., 2013; Miller & Wesley, 2010). Venture philanthropy does not necessarily aim for financial yields, while financial returns are a core element of social venture capital (e.g. Ingstad et al., 2014; Mayer & Scheck, 2018).

Another external financing option is sustainability-oriented crowdfunding. Crowdfunding typically describes the practice of funding a project or venture through small amounts of funding from many individuals, often in return for future products or equity (Mollick, 2014). Sustainability-oriented crowdfunding is a niche that supports sustainability-oriented projects and ventures (Tenner & Hörisch, 2021). Thus, it seems especially suitable for young social enterprises because funders usually do not demand a financial track record (Maehle, 2020). Crowdfunding can be classified into lending-based, reward-based, equity-based and donation-based models (Belleflamme & Lambert, 2016; Mollick, 2014). In lending-based crowdfunding, funds are offered as loans with the expectation of some return on the invested capital (Moss et al., 2018). Reward-based crowdfunding offers backers various non-monetary rewards or products in exchange for their participation (Calic & Mosakowski, 2016). In rare cases of equity-based crowdfunding, backers receive equity in the venture they support (Mollick, 2014). Finally, the donation-based model offers no rewards for the funder besides those of altruism or generosity (Bernardino & Santos, 2016).

Since the growing variety of financing options for social enterprises is leading to a rapidly accumulating body of knowledge on this complex phenomenon, a comprehensive review is needed. Some reviews offer general insights into social enterprises or social entrepreneurship and only touch on financing aspects as an area of potential tension (e.g. Bansal et al., 2019; Doherty et al., 2014; Gupta et al., 2020; Shier & Van-Du, 2018; Zahra et al., 2009; Żur, 2015). Others, such as McWade (2012), provide valuable insights into investments in social enterprises, albeit with a narrow focus on the investor perspective. Littlewood and Khan (2018) focus on networks of social enterprises, but barely touch the surface of financial networks, while Lehner (2013) concentrates exclusively on crowdfunding as one specific financing option. Beyond these topical issues, most such reviews do not cover the increasing dynamic of academic publishing in recent years (>75% of the articles in our sample have been published since 2015). Consequently, we discuss the phenomena, issues, inconsistencies and interim debates that characterize the external financing of social enterprises and identify areas for future research. Our aim is to explicate and organise the knowledge to allow new theory and models to be built and incremental adjustments to be made (Corley & Gioia, 2011; Weick, 1995).

METHOD

Systematic literature reviews organise, evaluate and synthesise knowledge in a particular field (Crossan & Apaydin, 2010). We adopted the approach for systematic literature reviews described by Siddaway et al. (2019) and Tranfield et al. (2003) to provide a transparent and replicable process.

Literature search and screening process

To ensure a broad coverage of the literature, we followed Hiebl's (2021) suggestion of combining different search approaches. Specifically, we applied database-driven, journal-driven and seminal work-driven approaches as illustrated in Figure 1 to overcome the weaknesses of any single approach and benefit from their individual strengths (Hiebl, 2021).

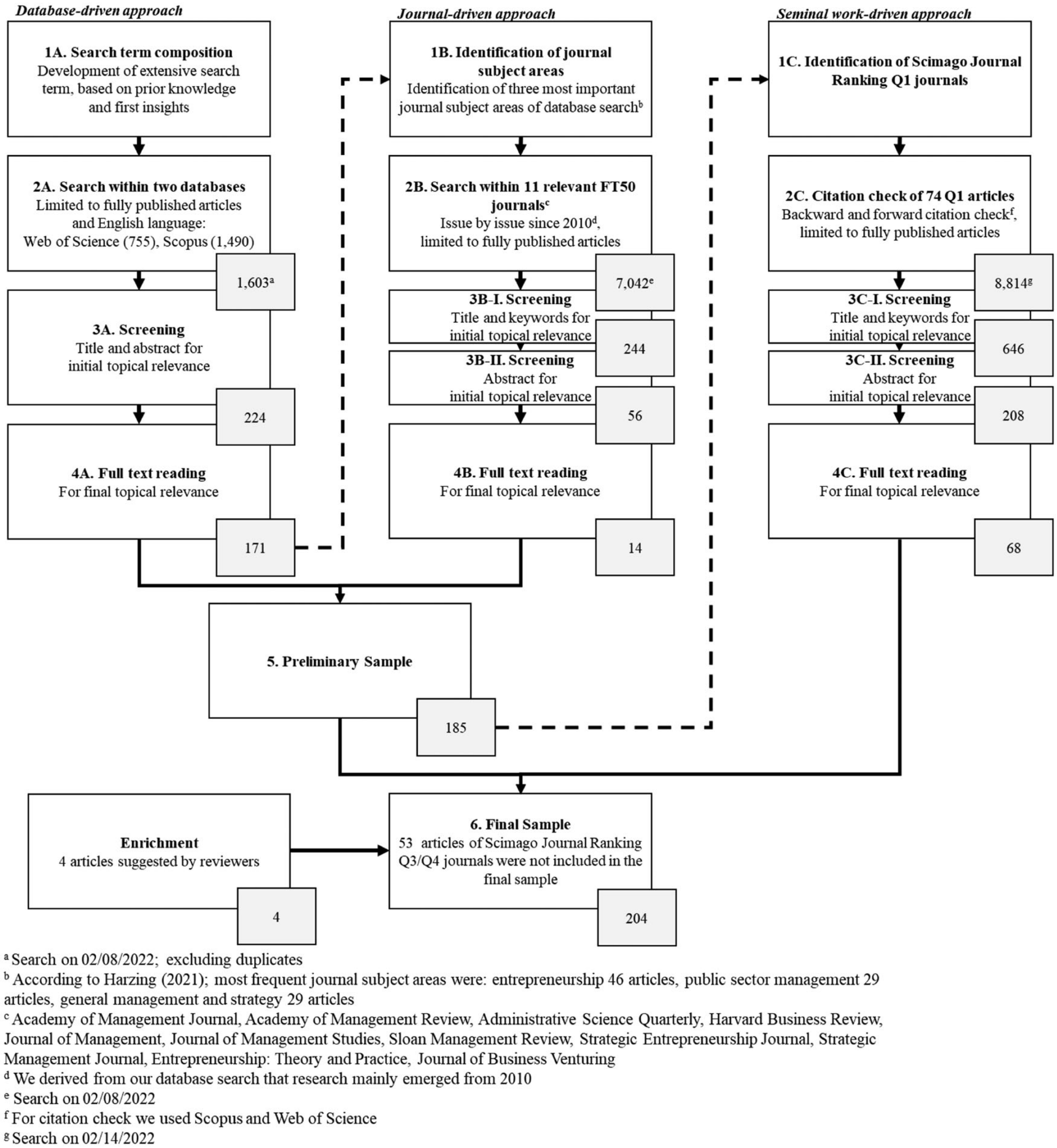

FIGURE 1 Search process

Database-driven approach

We used the Scopus database complemented by the Social Sciences Citation Index (SSCI) of the Web of Science. We deliberately did not limit the journals in this stage because of the heterogeneity of the field. Using the two databases raised the validity of our approach because the databases provide extensive coverage of high-impact, peer-reviewed journals without being limited to a specific field of research (Podsakoff et al., 2005). The search term used to identify the relevant literature was derived through an iterative process of search and discussion between the three authors of this study and, eventually, the reviewers. This process was further informed by our previous engagement with scientific articles on the financing of social enterprises. We used several related keywords to cover the most relevant synonyms, as illustrated in Figure 2. We considered only finally published scholarly articles from peer-reviewed journals in English and excluded, for example, news pieces, reviews, comments and editorial notes. The final search was conducted in February 2022. We limited our search to articles published in 2021 and earlier to have a clearly defined timeframe. This resulted in 1603 articles.

