FROM LEGITIMACY TO LEARNING – HOW IMPACT MEASUREMENT PERCEPTIONS AND PRACTICES EVOLVE IN SOCIAL ENTERPRISE-SOCIAL FINANCE ORGANIZATION RELATIONSHIPS

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ABSTRACT

While the links between the fields of social enterprise and social finance appear apparent, academic research on the relationship lags behind practice. This study examines how social enterprises interact with social finance organizations in the context of impact measurement. Through qualitative research with eight social enterprises and their respective funders, I find evidence that both sides view impact measurement primarily as a means for establishing legitimacy prior to engagement, and in the early stages of their relationship. These relationships are hierarchical and rigid at early stages, but over time evolve into more collaborative partnerships. Eventually, social enterprises embrace impact measurement as a tool for organizational learning, and social finance organizations develop more empowering approaches for impact measurement. The level of flexibility and the closeness of the relationship between social finance organizations and social enterprises suggests important lessons for the development of a more enabling use of impact measurement.

INTRODUCTION

The field of social enterprise has become an increasingly important topic of research (Kerlin, 2010; Terjesen et al., 2016; Schneider, 2017) as nonprofit and management scholars continue to study the potential of entrepreneurship as a mechanism for social and economic development. Despite some disagreement at the margins, most scholars agree that social enterprises have a dominant mission to create social value, while also generating sufficient revenue to ensure financial sustainability (Young & Lecy, 2014; Dacin et al., 2011; Defourny & Nyssens, 2010; Kerlin, 2010; Mair & Marti, 2006). In parallel, the field of social finance has emerged as an approach to drive more capital to social enterprises, using a variety of existing and new financial instruments such as impact investing (Glanzel & Scheurle, 2017), philanthropic venture capital (Scarlata & Alemany, 2010) and venture philanthropy (Gordon, 2014). Nicholls & Paton (2009) describe these fields as interdependent, and argue that they will co-evolve, since either one can restrain or stimulate the other. Practitioners and policymakers concur with this

perspective, often placing their work in both fields. However, despite the growing recognition of the interconnectedness of these fields, scholarly research appears to mainly focus on one side of the equation (notable exceptions include Grimes, 2010; Miller et al., 2010; Nicholls & Pharaoh, 2008).

Social enterprise and social finance are intrinsically linked by their use of market-based principles to achieve social (or environmental) objectives. Thus, producing measurable social impact lies at the heart of this relationship, as acknowledged by some scholars studying both phenomena. For instance, Nicholls and Pharaoh (2008) call for more refined impact measurement practices that combine standardized quantitative reporting with qualitative frameworks. Similarly, Grimes (2010) argues that "one of the primary ways that funding relationships within the social sector make sense of organizational identities and come to agreement about the missions and strategies of the funded organizations is through performance measurement." (pp.764).

While the measurement of financial performance is relatively straightforward, measuring social impact is considerably more complex, and challenging to implement (Arena et al., 2015; Ebrahim & Rangan, 2014). The topic has been extensively studied in the nonprofit sector (see, for instance, Newcomer et al., 2013; Carman, 2011; Benjamin, 2010), and is starting to receive more scholarly interest in social enterprise. Here, much of the literature can be classified into three categories: (a) development and classifications of impact measurement approaches, typologies, and toolkits (Arena et al., 2015; Bagnoli & Megali, 2011; Ebrahim & Rangan, 2010; Bull, 2007); (b) a social accounting perspective (Nicholls, 2018; 2009; Manetti, 2014; Arvidson et al., 2013); or (c) empirical studies of social enterprises attempting to measure their social impact (Ormiston & Seymour, 2011; Lall, 2017). The relational aspect of impact measurement,

however, remains understudied, and it is to this area that this study aims to contribute. Since both social enterprises and social finance organizations aim to create positive social impact through the use of market-based approaches, it is likely that the measurement of this impact will illustrate critical aspects of their relationships, and deserves at least as much attention as other aspects of social enterprise and social finance. This study therefore focuses on the following research question: How do the perceptions and practices of impact measurement among social enterprises and social finance organizations evolve over the period of their relationship?

Scholars note that historically, social enterprises have been slow to adopt robust and strong metrics, and measures have typically been less standardized (Lall, 2017; Arena et al., 2015; Miller et al., 2010). It is argued that social enterprises that develop strong social performance measurement methodologies are more likely to establish legitimacy and raise capital from impact investors (Mair & Marti, 2006; Miller et al., 2010). In recent years, impact measurement has become increasingly common as part of reporting requirements for impact investors and other social finance organizations (JP Morgan Chase & GIIN, 2015). The practice of impact measurement in social enterprise has even been a topic of opinion pieces in the popular press, in outlets as prominent as Forbes (2017), Harvard Business Review (2013), and The Guardian (2012). As Devin Thorpe, a journalist who covers the social enterprise field for Forbes suggests, "Accountability, measuring the impact, is how you become an effective one (social entrepreneur)." However, there is also growing concern over the burden these expectations place on social enterprises and their ongoing operations (Dichter, Adams & Ebrahim, 2016), as well as the potential for social enterprises adopting measurement approaches that are not appropriately aligned with their missions (Ormiston & Seymour, 2011).

This study aims to contribute to the broader understanding of the relationship between social enterprises and their funders through the lens of impact measurement, building on foundational work by Arena et al., (2015), Nicholls & Paton (2009), Nicholls (2009), Grimes (2010) and Miller et al., (2010). While research on these relationships remains limited, scholars have spent considerable effort studying the relationships between nonprofits and donors (for instance, see Mitchell, 2014; Carman, 2011; Benjamin, 2008; 2010), which offers several lessons for the study of social enterprise and social finance. I use a multi-case study approach (Yin, 2011; Eisenhardt, 1989a), drawing on qualitative data collected through interviews, reviews of internal reports and dashboards, and secondary sources, from eight social enterprises in the energy access sector, as well as their funders. I analyze the data inductively using a temporal bracketing strategy to look at adjacent periods of the relationship (Langley, 1991; Giddens, 1984) and identify potential mechanisms that structure these relationships at these different stages. Based on the findings, I propose a process model that can help inform future empirical and theoretical research.

The findings suggest that prior to engaging with each other, social enterprises and social finance organizations typically consider only the external purposes of impact measurement, as a way to appear legitimate to potential funders or stakeholders, or to be accountable to existing stakeholders. Social enterprises are typically required to adopt some form of impact measurement when they receive investment from social finance organizations, and the type of measurement approach usually depends on the type of funder – with grant providers expecting the most rigorous forms of impact measurement. At these early stages in the relationship, impact measurement is primarily viewed as an accountability mechanism (Ebrahim, 2003; Eisenhardt, 1989b). Over time, as the relationship matures, social finance organizations start to recognize the

possible burden these practices may place on their investees, and social enterprises also feel more empowered to express their views to their funders. Thus, we see the relationship take on a more collaborative tone. Finally, we see that social enterprises eventually start to embrace the use of impact measurement as one of their core organizational functions and integrate these practices to help them better manage their social and business objectives. The study posits a dynamic perspective of impact measurement perceptions and practice, that evolves as the relationship between social enterprises and social finance organizations matures.

This study proceeds as follows: First, I briefly describe the range of impact measurement approaches (such as program evaluation, performance measurement) commonly practiced by social enterprises. As part of the literature review, I also synthesize important studies on donor-grantee and other funding relationships and identify key theoretical themes. Second, I describe the research sample and qualitative approach employed. Third, I discuss my findings and elaborate a process model based on this study. Finally, I discuss the major contributions of this study, and provide some implications for research and practice.

LITERATURE REVIEW

Impact Measurement and Related Terms

Discussions on impact measurement have become a constant preoccupation of practitioners and scholars in a number of social sectors such as nonprofits, philanthropy, and increasingly, social enterprise (Ebrahim & Rangan, 2014; Gugerty & Karlan, 2018). Here, we note that much like the concept of social enterprise, there are variations in terminology that revolve around a core meaning that Ebrahim and Rangan (2014, p. 118), describe as ‘demonstrating results in addressing complex social problems such as poverty and inequality.’

Within the social enterprise and social finance sectors, “impact measurement” is the most commonly used term, along with others like “social performance”, “impact reporting”, and “social impact accounting” (MacIndoe & Barman, 2012; Ebrahim & Rangan, 2014; Nicholls, 2018). These terms typically cover a range of approaches that have their roots in *program evaluation* and *performance measurement* in the public and nonprofit sectors (Hatry, 2013; Ebrahim & Rangan, 2014).

While program evaluations attempt to understand causal relationships (e.g., did the use of a product or service lead to an improvement in the lives of beneficiaries or customers?) using experimental or quasi-experimental approaches (Gugerty & Karlan, 2018; Ebrahim & Rangan, 2014), performance measurement provides more ongoing operational information on program activities and outputs (e.g., number of people served, number of products sold, etc.) (Hatry, 2013) To simplify the narrative in this study, I use the term “impact measurement” as an umbrella term that includes both “program evaluation” and “performance measurement” when discussing the concepts more generally and distinguish between these approaches in my analysis.

The Relational Nature of Impact Measurement

Early conceptualizations of the use of impact measurement (as previously described) in organizations tended to be based on the Weberian ideal of bureaucracy, of a purely rational organization that aims for maximum predictability (Weber, 1978), establishing criteria for assessment, and measuring performance to make strategic choices for improvement (Dahler-Larsen, 2012). In his analysis of what he refers to as the “Evaluation Society”, Dahler-Larsen critiques this perspective as being useful as an analytical tool, but a largely unrealistic depiction of organizational behavior. Instead, he proposes two models. The “learning organization” is characterized by an organization’s emphasis on not just acquiring new information, but also

constantly self-correcting based on this information. Organizational actors use impact measurement to acquire information from external actors and the environment, learn from it, and adapt or modify their behavior accordingly. Thus, impact measurement is primarily considered a tool for organizational learning.

The second model is the "institutionalized organization", which recognizes that organizations rely on legitimacy, support, and recognition from their external environment (rooted in DiMaggio & Powell's description of normative institutional isomorphism). In this case, the practice of impact measurement takes on a symbolic or legitimizing role (as opposed to the instrumental purpose of organizational learning), to attract support from, or to appease powerful actors in the environment. Organizations may not actually use any of the information collected through impact measurement but recognize the practice as a means of accountability or a badge of legitimacy, consistent with DiMaggio & Powell's (1983) description of institutional isomorphism. Excessive use of impact measurement out of concern for this legitimation may even undermine the organization's effectiveness. For instance, a social enterprise may need to allocate part of its scarce resources to measurement to fulfill a funder's reporting requirements, to the detriment of its operational mission. These distinctions are evident in Nicholl's (2009) description of 'Blended Value Accounting' in social entrepreneurship – corresponding to the strategic functions of performance enhancement (i.e., the *learning* function), and acquiring resources by demonstrating performance to stakeholders (i.e., the *legitimacy* function). Nicholls argues that social entrepreneurs may interpret and adopt these different functions according to the institutional context in which they operate. While these functions and models should not be considered strict, or mutually exclusive, they serve as useful archetypes for exploring how and why social enterprises and social finance organizations may use impact measurement in their

relationships. Additionally, they lead us to the relational perspective of impact measurement, which is emerging as an important lens through which these practices can be studied (for instance, see Newcomer et al., 2013; MacIndoe & Barman, 2012; Carman, 2011; Ebrahim, 2003).