We screened titles, abstracts and keywords for topical relevance in an iterative process involving two authors as

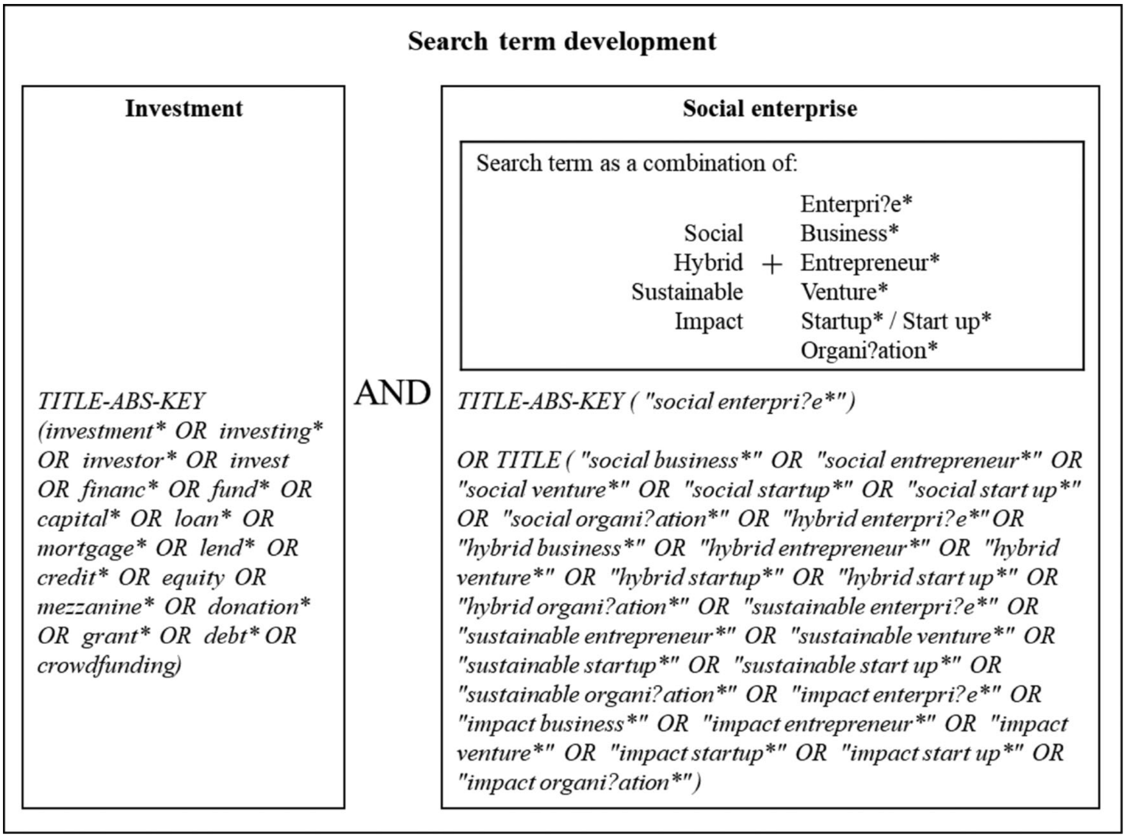

FIGURE 2 Search term composition
Note: We searched for 'social enterpri?e*' in title, abstract and keywords to ensure the completeness of the review, as we deemed this term to be central. The term 'sustainable business*' intentionally was left out because of thematically not fitting results.

independent coders. We applied two main criteria to identify relevant articles. First, we paid attention to whether each article matched our understanding of social enterprises. We examined whether the underlying research objects were organisations or projects that 'pursue a social mission while engaging in commercial activities that sustain their operations' (Battilana & Lee, 2014, p. 399) and excluded all articles that did not comply with this aspect, such as organisations without income generation (e.g. Sliva & Hoefer, 2016) or those lacking a social purpose (e.g. Ashby et al., 2009). Second, we scrutinized whether an article's main contribution was in the sphere of the external financing of social enterprises and excluded all articles that focused on internal financing, for example through income generation (e.g. Cieslik, 2016).

When both coders were in doubt, articles were included rather than excluded to avoid missing potentially relevant material. When the two authors disagreed, the third author was consulted to arrive at consensus through discussion (Seuring & Gold, 2012). This process resulted in 224 articles, from which 53 articles were filtered out after in-depth reading because they did not match the criteria above; thus, 171 articles remained from the database-driven approach (online Appendix 1 lists all articles included in our review and their source).

Journal-driven approach

We then added a journal-driven approach to identify further relevant articles. To identify relevant journals, we categorized the 171 articles from the database-driven approach by the publishing journal's subject area based on Harzing's (2021) journal quality list. The three most important subject areas based on a count of articles were entrepreneurship, public sector management and general management and strategy. We then identified 11 journals from these three categories from the Financial Times (2016) list of highly influential journals in management and economics (see Figure 1 for the list of these 11 journals). We screened the titles of all 7042 articles from these journals issue by issue since 2010. The starting date of this issue-by-issue screening was determined based on our analysis of articles from the database-driven approach, which indicated that research has mainly emerged from 2010 onwards. From this screening, 244 articles remained, of which we then read the abstracts. This resulted in 56 potentially relevant articles which we read completely. In the end, we added 14 articles, resulting in 185 articles in our preliminary sample.

Seminal work-driven approach

To strengthen our sample, we completed our search with a seminal work-driven approach. For this, we relied on the SCImago journal rank (SJR; SCImago, n.d.) to identify those journals in our sample that were scientifically the most influential. The SJR measures the scientific influence of academic journals based on the number of citations they receive and the importance of the journals from which those citations come (González-Pereira et al., 2010; Guerrero-Bote & Moya-Anegón, 2012). In total, 74 articles from our preliminary sample were published in journals classified as Q1 (i.e. the highest quartile) in the SJR. We conducted a backward search by applying a snowballing screening to the reference lists of those 74 articles to identify further potentially relevant articles. We also conducted a forward search to identify the most recent literature citing these Q1 articles from our preliminary sample (Hiebl, 2021). Overall, we screened 8814 articles using this seminal work-driven approach following the same process and criteria as above and added 68 articles to our preliminary sample.

Overall, the three approaches resulted in 253 articles. Further, four relevant articles suggested by the reviewers were also included, as they did not appear in our search despite the extensive procedure outlined above. Finally, we excluded 53 articles from journals that were ranked in the lower SJR quartiles (Q3 and Q4). While any given study—regardless of the influence of the journal in which it appears—can be conducted with scientific rigor, the likelihood of scientific rigor decreases as the journal influence lowers, as most authors prefer to publish in high-impact journals. Therefore, high-quality studies are more likely to be published in Q1/Q2 than in Q3/Q4 journals. Our final sample thus consists of 204 articles.

Literature analysis

We analysed and coded all 204 articles following a set of predefined categories. The first set of categories included descriptive and mainly deductive categories such as 'research method', 'research geography', 'journal subject area' and 'applied theory'. The codes in these categories indicated whether the article is qualitative-empirical, quantitative-empirical or non-empirical; the country and continent of the research context; the journal's classification into a subject area according to Harzing (2021); and the applied theory or model. The second set of predefined categories covered more analytic categories such as 'research topic', 'research focus' and 'results'. The codes in these categories emerged inductively from reading the articles with the aim of deriving themes that '[…] represent the core ideas, arguments and conceptual linking of expressions on which an article's research questions, constructs, concepts and/or measurements are based' (Jones et al., 2011, p. 635). By drawing on the principles of thematic coding from qualitative research (Braun & Clarke, 2006; Ryan & Bernard, 2003), two of the authors filled these categories with their inductively generated codes, which were then discussed with the third author. First-order codes were grouped with similar codes and brought to a higher level of abstraction to derive second-order themes. This iteration continued until we arrived at 10 major themes and 22 sub-themes that formed a holistic framework of the extant literature in the research domain. We organised the themes based on the level of analysis of each article's research questions or hypotheses (individual, organisational and institutional levels) to discuss the research phenomenon from a multi-level perspective (Klein & Kozlowski, 2000). For the thematic analysis, we focused on empirical research, as such studies were thematically closer with more coherently related findings. The underlying approach was therefore a hermeneutic and iterative process that included multiple interplays of critically reflecting on the data, searching for research patterns, questioning and refining the review categories (Cronin & George, 2020; Denyer & Tranfield, 2009; Tranfield et al., 2003).

DESCRIPTIVE FINDINGS: MAPPING A DIVERSIFIED LANDSCAPE

Research on financing social enterprises emerged slowly from 2006 (one early article was published in 1998) and has increased steadily with some fluctuations, as illustrated in Figure 3. When focusing on the results derived from the database and seminal work-driven approach, most of the 187 identified papers were published in journals from the entrepreneurship domain (53 articles, ~28%). Thirty-three articles (~18%) stem from general management and strategy journals and 32 articles (~17%) from journals related to public sector management. Only 14 articles (~7%) are published in finance and accounting journals, which is surprising since the issue of interest can be considered to be a finance issue as well. The remaining 55 articles are scattered across nine further subject areas.

From a method perspective, we observe a slight increase in empirical work. Only 20 articles are non-empirical

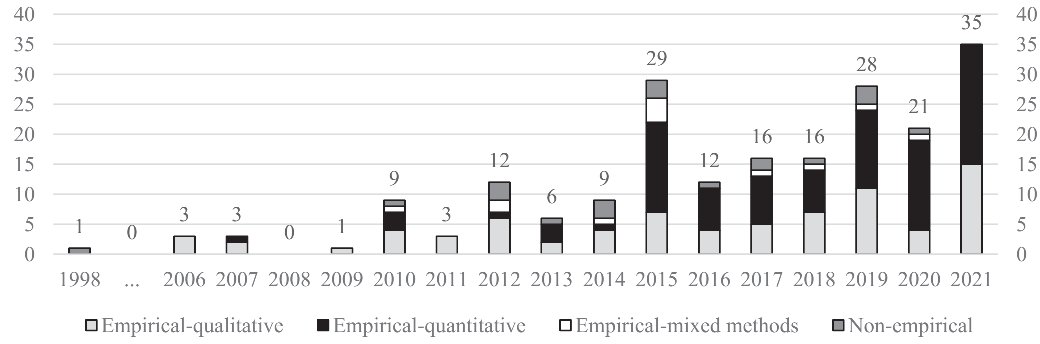

FIGURE 3 Number of publications per year and research method

(~10%), 12 of which are even purely narrative/descriptive. In the other 184 empirical articles (~90%), qualitative and quantitative studies are rather evenly balanced (78 vs. 94). Furthermore, 12 mixed-method studies mostly combine interview studies with some kind of survey used for the descriptive analysis. Research has mainly investigated the phenomenon in Europe (33% of all empirical articles), across continents (24%) and in Asia (19%). Research in North America (12%), South America (2%), Africa and Australia (each 1%) is rare. Roughly half of the papers in our sample explicitly refer to a theoretical anchor (see online Appendix 1), mostly from three theoretical streams: sociological and organisational theories, economic theories and psychological theories.

Research insights at the individual, organisational and institutional levels

We identify several thematic research foci embedded in the individual, organisational and institutional levels of analysis. We present our findings organised into major themes and sub-themes for each of these three levels. Where suitable, we focus on the perspectives of investors and investees as the two main actors in financing social enterprises.

Individual level

Two major themes dominate at the individual level of analysis (see online Appendix 2). Research investigates *entrepreneurs' characteristics* that, from an investors' perspective, are relevant for funding success. The *perceived availability of financial support* scrutinizes how financial support options influence social entrepreneurial intention and social venture formation processes from an investee's perspective. With *investors' characteristics*, specifically in crowdfunding investments, a third major theme has recently emerged in the literature.

Entrepreneurs' characteristics

Studies in this major theme are classified into four sub-themes: *entrepreneurs' skills*, *entrepreneurs' background*, *entrepreneurs' values* and *entrepreneurs' sex*. Regarding entrepreneurs' skills, the importance of management skills as a determinant of attracting investors is broadly recognized (e.g. Glänzel & Scheuerle, 2016; Hazenberg et al., 2015). Entrepreneurs' skills to successfully build and maintain business networks to attract investors are also acknowledged, albeit with less research intensity (e.g. Miller & Wesley, 2010). Interestingly, one study even adopts the entrepreneur's perspective to describe the importance of the ability to adapt to different situations for funding success (Teasdale, 2010).

The findings of studies of *entrepreneurs' background* as a determining factor for investment success are inconclusive. Some studies find a positive relationship between management experience in social entrepreneurial teams and positive investor evaluations (Achleitner et al., 2013; Miller & Wesley, 2010). However, more recent studies find no support for the direct effect of business background on funding success (Block et al., 2021; Dorfleitner et al., 2021). These mixed findings may stem from several factors. First, studies showing a positive effect do not use the actual funding decision as a dependent variable but instead focus on perceptions (e.g. investors' perception of the social entrepreneur's integrity). Second, these studies have focused on social venture capitalists as investors, who might differ significantly from other types of investors. Whereas social venture capital investors actively seek social entrepreneurs to establish a close and long-term relationship (Mayer & Scheck, 2018), other types of investors—such as crowdfunding and impact investors—are not necessarily interested in a long-term relationship (Mollick, 2014) and might thus not focus on the potential relevance of management experience. Third, investor preferences might have changed over time, especially since the development of social enterprises as potential investment objects is a highly dynamic field.

Studies in the sub-theme of *entrepreneurs' values* often focus on the tension between social and economic values and the question of which values should be emphasized by investees when approaching investors. Here again, we see some inconclusive findings that might be caused by the types of investors studied. Studies focusing on socially oriented investors demonstrate that investors support the social rather than the economic values of entrepreneurs (Hazenberg et al., 2015; Jancenelle & Javalgi, 2018; Miller & Wesley, 2010) but also find that too much passion for the social mission is unfavourable for angel investors (Ala-Jääski & Puumalainen, 2021). By contrast, investors active in a microfinance context seem to prefer economic values, which are positive signs for investors, as they indicate that loans are likely to be repaid by the social enterprise (Moss et al., 2015). Apart from the dichotomy of social and economic values, some scattered recent studies have also examined other values—such as an entrepreneur's family orientation (Dorfleitner et al., 2021) or the individual alignment with sociocultural values (Jancenelle et al., 2019).

Six studies analyse the role of an *entrepreneur's sex* in the financing context. Outsios and Farooqi (2017) conclude from their qualitative study that men and women both experience similar resource constraints. Quantitative studies in crowdfunding settings, on the one hand, find that women's chances of receiving funding are higher than men's (Bento et al., 2019; Dorfleitner et al., 2021), especially when female entrepreneurs signal gender-stereotypical values such as social values (Yang et al., 2020). On the other hand, recent studies show that both male and female borrowers benefit from displaying gender-counterstereotypical characteristics (Davis et al., 2021; Williamson et al., 2021).