Ebrahim (2003) argues that accountability is a relational concept and does not stand apart from organizational relationships. Within the framework of nonprofit-donor relationships, the dominant direction of the relationship is determined by the presence and use of accountability mechanisms such as evaluation and performance measurement. He suggests that organizational learning is more likely to occur when information systems are simple and flexible, rather than elaborate and rigorous, and where the distance between nonprofits and their funders is minimized, and the relationships less hierarchical. Newcomer et al. (2013) and Carman (2011) find support for this perspective and find that nonprofits may actively detach the collection of impact-related information from its use (which is primarily symbolic), consistent with the institutionalized perspective described by Nicholls (2009) and Dahler-Larsen (2012).

Together, these studies suggest a generally consistent picture of impact measurement in the nonprofit sector, but I note some important exceptions. While it is generally argued that external actors (primarily funders) strongly influence the adoption and implementation of impact measurement practices, recently scholars have criticized the relatively simplistic view of organizational relations, arguing that it does not automatically extend to organizations that share common goals and objectives, such as mission-driven nonprofits and funders, or social enterprises and social finance organizations (Dicke, 2002; Carman, 2011; Bacq & Lumpkin, 2014). For instance, MacIndoe and Barman (2012), Arvidson & Lyon (2014) and Thomson (2011) find evidence that nonprofit managers often use impact measurement for organizational

learning and management. Thus, we start to see a more nuanced perspective of impact measurement, as both symbolic (to signal legitimacy) and instrumental (to enable organizational learning).

In comparison to the extensive study of impact measurement in the nonprofit sector, the topic has received relatively limited attention in social enterprise and social finance. Exceptions include studies by Ormiston and Seymour (2011), Nicholls (2018; 2009), Lall (2017), and Ebrahim & Rangan (2014). Ormiston and Seymour (2011) use three case studies from Latin America and find that social enterprises often face a "mission measurement paradox", in which their impact measurement approaches are largely driven by the informational demands of funders, rather than their own informational needs. Nicholls (2018; 2009) examines these practices through the lens of accounting practices and suggests that while some social enterprises may use impact measurement to enhance their own performance, others primarily use it as an accountability mechanism, to report to existing funders, or appear more legitimate to prospective funders (consistent with DiMaggio & Powell's description of coercive institutional isomorphism). In contrast, Lall (2017) finds some evidence that the use of impact measurement in social enterprise may be more related to the background of the social entrepreneur, and the influence of peers (consistent with mimetic institutional isomorphism, DiMaggio & Powell, 1983), rather than social finance organizations. Finally, Gugerty & Karlan (2018) and Ebrahim and Rangan (2014) take a normative approach, arguing that while all social enterprises should aim to measure their performance in terms of inputs, activities, and outputs, not all should strive to conduct full-scale program evaluations. They suggest that evaluations (as described previously), are only valuable when organizations can clearly measure causal links between outputs and outcomes, and when there is insufficient evidence that these links already exist.

Thus, they argue, in cases where there is already strong evidence that providing certain outputs will lead to outcomes (e.g., provision of vaccines leading to reduced spread of a disease), there is little additional benefit to be gained by conducting a program evaluation.

A critical dimension that is missing in these studies is the examination of the relationships *between* social enterprises and the social finance organizations that fund them (as most studies focus on either the enterprise or funder level). Additionally, past research has largely examined impact measurement as a static phenomenon, and disregarded the temporal dimension of the relationship, which may evolve over time. The goal of this study, which focuses on how the perceptions and practices of impact measurement in social enterprise and social finance change over the course of the relationship, is to not only to extend this stream of research into a new domain, but to also introduce this temporal dimension by developing a process model of the phenomenon. In the following section, I explain the exploratory approach that builds on, and contributes to this existing body of literature.

METHODOLOGY

Research Design

Considering the exploratory nature of the research questions, extant research on the nature of social enterprise-social finance organization relationships, and the intended contributions of this study, a qualitative, I selected a case-based research design. I employed a purposive (theoretically-driven) sampling approach (Eisenhardt & Graebner, 2007; Lincoln & Guba, 1985; Eisenhardt, 1989a). I selected participants with specific characteristics that reflected similarity in social mission and objectives, but differences in geography, products, business models, and stage, that would illuminate different types of relationships with social finance

organizations. By focusing on a small group of organizations with common objectives, I could pay more careful attention to the differences in actual practices, and identify nuanced themes of learning, legitimacy, and relationship management. However, I acknowledge that a possible limitation of this study is the lack of diversity in the sample, which may lead to possible sources of positive bias in one direction. Twenty-four semi-structured interviews with social enterprise founders and staff, funders, and other key stakeholders were used for data collection, and the responses were transcribed and coded for analysis. Data collected from the interviews were supplemented by a review of published academic and practitioner literature, as well as social performance measurement reports, fundraising proposals, and other archival documents shared by respondents.