Perceived availability of financial support

This major theme includes two sub-themes: *social entrepreneurial intention* and *social enterprise formation*. Five quantitative empirical studies (Amouri et al., 2021; Ghazali et al., 2021; Hockerts, 2015, 2017; Luc, 2018) find that the financial support (potential) social entrepreneurs expect to receive from their environment positively influences *social entrepreneurial intention*, while a lack of such financial support has a negative influence. These results must be critically reflected for two reasons. First, the mentioned studies do not move beyond the formation of cognitive intention to provide insights into the translation between intention and actual behaviour. A possible misalignment of intention into actual behaviour can, for example, be caused by social desirability bias in respondents' answers (Carrigan & Attalla, 2001). Second, the generalizability of the findings is limited because four of the studies (Amouri et al., 2021; Hockerts, 2015, 2017; Luc, 2018) use students as proxies for potential social entrepreneurs.

Studies from the sub-theme *social enterprise formation* find that although many specific financing options for social enterprises have recently been established, social entrepreneurs still have fewer financing options than regular entrepreneurs, especially in the early start-up stage (Carriles-Alberdi et al., 2021; Harding, 2007; Hoogendoorn et al., 2019). This lack of financial support not only prevents social entrepreneurs from starting social enterprises, but also influences their decisions, for example, whether to choose a for-profit or non-profit legal form (Child et al., 2015; Stirzaker et al., 2021).

Investors' characteristics

Although research on sustainability-oriented crowdfunding in general is flourishing, surprisingly few studies have explored the characteristics and values of crowdfunding investors. Kim and Hall (2021) as well as Tenner and Hörisch (2021) indicate that an individual's attitude towards sustainability, personal norms, social norms and education increases the likelihood of investing in sustainable crowdfunding projects.

Organisational level

The largest share of our sample examines the organisational level in four major themes: *impact of social enterprises' characteristics and strategies on funding success*, *investor–investee relationship*, *impact measurement* and the *role of networks in financing social enterprises* (see online Appendix 3).

Impact of social enterprises' characteristics and strategies on funding success

We find four sub-themes in this major theme: *social enterprise model*, *dual logics*, *social enterprises' external communication* and *social enterprises' characteristics.* Research on the *social enterprise model* stresses that non-profits often develop into social enterprises to overcome financing constraints (e.g. Henderson et al., 2018; Khieng & Dahles, 2015). However, such a transition may also have negative financial consequences such as losing donors and specialized funding sources (Bjärsholm, 2019; Khieng & Dahles, 2015; Smith et al., 2012). Interestingly, research again finds a difference between crowdfunding and other forms of financing: while commercial and public funders seem to prefer for-profit social enterprises (Cobb et al., 2016), a non-profit orientation appears to be more promising in crowdfunding (Hörisch, 2015).

Insights into the effect of social enterprises' *dual logics* (i.e. a simultaneous social and economic orientation)

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on funding success remain ambiguous, although this sub-theme is frequently investigated. Some studies identify a positive effect of stressing both a social and an economic orientation (e.g. Andersson & Self, 2015; Ko & Liu, 2021; Lyon & Owen, 2019), while others find a negative effect (e.g. Lim et al., 2020; Moss et al., 2018; Smith et al., 2012). These varied results can partly be explained by the different investor types examined. Controversially, socially oriented investors seem to be hesitant to fund social enterprises (Lim et al., 2020; Moss et al., 2015), while a positive correlation between dual logics and funding success is found for conventional investors (e.g. Andersson & Self, 2015; Leung et al., 2019). Research agrees on the central influence of the social enterprise's mission on funding success (e.g. Bento et al., 2019; Moss et al., 2018), with studies stressing the importance of a mission fit between investors and investees (see *investor–investee relationship*).

Research on *social enterprises' external communication* investigates the linguistic style used by them to approach investors and achieve their funding goals (Hazenberg et al., 2015; Parhankangas & Renko, 2017). Social enterprises exhibit chameleon-like behaviour by emphasizing different logics in their communication with various stakeholders. Specifically, they tend to emphasize their commercial side in discussions with investors (Alsaid & Ambilichu, 2021; Pratono et al., 2020). However, Ryder and Vogeley (2018) show that highlighting the social impact of a proposal before focusing on its commercial aspects is beneficial for attracting investors. Furthermore, there is hitherto no agreement on whether social enterprises' messages should be positive (e.g. focusing on the advantages of climate mitigation strategies) or negative (e.g. focusing on the threats of climate change) (Maehle et al., 2021; Rossolini et al., 2021). Another strategy used by some social enterprises is to instrumentalize philanthropic investors by encouraging them to share their personal stories to motivate potential investors (Maclean et al., 2013). However, the sub-theme is dominated by crowdfunding research, and the findings are thus only partially generalizable.

Research in the sub-theme *social enterprises' characteristics* largely confirms the findings from related research on commercial enterprises. Not surprisingly, good governance, sound business plans and financial sustainability are important for investors (e.g. Block et al., 2021; Lim et al., 2020). Regarding the financing structure of social enterprises, grants and donations are given to younger social enterprises (Liston-Heyes et al., 2017), whereas repayable funding is more prevalent for more mature social enterprises (Block et al., 2021; Lim et al., 2020; Spiess-Knafl & Aschari-Lincoln, 2015). However, social enterprises use significantly less debt financing than commercial enterprises do (Siqueira et al., 2018).

Investor–investee relationship

The relationship between investors and investees is highlighted as one of the most important factors for investment success (Bocken, 2015; van Slyke & Newman, 2006), which is also mirrored in the large number of studies contributing to this major theme. We cluster the literature into three sub-themes: *interfirm goal alignment*, *non-financial support* and *decision rights and trust*. Research on *interfirm goal alignment*, which is scarce and exclusively qualitative, again highlights that the different social and commercial orientations of investors and investees may lead to tensions (e.g. Glänzel & Scheuerle, 2016). Research on *non-financial support* unanimously stresses that such support (e.g. business advice and network access) is appreciated by social enterprises if it fits their business plans (Cheah et al., 2019). Finally, a large part of the literature contributes to the sub-theme *decision rights and trust*. Trust between investors and investees is stressed as being of outmost importance to achieve legitimacy for the social enterprise and maintain a functioning relationship between investors and investees (Maehle, 2020; Mehrotra & Verma, 2015; van Slyke & Newman, 2006). A fine line seems to exist between welcome non-financial support and a reluctance to engage investors that exercise strong control (Glänzel & Scheuerle, 2016). From the investor perspective, regular monitoring helps avoid moral hazard and enables early interventions if problems arise (Scarlata et al., 2012; Sonne, 2012).

Impact measurement

Research elaborates on impact measurement methods (Lall, 2017) and stresses the different attitudes towards measuring impact. While investors demand that social impact is measured to ensure legitimation, enhance interfirm alignment and make informed decisions (Agrawal & Hockerts, 2019; Bengo & Arena, 2019; Glänzel & Scheuerle, 2016; Lall, 2019), social enterprises often seem to be sceptical (Glänzel & Scheuerle, 2016). Nevertheless, social enterprises can use impact measurement, for example, for organisational learning purposes (Gillin, 2006; Lall, 2019). Nguyen et al. (2015) stress that the way impact measurement is perceived and used depends on the relationship between investors and investees, unleashing its learning potential only in equitable power relations between these parties.

Role of networks

Two sub-themes emerge in this major theme: *networks to access (financial) resources* and *networks as a signal to investors*. Research in the first sub-theme highlights that social networks play a significant role for social enterprises by providing either direct access to suitable investors (Sakarya et al., 2012; Sonne, 2012) or a platform on which to exchange the skills, knowledge and competencies possessed by other collaborators that enable social enterprises to acquire financial resources (e.g. Bloom & Chatterji, 2009; Bjärsholm, 2019; van Slyke & Newman, 2006). Whereas a network's positive influence on social enterprises' financial performance seems evident (López-Arceiz et al., 2017), social enterprises' social performance can suffer when network partnerships rely too heavily on financial support (Choi, 2015).

Research on *networks as a signal to investors* examines whether and how social enterprises' participation in networks can be a positive signal of legitimacy to outside investors (de Crescenzo et al., 2020; de Lange & Valliere, 2020; Jayawarna et al., 2020). For example, investors seem to assume that social enterprises with large social networks face fewer difficulties when looking for volunteers, enjoy better stakeholder relationships and understand social needs better (Miller & Wesley, 2010).

Institutional level

Research at the institutional level deals with three major themes: the *cultural factors*, *economic factors* and *political and legal factors* that influence social enterprises' financing opportunities and processes (see online Appendix 4).

Cultural factors

Studies in this major theme emerge in two sub-themes: the *role of culture in financing strategies* and the *influence of culture on funding success*. Studies from the first sub-theme examine how societal and cultural settings require different strategies and tools to acquire financial resources (e.g. Barraket et al., 2019; Sonne, 2012; Young & Grinsfelder, 2011). Social enterprises from rural areas, for example, are less dependent on grants and more likely to use crowdfunding than social enterprises from urban areas (Bernardino et al., 2016; Smith & McColl, 2016). However, empirical research in this sub-theme mainly takes place in developed countries. This is surprising, as social enterprises play an increasingly important role in developing countries (Bosma et al., 2016), where the cultural influences on financial resource acquisition processes might contrast with those in developed countries.

Research in the sub-theme *influence of culture on funding success* has increased recently and it focuses on the influence of various country-level variables on investors' funding decisions, such as religious diversity (Zhao & Lounsbury, 2016), environmental orientation (Butticè et al., 2019), public opinion (Chen et al., 2018) and sociocultural values (Hong & Byun, 2020). However, the findings are not necessarily generalizable because most studies concentrate on crowdfunding investments with distinct types of investors than on other financing instruments (Hoegen et al., 2018).

Economic factors

This major theme comprises two sub-themes: *market characteristics* and *infrastructure*. Studies of *market characteristics* mainly focus on the prevalent institutional logics of specific capital markets in different countries and how these logics affect financing. An often acknowledged characteristic of capital markets for social enterprises is that investors are regularly characterized by a strong market logic and investees by a social logic (Castellas et al., 2018; Glänzel & Scheuerle, 2016). On the one hand, researchers argue that a strong economy dominated by market logics and functioning traditional financial markets facilitates private investments in social enterprises (Kistruck et al., 2011; Popov et al., 2018; Zhao & Lounsbury, 2016). On the other hand, studies find that exactly such markets are not beneficial for social enterprises (Carriles-Alberdi et al., 2021; Cobb et al., 2016; Mendoza-Abarca et al., 2015).

The sub-theme *infrastructure* revolves around the infrastructural factors necessary to create a supportive economic environment for social enterprises. The presence of socially oriented investors (Sahasranamam & Nandakumar, 2020), an agglomeration of social enterprises (Pinch & Sunley, 2016; Sun & Im, 2015) and specialized intermediaries and social enterprise networks (e.g. Owen et al., 2018; Sen, 2007) seem to be important for creating an enabling environment for social enterprises. However, supportive structures that truly cater to the needs of social enterprises are scarce (Glänzel & Scheuerle, 2016; Mazzei & Roy, 2017). Technological innovations, platforms and media presence can compensate to a certain degree for a lack of intermediaries by assuming some intermediary functions such as enhancing a venture's reputation and providing information about the business, thus creating transparency for potential investors and encouraging cross-sector collaborations (Lehner & Nicholls, 2014; Walske & Tyson, 2015; Zeng, 2018).

Political and legal factors

Studies in this major theme are classified into three sub-themes: *status quo*, *effect of governmental financial support* and *regulatory environment*. A large number of studies deal with the *status quo* of current political and legal factors in specific countries at a rather descriptive level. A lack of governmental support is, for example, often described as a barrier to the financing of social enterprises (Hall et al., 2012; Hoyos & Angel-Urdinola, 2019; Stephan et al., 2015). Reliance on governmental grants and private donations instead of repayable investments is still high in many contexts, especially in emerging and developing countries

(Khieng & Dahles, 2015; Mehrotra & Verma, 2015). Governmental support often fails to address social enterprises' needs adequately; for example, because governments often focus on short-term funding with a reliance on grants and loans (e.g. Bengo & Arena, 2019; Hoyos & Angel-Urdinola, 2019), they apply too restrictive funding criteria (e.g. Mazzei & Roy, 2017) or fail to provide tax incentives (Umfreville & Bonnin, 2021).

The *effect of governmental financial support* on the success of social enterprises as a sub-theme has attracted increased research attention. Various qualitative studies indicate the positive influence on social enterprises' financial success (El Kallab & Salloum, 2017; Oliński, 2020) and indirectly on social value creation (Choi, 2015; El Kallab & Salloum, 2017; Kim & Moon, 2017; Rey-Martí et al., 2016). By contrast, four quantitative studies show mixed results with regard to the effect of governmental financial support on social enterprise outcomes. Choi and Berry (2021) find that government funding has positive effects on the social performance of social enterprises and negative effects on their economic performance. The detailed analysis of Cheah et al. (2019) demonstrates that financial support and training from governmental actors (among others) enhance investees' performance and social achievements only if the supporting initiatives correlate closely with a venture's formal business planning practices. Others find that government-funded social enterprises are less profitable than social enterprises funded by non-governmental organisations (Leung et al., 2019) and also less likely to internationalize compared to social enterprises without such funding (Angulo-Ruiz et al., 2020). However, three of the four studies focus on Asian countries and sometimes rely on a small sample size, so the findings have to be taken with caution.

The sub-theme *regulatory environment* includes the literature that focuses on the role of governmental regulations in the financing processes of social enterprises. In some cases, regulations do not provide specific legal frameworks or structures for social enterprises. Ventures must then decide whether they become non-profit or for-profit organisations, which both come with financing restrictions, as illustrated above (e.g. Pelucha et al., 2017; Rawhouser et al., 2015). Furthermore, the absence of a dedicated legal form for social enterprises might lead to investors viewing them as lacking sufficient legitimacy (Lehner, 2014). Overall, scholars consistently suggest increased regulations favourable to social enterprises, while only a few authors contend that fewer regulations lead to a more favourable business environment and investment climate (Popov et al., 2018; Zhao & Lounsbury, 2016).

Social enterprises' external financing framework

Figure 4 synthesises the current research developments into an overarching framework to provide a holistic picture of social enterprises' financing and the theoretical anchors currently adopted in the literature. It reflects the three levels of analysis from our review and illustrates the interrelations, interactions and constraints of the three main actors: the investor, the social enterprise as the investee and the institutional environment in which these entities are embedded.

At the individual level, the social entrepreneur (see **a** in Figure 4) and the investor (see **b**) are the relevant actors whose skills, perceptions and personal attitudes influence (potential) investment collaborations. Even before an enterprise is founded, the perceived access to finance plays an important role in a potential social entrepreneur's decision on establishing a social enterprise (Hockerts, 2017; see **a**). Extant research uses psychological theories, such as the theory of planned behaviour, as anchors by attributing an actual behaviour to the perceived control over its performance (Ajzen, 1991, 2002), thus helping explain the investee's (organisation) internal processes. Therefore, when deciding to establish a social enterprise, the social entrepreneur must be confident about achieving the necessary funding (Hockerts, 2015, 2017; Luc, 2018).