Sampling

Recognizing that both social enterprise and social finance span a wide range of sectors and impact objectives, a theoretically-driven, purposive sampling approach was considered appropriate. In purposive sampling, participants with characteristics or features that are relevant to the research questions are selected (Lincoln & Guba, 1985). Specifically, this study focuses on social enterprises that share a common objective: providing rural off-grid households with access to renewable energy, to ensure that the general types of impact measurement practices were comparable.[i] I started by examining the investment portfolios of social finance organizations that were members of the Global Impact Investing Network (GIIN), focusing on investors that had made multiple investments in the access to energy sector. Applying a theoretical sampling approach (Eisenhardt & Graebner, 2007), I identified twenty social enterprises that would illustrate different types of relationships with a range of social finance organizations, based on their geographic location of operations, their stage of operation, and the type of funding they

reported receiving. These social enterprises were invited to take part in the study via email. In addition, I separately invited staff from seven social finance organizations that had invested in these ventures to participate in the study. Eight social enterprises and four social finance organizations agreed to participate in the study.

Similar to qualitative research by Grimes (2010) and Ahlstrom & Bruton (2006), the eight social enterprises in the final sample represented a range of ages (from early-stage startups to established firms operating for several years), geographies (operating in India, Uganda, Tanzania, and Ghana), products (solar lanterns, microgrids, solar home systems), and business models (retail sales, prepaid meters, and consumer financing). Therefore, it was possible to examine how different social enterprises with a similar social mission managed their relationships with different types of social finance organizations. Additionally, because these enterprises were at different stages of development and operated in different locations, the nature of these relationships (and the use of impact measurement) varied, and I was able to illuminate certain aspects of these relationships, such as different expectations of grant providers compared to debt and equity providers. Table 1 provides a summary of the eight social enterprises in this study. To preserve the anonymity of the respondents, the enterprises are labelled SE1 to SE8. Table 2 provides a summary of the four social finance organizations, labelled SFO1 to SFO4.[ii]

Insert Table 1 about here

Insert Table 2 about here

I conducted interviews with CEOs or founders in each venture (4 ventures had multiple founders), as well as any staff persons in charge of impact measurement. Only two ventures reported having a person dedicated to this task. Impact measurement was conducted by staff in other departments, such as sales, marketing, or accounting in the remaining six ventures.

The social enterprises in this sample were supported by both public and private mission-driven investors that have supported them through grants, debt, or equity funding. Nearly all the ventures had received grant funding at early stages in their development, from private or public sources. Additionally, some of the larger (and older) ventures had received funding in the form of debt or equity from social impact investors. As part of my research, I interviewed staff from these different types of social finance organizations, to compare perspectives from both sides of the relationship. Specifically, I conducted a total of eight interviews with staff from two private social impact investors, one public sector grant provider, and one private foundation. Therefore, the study had balanced representation from both types of social finance organizations – those that expect some financial return, as well as those that do not expect financial returns. For each of the funders, I interviewed the staff members that were responsible for the impact measurement and evaluation activities within the organization and received the data and reports from the ventures. These mission-driven investors required different levels of reporting on impact measurement from their investees.

Data Collection

Interviews were conducted in English separately for each person, and each respondent was assured of complete confidentiality in terms of their responses. I conducted a total of 24

interviews between September 2014 and February 2015. Overall, ten interviews were conducted in person, eleven over Skype videoconferencing, and three over the phone. All 24 respondents gave their consent to being recorded, so digital audio recordings of each conversation were saved in a secure hard-drive, to enable detailed transcription of notes. The questions were neutrally worded to minimize social response bias, and all respondents were ensured that nothing they said would be attributable to them or the organization that they worked for. It appeared that all the respondents were quite forthcoming and candid with their responses and seemed eager to discuss their experiences and challenges with mission-related measurement. In several cases, respondents volunteered to share internal documents and reports, and were also candid about their perspectives on the requirements of different types of funders.

Each interview was between 40 and 70 minutes long, resulting in a total of 152 single-spaced pages of transcribed interviews (5-9 pages per interview). Interviews were semi-structured, and provided some direction to respondents, but also allowed for additional open-ended responses to each basic question. Where possible, I triangulated responses provided by the social enterprise respondents with information provided by their funders, as well as independent sources, such as academic or practitioner studies and reports on their work. Additionally, six of the eight social entrepreneurs also shared several internal documents, such as performance data dashboards, quarterly and annual reports to funders, as well as fundraising documents that incorporated social performance information. In total, these documents contained 230 pages of text and tables, which complemented or expanded upon some of their interview responses.

Following guidance on qualitative data analysis by Eisenhardt (1989a), Miles & Huberman (1994), and Strauss & Corbin (1990), I went back and forth between the data (from interview transcripts and archival documents) and the emerging theoretical framework through

an iterative process, allowing first order themes and concepts to emerge. Taking a temporal bracketing approach, which is appropriate for developing a process model (Langley, 1991), the first-order themes related to how the purpose of impact measurement changed over the course of the relationships between social enterprises and social finance organizations. After identifying these first-order themes and stages in the relationship, I returned to the literature, and linked these first-order constructs to the literature, to document the study's contribution, and see where they were consistent with past research, and where they diverged. In particular, the themes related to *legitimacy* (in terms of projecting legitimacy to external stakeholders such as potential funders, peers, and existing funders), and *learning* (in terms of using impact measurement to inform programmatic decisions) emerged and were mapped across the different stages of the relationship. Similar to Corley & Gioia (2004), I note that this process was far from linear, and required multiple iterative steps to allow the dominant themes to emerge across four stages of the relationship. In the following section, I explain the key themes across each stage, and illustrate the dynamic nature of impact measurement perceptions and practices.