Economic theories such as signalling theory are used to complement this internal perspective by spanning interpersonal boundaries. Social entrepreneurs must fulfil diverse claims and convince investors of their ability to secure external financing for their enterprises. Signalling can decrease information asymmetry (Connelly et al., 2011); for example, investees send quality signals about their professional background and commitment to a double bottom line and assure investors of their potential (Achleitner et al., 2013; Yang et al., 2020). For individual investors (see **b**), the type of social mission is especially important (Chen et al., 2018; Litrico & Besharov, 2019), although subjective factors such as investors' personal history, preferences and goals also influence decision-making. Once convinced about an investee, the investor provides the social entrepreneur advice and network access, both of which are elements of non-financial support that are highly appreciated by investees (Mayer & Scheck, 2018).

At the organisational level, two actors are important: the social enterprise (see $\boldsymbol{\gamma}$) and the investor organisation (see $\boldsymbol{\delta}$). Research often builds on legitimacy theory to explain investment initiation between the two parties. Creating organisational legitimacy in the investee

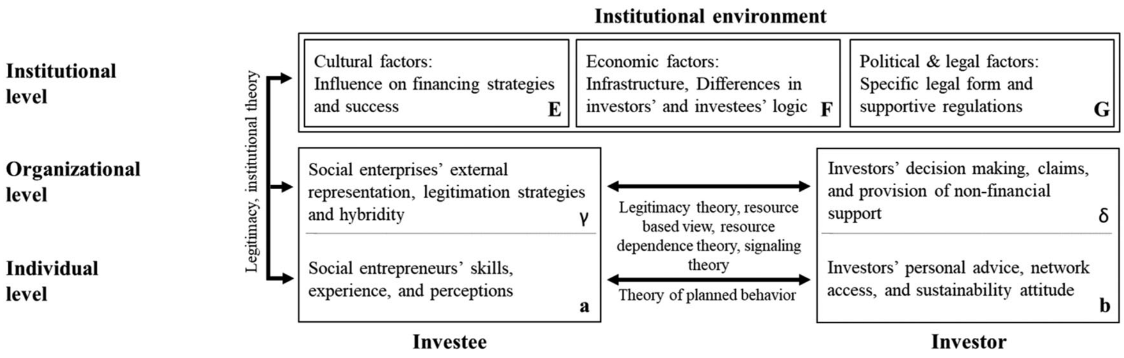

FIGURE 4 Framework of the external financing of social enterprises

organisation is important to facilitate faster and more efficient capital acquisition (Chen et al., 2009; Lounsbury & Glynn, 2001; Rey-Martí et al., 2019). According to legitimacy theory, legitimacy can be achieved by demonstrating success (Suchman, 1995; Suddaby et al., 2017). However, this is especially difficult in the early stages of a social enterprise's formation, when capital is most needed, because start-ups lack financial history and cannot build on past achievements (Aldrich & Fiol, 1994; Zimmermann & Zeitz, 2002). Moreover, demonstrating non-financial achievements is also challenging for mature social enterprises, as robust methods for measuring social impact remain scarce (e.g. Lall, 2017; Rawhouser et al., 2019; Saebi et al., 2019). Accordingly, investors suffer from information asymmetry because they are unaware of whether the investee will generate the promised social impact (Hörisch, 2019; Scarlata & Alemany, 2010).

Studies use organisational theories such as resource dependence theory (Pfeffer & Salancik, 1978) and the resource-based view (Barney, 1991) to explain investees' motivation in partnering with other organisations to acquire the resources needed to achieve a competitive advantage (e.g. Choi, 2015; Meyskens et al., 2010). However, knowledge about investor–investee interactions is scarce despite this collaboration, and the exchange of non-financial resources is one of the most important success factors (Bocken, 2015; Nguyen et al., 2021; van Slyke & Newman, 2006).

At the institutional level, the institutional environment in which investees and investors are embedded affects the availability of financing options and strategies adopted by social enterprises through cultural (see **E**), economic (see **F**) and political and legal factors (see **G**). Research anchored in institutional theory embeds corporations in a nexus of formal and informal rules that govern the norms of behaviour and decision-making (North, 1990; Scott, 1995). Thus, the institutional level influences investors and investees at the individual and organisational levels. In the context of our study, the literature offers many examples of how economic factors such as the structure and function of capital markets (e.g. Sahasranamam & Nandakumar, 2020), cultural factors such as social norms for appropriate behaviour of social enterprises and investors (e.g. Chen et al., 2018) and political and legal factors related to firm governance (Popov et al., 2018) affect the availability of financing options and the strategies adopted by social enterprises. Our review indicates that legal and economic factors may not favour social enterprises. According to institutional and legitimacy theories, this negatively affects the striving for legitimacy of social enterprises and, in turn, financing access.

FUTURE RESEARCH DIRECTIONS

We now introduce five research avenues relevant for providing a holistic picture of social enterprises' external financing and developing knowledge on the interdependencies of actors in the above-mentioned framework. Table 1 summarizes these avenues and the potential research questions.

Social enterprises' attractiveness for investors

The extant literature provides initial evidence that professional investors' decision-making regarding the financing of social enterprises is similar to that for investments in commercial enterprises (e.g. Ala-Jääski & Puumalainen, 2021; Block et al., 2021; Lim et al., 2020). On the one hand, this implies that social enterprises are no longer being forced into a certain niche. On the other hand, the assumption that investors treat social enterprises and regular ventures equally is not applicable in the crowdfunding context. Entrepreneurship research has shown that men-owned enterprises are more likely to be funded than their women-owned counterparts (Huang et al., 2021).

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TABLE 1 Future research directions

Research avenue	Potential research questions	Theoretical anchors	Initial research links
Social enterprises' attractiveness for investors	• Which characteristics attract investors and under what conditions? • How do investors differ in their perceptions of social enterprises? • Which internal and external factors influence investors' choices? • How does (non)alignment of individual and organisational identity in social enterprises influence investors' choices? • How do social enterprises, compared with conventional enterprises, legitimize themselves to investors? • Which investment vehicles are relevant for social enterprises and what are their peculiarities?	Signalling theory Organisational identity theory Legitimacy theory	Ala-Jääski and Puumalainen (2021), Block et al. (2021), Davis et al. (2021), Jayawarna et al. (2020), Yang et al. (2020)
Investor–investee relationship	• How can interorganisational tensions with investors be managed successfully? • How does the investor–investee relationship influence internal processes at the investee/investor organisation? • How can investors act as boundary spanners who use their power bases to support positive outcomes in the investee organisation?	Stakeholder theory Paradox theory	Agrawal and Hockerts (2019), Lall (2019), Leborgne-Bonassié et al. (2019)
Examining the investee perspective	• What are the needs and expectations of social enterprises with regard to external financing? • Which organisational characteristics determine investees' needs? • How are intraorganisational tensions caused by external financing issues handled?	Resource dependence theory Paradox theory	Agrawal and Hockerts (2019), Guo and Peng (2020), Mayer and Scheck (2018)
Interorganisational relationships in networks	• Which types of network relationships add value to social enterprises? • What value-creating resources are exchanged in networks and how?	Relational view	de Lange and Valliere (2020), López-Arceiz et al. (2017), Sakarya et al. (2012)
Institutional constraints and enablers	• Which institutional factors influence social enterprises' access to and exploitation of external finance? • How do financing processes differ across countries, and which underlying institutional factors determine differences?	Legitimacy theory Institutional theory	Barraket et al. (2019), Jancenelle et al. (2019), Stephan et al. (2015), Zhao and Lounsbury (2016)

Nevertheless, for social enterprises, women's chances of receiving funding seem higher than men's (Bento et al., 2019; Dorfleitner et al., 2021; Yang et al., 2020). A fit between women's stereotypical social orientation and the social mission of the venture potentially makes women-led social enterprises more attractive to crowdfunding investors than social enterprises led by men (Lee & Huang, 2018). However, other studies show the presence of the exact opposite relationship, indicating that women should send gender-counterstereotypical signals to investors to appear more business-oriented (Davis et al., 2021; Williamson et al., 2021).

Overall, and despite these exemplary insights, research on factors that make social enterprises attractive to investors is still in its infancy and should be extended to provide reliable and valid results, not least by building on the insights from the 'classical' management domain. Research on commercial entrepreneurship, for example, extensively discusses signalling theory and key quality signals such as the use of words and storytelling in resource acquisition processes (Cornelissen & Clarke, 2010; Lounsbury & Glynn, 2001; Martens et al., 2007), entrepreneurial passion (Chen et al., 2009), entrepreneurial optimism (Dushnitsky, 2010) and signals related to sex (Alsos &

Ljunggren, 2017). We argue that some of those ideas could be transferred to the social enterprise context by complementing signalling theory with organisational identity theory (Albert & Whetten, 1985) to analyse how aligning individual and organisational identity in social enterprises might influence investors' choices. According to organisational identity theory, the behaviour of a social entrepreneur depends on how strongly they identify with the organisation. Because certain investee behaviour such as a cooperative attitude might be important for the investor (Dukerich et al., 2002), analysing the degree to which the entrepreneur identifies with the organisation and how this is perceived by the investor might shed light on the social enterprise's interorganisational processes that the investor perceives as attractive. As investors favour strong values and missions (Hazenberg et al., 2015), analysing how dualities in organisational identities influence the identification of the individual with the organisation (Foreman & Whetten, 2002) and how a misalignment may influence investors' decisions could add insights into what makes social enterprises legitimate to investors. Furthermore, and taking an investor perspective, we argue that the so far seemingly subjective decision-making processes based on an investors' personal history, preferences and goals can be further researched. The theory of planned behaviour, which is currently only used in research on the investee perspective, could also be applied to the investor context, as it could help us to understand subjective factors like attitude, social norms and perceived behavioural control that influence investors' decisions to risk an investment in a social enterprise.

Overall, we advise scholars to be cautious not to lose sight of the peculiarities of social entrepreneurs, especially when transferring the general ideas from the entrepreneurship and general management domain, where most of the research in our sample is located, to the social enterprise context. In fact, classical management theories might not be able to explain some of the social processes inherent in the creation of social value (Dacin et al., 2011).

Furthermore, we suggest increasing the variety of investment types used in empirical analysis. Much of the literature, especially in entrepreneurship journals, focuses on the crowdfunding context and exploits secondary data (e.g. Parhankangas & Renko, 2017; Yang et al., 2020). Crowdfunding, however, is a specific investment vehicle, and the value of using publicly available datasets and secondary survey data is limited for uncovering the complex dynamics and underlying mechanisms that influence the financing processes of social enterprises. Against this background, public sector management research could provide the inspiration to assess primary data on different types of investors such as venture philanthropy and impact investing. Furthermore, as social enterprises regularly rely on more than one type of financing (Achleitner et al., 2014; Siqueira et al., 2018), an isolated focus on specific financing tools does not capture the complex reality. Research could therefore illuminate, for example, the conditions under which different types or sources of finance complement one another to enable superior outcomes.

Investor–investee relationship

Although successful investor–investee collaboration is one of the most important success factors for generating valuable outcomes (Bocken, 2015; van Slyke & Newman, 2006), knowledge about the underlying mechanisms and processes that drive successful investor–investee relationships is scant. Future research could therefore delve into the dynamics of successfully forming investor–investee relationships. Social enterprises face two severe management challenges that influence interorganisational relationships: they need to pay attention to the legitimate interests of a diverse group of stakeholders and they need to focus on and manage multiple, often conflicting, internal goals. Pursuing diverse goals might lead to tensions in interorganisational collaborations between investors and investees. We suggest addressing these issues to understand how they affect relationships. A fruitful endeavour could be to combine stakeholder theory (Donaldson & Preston, 1995) and paradox theory (Lewis, 2000; Smith & Lewis, 2011; van der Byl & Slawinski, 2015) to better understand tensions in social enterprises and find solutions to solve them and allow relevant stakeholders to avoid further complexity (see also Pinto, 2019). Following the identification and prioritization of various stakeholders (Mitchell et al., 1997), paradox theory could help approach the tensions between their different claims and resulting tensions at the interorganisational level between investors and investees, or in the investee organisation itself.

Another interesting aspect of dyadic relationships is the allocation and management of power in those relations. There is a fine line between investees' appreciation of non-financial support and their dislike for investors who restrict them by deploying strong control mechanisms (Glänzel & Scheuerle, 2016; Mayer & Scheck, 2018). At the same time, investor–investee relationships are characterized by an unequal power distribution, for example, with regard to monitoring and measurement practices. Investors favour regular monitoring to avoid moral hazard (Scarlata et al., 2012; Sonne, 2012), while social enterprises are often sceptical about external interference and doubt the need to incur high costs to measure impact (Glänzel & Scheuerle, 2016). Such an unequal power distribution may hinder learning and knowledge sharing in interorganisational relationships (Collien, 2021). However, power need not necessarily be an issue of dominance but rather a valuable resource, assuming that expert and management positions in organisations are used to exert power for organisational learning (Collien, 2021). In our context, it would be interesting to examine, from this perspective, how investors can act as boundary spanners who use their power bases to drive innovation in the investee organisation, for example, by demanding and implementing control and measurement practices in the social enterprise.

Examining the investee perspective

The initiation of an investment relationship is currently described primarily from an investor perspective. We argue that analysing such relationships from the perspective of social enterprises' needs and expectations is necessary for two reasons. First, the growing relevance of social and environmental issues in society has raised the financing options of social enterprises. It is thus possible that the power balance between investors and social enterprises will even out over time and allow social enterprises to choose among a variety of investors. Second, the selection of a suitable partner can be considered to be a more important decision for social enterprises than for investors, as investors often have a large portfolio that minimizes investment risks (Hand et al., 2020), while social enterprises depend on a few investors who might be essential for their survival.

Knowledge on social enterprises' needs and the factors that influence those needs is blurry. For example, our review identified increasing research on crowdfunding which somehow reflects the growing use of crowdfunding by social enterprises in practice. At first glance, this seems surprising, as the literature indicates that social enterprises value investors' non-financial business support, which is lacking in the crowdfunding context. However, it also indicates that social enterprises strive for independence, which is in line with most crowdfunding approaches that do not require giving away control rights. When control of the investor is high and the social enterprise must shape its mission to fit investors' mission, undesirable outcomes such as mission drift might occur (Achleitner et al., 2014; Pratono et al., 2020). Such a mission drift can lead to intraorganisational challenges at the investee organisation when employees perceive this as a misalignment and betrayal of the original organisation's goal (Hahn et al., 2015). We see potential for future research to shed light on the needs and expectations of social enterprises and how optimal external financing should look to prevent intraorganisational tensions (and respectively how to solve them). In this regard, paradox theory could again provide useful insights for analysing and developing approaches to resolve intraorganisational tensions. Furthermore, the role of external factors such as the institutional environment could be further analysed. The few studies that adopt an investee perspective rely purely on narrative or descriptive illustrations (Lyon & Owen, 2019) or lack methodological sophistication (Mayer & Scheck, 2018).