FINDINGS

The interactions between social finance organizations and social enterprises are complex and multifaceted, involving several stages and dimensions related to both social and financial value. I proceed with a discussion of findings, identifying key themes that emerged from the interviews and archival research, and establishing a process model based on the data. I conclude this section with some findings based on the overall analysis and discuss the implications for theory and practice in the following section.

Stage 1: Pre-engagement

Before examining the relational aspect of impact measurement, I first examined broader perceptions of impact measurement among the social enterprises and social finance organizations in my sample. Several entrepreneurs argued that the inherent social value of the product or service they provided (access to energy) was proven, and that measuring business indicators such as sales figures was more important than specifically measuring their social impact. The social impact was built into the model, and several entrepreneurs preferred a more practical approach that is consistent with the normative framework proposed by Ebrahim & Rangan (2014):

> *"So, we are pragmatic. We assume that everyone who has access to energy… that creates social impact. Now, we do a few things. The core parameter is just, I think, outreach. How many systems do we install?" (SE6)*

Several entrepreneurs remarked that the nature of the social enterprise model, which included a natural feedback loop on performance from customers meant that additional social impact measurement may not be particularly valuable. They noted the importance of anecdotes and qualitative feedback in addition to business outcomes, but generally appeared to be less enthused by the push for more systematic measurement of social impact, as the following quote illustrates:

> *"But there is an element that I really like about all social enterprise models, and for-profit models, where if you're not providing the customers with something that they value enough to pay for, then you'll go out of business. And, so, I really do see our revenue as a major indicator of impact." (SE8)*

Interestingly, while this sentiment was broadly shared by the majority of entrepreneurs in the sample, there was one exception. For one social entrepreneur who had previously worked in

a credit rating agency, the practice of measuring impact appeared to be a logical step in the development of his venture. He explained,

> *"I worked at Standard and Poors (S&P Ratings), so I come from a ratings background, I understand how benchmarking and clear quantifiable metrics make sense, and the process can help you assess yourself better, but also position your company better (competitive advantage) in context of your peers. (SE4)"*

On the social finance organization side, perspectives were more nuanced. Several respondents from these organizations concurred with the perspective that providing access to energy had its own inherent value, and that the theory of change and the state of evidence linking outputs to outcomes was much more developed compared to other sectors. For instance,

> *"I think for energy grantees specifically, there's a strong theory of change. But I think for something like private school education in India or Kenya might not. In the energy sector, (SFO3) believes that we don't need to measure how much value people are getting from the lights, we think there's a value inherent in the product, and the provision of the product" (SFO3)*

While social finance organizations were convinced of the inherent social value of providing rural households with access to electricity, they also seemed to recognize that standardization of measurement was important in overall development of the sector, and an important aspect of legitimacy for the field. Thus, three of the social finance organizations in the sample did not expect the social enterprises they supported to conduct full-scale program evaluations and limited their reporting requirements to ongoing performance measurement. Most respondents said their organizations were using or planning to use the standardized Impact Reporting and Investment Standards (IRIS) measures developed by the Global Impact Investing Network (GIIN), an influential industry association in the field. However, their reasons for

adopting these performance measures seemed to be mainly related to establishing legitimacy, and accountability to their own investors, rather than making investment decisions.

> *"Once we get this data, we share it, for many reasons – accountability to our investors, and internally for lessons learned… not much is fed back to the companies." (SFO2)*

One exception to this perspective was the prominent public sector social finance organization, which provided grant financing to early-stage social enterprises. Unlike the other funders in this sample, that expected some financial return on their investment, in addition to social impact, the public sector funder provided only grant financing, aimed at helping nascent social ventures test their operational model, and grow their operations. Therefore, social impact was at the core of their funding strategy, but they moderated their expectations based on the stage of the venture, and also the quality of the existing evidence base of the sector.

> *"The first stage is proof of concept/piloting, to test out your solution. Stage 2 is testing at a larger scale, which is when we expect that you already have sufficient evidence to back your impact claims, or are prepared to conduct (program) evaluation… once you have that evidence, we move to stage 3 to help you scale up" (SFO1)*

Overall, as the quotes illustrate, the broader perceptions of impact measurement appeared to show less interest from the social enterprise side, and more from the social finance organization perspective. However, even here, it seems like impact measurement had a more symbolic role, as a legitimizing strategy, rather than anything else. Funders believed they needed to have some sort of comparable data on their portfolio ventures to appear legitimate. Therefore, we see that the initial impetus for impact measurement in the sector is driven by funders, who appear to follow the "institutionalized" model described by Dahler-Larsen (2011). Impact measurement is considered a necessary practice to appear legitimate in the social enterprise and

social finance sectors but did not appear to have as much importance for organizational learning. Thus, we propose the following proposition:

Proposition 1: Prior to engaging with each other, social enterprises and social finance organizations perceive impact measurement mainly as a symbolic practice that enables them to appear legitimate to potential stakeholders, or to be accountable to existing stakeholders.

Stage 2: Hierarchical Relationship

Six of the eight social enterprises in this study were founded during between 2007-2012, a period of growth in social finance and impact investing (Salamon, 2014; Nicholls & Pharaoh, 2008). Accordingly, most social enterprises first started to consider measuring their impact when they started seeking financing from these organizations. Therefore, the start of the second stage was typically triggered by an active exchange of information between a social enterprise and a prospective funder, as part of the funder's due diligence. Interviews with founders and staff of the social enterprises revealed a relatively structured and hierarchical approach in developing impact measurement approaches during the initial screening and due diligence phase of the relationship with social finance organizations.