Interorganisational relationships in networks

Most articles adopting a resource-based perspective argue that network building is essential to (financial) resource acquisition and thus focus on *how* relationships are formed (e.g. López-Arceiz et al., 2017; Sakarya et al., 2012). However, a clear understanding of *which types* of network relationships are value adding is lacking. Thus, we suggest building on the complementary perspective of the relational view (Dyer & Singh, 1998) to obtain a clearer understanding of resource exchange processes and the creation of new network resources to avoid an unbalanced perspective of social enterprises just taking resources without giving back.

The relational view suggests that a firm's critical resources may span firm boundaries and be embedded in interfirm routines and processes. Competitive advantage is based on network routines and processes rather than on the resources of individual organisations only (Dyer & Singh, 1998). Interorganisational cooperation therefore does not merely grant access to new resources, but the cooperation itself is a strategic resource if the partners share common goals and values. Such critical resources and interfirm routines and processes require further research through explorative qualitative studies because interorganisational collaboration processes may be particularly difficult to capture using quantitative methods.

Institutional constraints and enablers

Regulatory, political and institutional forces can significantly influence the acquisition of financial resources by social enterprises (Chen et al., 2018). Social or institutional change, typically regarded as the desired outcome of social enterprises (e.g. Austin et al., 2006; Rawhouser et al., 2019), relies on reciprocal dynamics in the market. We argue that research combining different forces is necessary for several reasons: first, to analyse the interdependence of cultural, economic, political and legal factors; second, to analyse how they influence social enterprises' financing processes; and third, to analyse how financing processes in turn shape institutions. To analyse the influence of institutional factors on the individual and vice versa, we suggest combining signalling theory and institutional theory to account for institutional and organisational constraints when analysing the role of individual entrepreneurs' human capital, resources and strategies in the sphere of financing processes.

Existing theoretical debates have centred on the questions of whether and how a country's institutional context may be instrumental in unlocking resources at the individual level and how contextual and individual factors jointly influence entrepreneurship entry (e.g. de Clercq et al., 2013; Estrin et al., 2016; Sahasranamam & Nandakumar, 2020; Stephan et al., 2015, 2016). We encourage researchers to extend this discussion by holistic perspectives to analyse whether and how economic factors (e.g. resource-scarce vs. resource-rich environments), cultural factors (e.g. sex and ethnic biases) and legal factors (e.g. laws and regulations) influence entrepreneurial resources and strategies to access or exploit financing opportunities. As legal and economic factors are rarely favourable towards social enterprises (Carriles-Alberdi et al., 2021; Umfreville & Bonnin, 2021), a focus on cultural aspects—such as highlighting the positive effects of their business models for society as a whole (e.g. Calic & Mosakowski, 2016; Paniagua et al., 2015)—could be a strategy to positively influence legitimacy and thus subject to future research.

We further suggest extending research on institutional factors to more country comparison research. Much existing research already uses publicly available data, including data from multiple countries. Only few, however, actually use the data to compare different countries and analyse how differences in institutional settings influence financing processes (for a notable exception, see Stephan et al., 2015). Using such datasets and including cross-country comparisons will be valuable to connect outcomes of financing, such as success or internationalization of social enterprises (Alon et al., 2020; Angulo-Ruiz et al., 2020) to country-specific factors. Lastly, most empirical research focuses on social enterprises or investors based in Europe and Asia. Although Europe and Asia are certainly relevant contexts, other regions and countries might also be relevant for financing social enterprises from an institutional perspective.

CONCLUSION

Financing social enterprises is a nascent area of scholarly inquiry. Owing to the multitude of themes, theories and research objects at the individual, organisational and institutional levels, research is fragmented, our understanding of the financing processes of social enterprises is scattered and theoretical content and boundaries are lacking. This systematic literature review sheds light on the state of research on the external financing of social enterprises by synthesising hitherto opaque and hidden academic knowledge from a diversified body of the literature across different levels of analysis into a holistic understanding of the processes and constraints of financing social enterprises. Our review reveals the imbalances in existing research, as well as inconsistent or contradictory findings. It integrates evidence from different subject areas to address the field's fragmentation and thus speaks to researchers from the management, entrepreneurship, finance and public sector management fields. As conventional enterprises are increasingly expected to consider social and environmental issues alongside their financial goals, thus incorporating different forms and degrees of hybridity, our findings also speak to management and finance researchers.

We highlight notable research achievements and identify several major gaps. We argue that isolated perspectives inevitably fall short of explaining the complex topic of financing social enterprises with their sometimes conflicting goals, heterogeneous actors and fragmented infrastructure. To connect these perspectives and integrate the diverse research streams, we provide a multi-level view of financing social enterprises by introducing an overarching framework that connects relevant factors at the individual, organisational and institutional levels. Drawing, for example, on organisational identity, stakeholder, paradox and institutional theory, we outline future research avenues that could help consider the individual, organisational and institutional levels of analysis simultaneously. The conceptual framework is useful in creating theoretical novelty, as it highlights important interactions and dynamics of the topic that should be considered in future studies at all levels of analysis. It also shows where islands of knowledge lie and where knowledge is still thin, giving direction for high-impact empirical future studies. In sum, we advance management research by revealing evidence-driven insights on the external financing of social enterprises, providing a nuanced and holistic perspective on the topic, and by stimulating research paths to new empirical studies.

We acknowledge that our conclusions may be limited by several issues. First, despite applying an extensive literature search procedure, we cannot guarantee the completeness of the literature sample. Furthermore, we decided to focus on external financing only, thus leaving the internal financing of social enterprises aside when conducting our search and screening process. We did this to avoid further heterogeneity in the topic and future reviews could specifically scrutinize aspects of internal financing.

Second, although we applied an extensive search strategy, we do not claim that our findings can be generalized beyond the reviewed literature. Third, while we believe that the manner in which we analysed and categorized the articles in our sample is methodologically sound, we acknowledge that certain validity concerns may exist when adopting an interpretative-qualitative approach. In light of these three concerns, we advise scholars to reflect on the choices we have made when interpreting our conclusions.

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ENDNOTE

[1]The terminology thus far used to describe this concept is inconsistent and financing instruments are also referred to as 'social crowdfunding' (e.g. Bernardino & Santos 2016), 'green-oriented crowdfunding' (e.g. Butticè et al., 2019) and 'crowdfunding for social enterprises' (e.g. Lehner & Nicholls 2014).

[2]The Scopus database contains more than 20,000 journals and the SSCI database, as part of the Web of Science, includes all the journals from the field of social sciences (over 10,800 journals) with an impact factor, which is a reasonable proxy for the important journals in the field.

[3]We assigned journals that were not included in Harzing (2021) to the most suitable subject areas. Therefore, we compared those journals with topically close journals and their assigned subject areas. See online Appendix 1 for the assignment of the journals.

[4]Each journal in the SJR is listed for at least one scientific field (e.g. *Business, Management and Accounting*; *Environmental Science*) and ranked in a quartile relative to all the other journals in the same field (i.e. Q1 for the most influential journals in the field and Q4 for the least influential). In cases in which a journal was ranked in different quartiles in different fields, we used the quartile ranking of the field that best fit the subject area of the journal. Furthermore, those journals not listed in the SJR were treated like Q4 journals.

[5]Since we intentionally only focused on journals from certain subject areas in the journal-driven approach, we did not include those in this analysis to aim for an unbiased picture.

[6]Communication, Economics, International Business, Innovation, Marketing, Management Information Systems, Multidisciplinary, Organisation Behaviour/Studies, Human Resource Management, Industrial Relations and Other. Subject area 'other' is not part of the Harzing list.

[7]Throughout our review, we use the term 'funding success' as a short version for social enterprises' successful attempt to receive external financing.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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