Early-stage social enterprises typically seek grant funding to conduct pilot tests and refine their models, before seeking other sources of finance, such as debt or equity (Dees, 2008). Since grant funders (such as the public-sector organization studied here) are purely motivated by a desire for social impact, they usually require some form of impact measurement (as previously discussed). The following quote illustrate the social enterprise perspective when initiating this relationship:

"We applied for a grant, and we're still waiting to hear, and we are very into that, we've written into that grant, that we would hire an M&E officer… I'm not totally sure, at what point, we would get into doing that without somebody telling us we have to."

Social finance organizations described impact measurement as one of the initial points of discussion when initiating a relationship with a potential social enterprise investee. Not surprisingly, grant-providing social finance organizations also required the highest burden of proof of social impact, often requiring rigorous impact evaluation studies and ongoing performance reporting against specific milestones. As one respondent from the public-sector social finance organization remarked,

"I would say, so we're guided by a couple of things, when it comes to evaluation. One is the stage, so what we ask our grantees is very specific to what stage they're at, we're not going to ask for an RCT for stage 1, when they're still developing their product. We'll ask for things at the stage 1 level, like, are there, is the beneficiary using the solution in the way that you intended, is there good uptake, is there, good feedback loops for you for the solutions you're producing. Stage 2 is where we ask for a more rigorous evaluation, sometimes in the form of an RCT." (SFO1)

As social enterprises grow, and move past the proof of concept stage, they start to seek financing in the form of debt or equity investment from other types of social finance organizations, such as impact investors. While impact investors also typically expect their investees to report on social performance, their expectations are typically more moderate, since they also seek financial returns. Impact-related considerations are an important consideration for these types of social finance organizations when conducting their initial screening and due diligence, but are often developed in a collaborative manner, compared to the more directive approach of grant providers. Respondents from impact investing funds described the process of

developing impact measurement practices in collaboration with their investees while initiating these relationships:

> *"Once the deal gets to a certain stage, that is after it enters research stage and goes into initial due diligence, and then it comes to me. Then I work with that initial portfolio team member, outline initial thoughts on impact measurement, and after that deal is approved by our portfolio leadership team for formal due diligence, we start to prepare out social impact template – which walks portfolio team through an analysis of the deal's potential for impact, on the 3 dimensions of impact that (SFO3) looks for – breadth of impact, which is scale, and depth of impact, which is at the individual level, how much change do we expect to have in the lives of the end users, and how much this company focuses on the poor, our target market in each of the geographies we're serving." (SFO3)*

Thus, we see that impact investors tend to place considerable emphasis understanding the operational model of the social enterprises they consider for investment, and also map out possible measurement approaches when conducting due diligence. The social enterprises interviewed, described this initial stage as a necessary part of establishing legitimacy with potential investors.

> *"Our investors, including potential investors are all impact investors, so they believe in social impact, you have to show them so it's required by them. What we do for our reporting, we have pro-actively done – what are the relevant social impact parameters, and we have been sending them. The good thing is that impact investors haven't come back with long lists of other impact things they want to see" (SE6)*

At these stages, the discussions are based more on concerns of oversight and accountability. There is an expectation that if social enterprises want to receive investment, they will need to adopt certain impact measurement practices:

> *"When grantees apply to (SFO1), and they have to fill out a longer full application that they have to fill out, and we start off by taking things that they said they would do, in that full application, and matching them to indicators that we think they will need for them to*

get there. So, for example, if they say they want to sell to 2000 people, obviously the indicator would be number of sales. because the indicators are pulled from the proposal, so we don't get a lot of push back on what the indicators are. I think the number behind the milestone, maybe they'll have pushback on, so for example." (SFO1)

Social enterprises expect this type of engagement in general and accept that they will need to measure their impact as a pre-condition of receiving funding from social finance organizations. Several social entrepreneurs also mentioned that while they generally agreed with their funders on the most relevant measures, there were also some impact-related measures that they adopted only for reporting purposes. These mandatory reporting requirements were considered less useful from an organizational learning perspective, and primarily used as a means of accountability to funders.

"Yeah, there are some things – the gender of the client. Those are the kinds of things the impact investor wants to see – we don't use that…. Some other things – CO2 emissions, megawatts of energy installed…. We just look at number of sales." (SE4)

We see that the relationship between social enterprises and social finance organizations is more hierarchical and formal at these early stages. However, despite this structure, it is interesting to note that these processes are not completely top-down, and social enterprises are able to negotiate reporting requirements with prospective funders, as this quote illustrates:

"So, when we did our series A round of financing, SFO Y (not interviewed) has its own investment committee that comprises of social impact arm, so with their help, we zeroed into 20 odd metrics that we report to all investors. So we're not reporting different metrics to all the investors. We did that planning as part of our Series A, that we're going to report only on these 20 metrics. It was more of a discussion than a recommendation that we made to them, than they made to us." (SE4)

In general, however, there is greater evidence of potential mistrust at early stages of the relationship, prior to the investment and just after the investment has been made. Social finance organizations tend to place considerable importance on due diligence, and spend time critically examining the evidence on the theory of change of the potential investee. They also spend considerable effort in ensuring that the social enterprise will be able to achieve measurable impact targets, and link future payments to these targets. At early stages of the relationship, funders often require social enterprises to spend substantial effort and resources to demonstrate social impact, and the governance approach is more focused on oversight and ensuring that their goals are aligned. The responses from social entrepreneurs reflected this perspective, and acknowledged the extra effort required to fulfill reporting requirements:

> *"Funder SFO1 has approved us for a grant that has different stages, milestones before they disburse the entire grant. We have to hit certain milestones before we get the next structured vehicle of funding… roughly every 3 months, we have to give an M&E (monitoring and evaluation) update. Things like number of total beneficiaries, % of women, Co2 tonnage reduced through sales, number of clean energy days reduced… So, we've hired an external firm to do that for us. We don't have the capacity in house…"*

It is clear that social enterprises and social finance organizations start to discuss impact measurement and reporting requirements as soon as they initiate a potential relationship, signaling its important role in establishing trust and setting up the accountability structure of the relationship. However, we also note that not all funders are alike in their reporting requirements, leading us to the following two propositions:

Proposition 2a: Social enterprises initially adopt impact measurement practices when they are required to do so by socially motivated funders, despite expressing some reservations.

Proposition 2b: Social finance organizations differ in their impact measurement expectations from the social enterprises they support. Grant providers typically expect more rigorous

practices such as program evaluations, while impact investors expect ongoing performance measurement and reporting.

Respondents from social finance organizations were clear about the need to set expectations for reporting early in the relationship. While social enterprises were typically able to negotiate specific measures and targets that would be most relevant to them, funders still established multiple oversight measures and required ongoing reporting through quarterly or semi-annual reports. While it may be a step too far to suggest that this demonstrates lack of trust, the findings show greater caution at this stage. Although funders do provide some flexibility to their investees in proposing appropriate measures and targets (as discussed previously), reporting requirements are quite structured, and reports are scrutinized more closely. Social enterprises in the earlier stages of their investment relationships appeared to face a relatively high burden of proof in terms of demonstrating their social performance. In stage 3, we see how these relationships evolve over time, as social entrepreneurs gain confidence and funders become more responsive and collaborative.

Stage 3: Collaborative Relationship

Since four of the social enterprises in this sample had ongoing, multi-year relationships with their funders, I also uncovered several interesting longer-term elements of their relationships. As social enterprises continued to work with their funders, more collaboration and less hierarchy increasingly characterized these relationships. These longer-term relationships often included multiple rounds of funding, once social enterprises were able to meet certain social and financial milestones (as demonstrated through impact measurement and reporting). The shift in mindsets also reflects a recognition among social finance organizations of the

potential burden that reporting requirements may place on their investees. In particular, respondents noted that they wanted to start using the impact measurement reports as a way to engage their investees in an ongoing conversation about managing their performance, rather than purely as an accountability mechanism. As one respondent from a social finance organization explained,

> *"We started to use them (impact measurement reports) as a tool in our day-to-day engagement. We haven't cut anyone off or anything, but had conversations like, is this the best expansion strategy, can we rethink this business plan, and really have a back and forth with them" (SFO3).*

We also see social finance organizations shifting from the language of traditional nonprofit and philanthropic relationships to the use of more business-oriented terms and approaches. It appears that social finance organizations are more understanding of the pre-engagement perspective of social entrepreneurs, who often described their social and financial objectives as intrinsically linked. Recognizing that the social enterprises they support are primarily for-profit organizations that are selling socially-beneficial products, and rooted in the institutional logic of the for-profit sector, we see social finance organizations adopting new tactics to describe and discuss impact measurement:

> *"I remember very clearly when we were trying to pitch some impact measurement ideas to one (social enterprise) investee, and I had written up this detailed one-page proposal. And both our (investment) portfolio associate and manager at the time said that this proposal wouldn't fly. We had asked her a few weeks before to put together a wish list of all the things she wanted to collect on impact, and they said, "we should be going by her wish list, and trying to see what we can get her on that list and what capabilities we need. I think if we had gone in from the entrepreneur's perspective, they would have been more receptive. They understand phrases like IT support, customer data, customer insights, testing customer loyalty. So you've got to speak in their language about what the impact work can really do for them." (SFO2)*

Additionally, social entrepreneurs appear to become increasingly confident in providing feedback to their funders, as a form of upward accountability. Reviews of funder reports, performance dashboards, and other relevant documents offer interesting insights to ongoing relationship between social enterprises and their funders. For instance, some social enterprises started to use these reports as mechanisms to provide more feedback to their funders, in terms of asking for additional support or capacity. One social entrepreneur called for more active engagement from the funder in an annual performance report (submitted in the third year of the engagement period):

> *"An additional way (funder) SFO X (not interviewed) can add value to its investees would be in taking more active role in the organizations. A condition for an F4 grant would be for an F4 representative to be an observer on the board of directors. The representative should then be invited to attend board meetings… the board observer should be tasked by SFO X to challenge the (investee) organization on its thinking and ensure the organization is testing assumptions and adequately testing multiple potential solutions simultaneously…"*

These findings suggest that social finance organizations may use impact measurement as an accountability mechanism for social enterprises at early stages of their relationship, while the enterprises themselves do not find these practices particularly useful. Once the social enterprise-social finance organization relationship matures, we see a change in attitudes on both sides. Social finance organizations demonstrate greater understanding of the potential burdens these reporting requirements place, and shift to a more enabling and empowering use of social impact measurement. Additionally, one of the most interesting findings in the more mature investor-investee relationships was the level of comfort that the entrepreneurs felt with their investment officers in providing feedback and co-managing their efforts towards shared social objectives. The third stage of the relationship is triggered by the increased confidence on the part of social

enterprises as they start to meet agreed-upon milestones, and greater understanding of investee perspectives on impact measurement by social finance organizations. The lack of hierarchy and closeness in a mature relationship leads us to the following two propositions.

Proposition 3a: As the relationship matures, social finance organizations start to acknowledge the possible burden that certain impact measurement practices may place on social enterprises, and shift to a more enabling and empowering approach.

Proposition 3b: Social enterprises grow in confidence as the relationship matures and appear to be more comfortable in providing feedback to their funders, as a form of upward accountability.

Stage 4: Embracing Organizational Learning

A final theme that emerged from the research relates to the shift in opinions on impact measurement by social enterprise founders and staff over time. As social enterprises start to work more closely with their funders and integrate these measurement practices into their operations, they used reports to existing funders to demonstrate stronger legitimacy to other potential funders. For instance, one entrepreneur negotiated reporting requirements with prospective funders using the past performance reports with their existing funders.

> *"We're taking that data to potential funders, using it for advocacy efforts around solar tariff reductions with governments, and building partnerships with locally based organizations (nonprofits and NGOs)" (SE3)*

Additionally, multiple social entrepreneurs mentioned how they used several of the measures required by investors to also balance their social and financial objectives and had integrated it into existing practices. Social enterprises started to include this information into managing staff, developing strategy that balanced their social and financial needs, and broader organizational learning.

> *"One of the measures was the percentage of women working at senior management levels – we never measured that, so I started to think about it after this (impact measurement) process. So now I'm proactively trying to recruit more women at senior level positions because I think it's important for us as a company." (SE4)*

Respondents that had longer-term established relationships with social finance organizations noted that they considered impact measurement as a natural part of doing business. Thus, we see these measurement practices taking on more of an empowering, rather than monitoring role as social enterprises started to take more ownership and integrate impact measurement into core business operations.

> *"I hear from people in my own sector, measurement is not that easy, and it takes time and money and resources, and yes, it does, but if you can define a set (of measures) that makes sense from a strategic perspective for your company, that is something you have to do to succeed. If you don't measure, how do you know how well you are performing?" (SE4)*

These findings lead us to the final proposition about the evolution of impact measurement perceptions and practices:

Proposition 4: Eventually, social enterprises integrate and adapt impact measurement practices required by funders to their own needs, using it for the more instrumental purpose of organizational learning.

Process Model

Following the approach of Corley & Gioia (2004), I elaborate these different stages into a process model in Figure 1, illustrating the different stages, and also the factors that may drive the progression between stages. At the earliest stages, prior to any sort of actual engagement, both social enterprises and social finance organizations take a *legitimacy*-driven perspective of impact

measurement. There is little-to-no internal use of impact measurement information, and most social enterprises only start to adopt these practices because they are encouraged or required to do so by social finance organizations as part of due diligence and as a pre-condition for receiving funding. The second stage is therefore characterized by downward accountability, with social enterprises generating impact measurement reports (indicated by the green arrow in stage 2) at the behest of their funders (including different forms of measurement practice, depending on the type of funder). However, as social enterprises grow in confidence, and meet certain performance milestones, they start to exert more upward accountability through impact measurement reports – often asking their funders for additional resources and support and justifying these requests using performance reporting. Funders also start to become more responsive and accommodating, and the third stage is characterized by a more collaborative relationship (indicated by the green arrows in stage 3). Finally, just as funders acknowledge the social enterprise perspective in the third stage, social enterprises start to recognize and internalize impact measurement in the fourth stage. They start to use impact reporting for organizational management and making programmatic decisions (as indicated by the curved green arrow in stage 4). Ultimately, we see a shift in perspectives towards *organizational learning* in the fourth stage.

Insert Figure 1 about here

CONCLUSION & DISCUSSION

In light of the rapid and interlinked growth of social enterprise and social finance around the world, I argue that there is a compelling argument to study both phenomena together and examine the links between organizations in both categories. Social enterprises increasingly rely on a diverse range of sources of capital to fund their growth; and social finance organizations spend considerable effort in identifying, screening, and assessing social enterprises as potential investment targets. Given the focus on a shared social mission, measuring social impact is a critical component of this relationship (Glanzel & Scheurle, 2017; Grimes, 2010; Miller et al., 2010). Understanding how social enterprises and their funders consider and use impact measurement as a mechanism to develop and manage their relationships, as well as their own performance can help inform scholarly research as well as practice. This study fills a gap in the literature by focusing on the relational aspect of impact measurement in the field and including a temporal dimension that illustrates how the perceptions and practices change.

By examining a sample of eight social enterprises in the energy access sector and the social finance organizations that fund them, the study finds that social enterprise-social finance organizations perceive and use impact measurement in different ways across the different stages of their relationships. Some important themes emerged from this study. First, there is a stark contrast in perceptions of impact measurement among social enterprises and social finance organizations prior to engaging with each other, compared to those in more mature relationships. Initially, both types of organizations tend to view impact measurement primarily as a means to appear legitimate or credible (i.e., external-facing use), consistent with Dahler-Larsen's (2012) depiction of the "institutionalized organization" perspective. In some ways, this is also consistent with the larger body of literature on nonprofit-donor relations, in which nonprofits may actively

detach the collection of impact-related information from its use (Ebrahim, 2003; Newcomer, 2013; Carman, 2011).

However, it is important to recognize that these perceptions do not stay constant. In more mature relationships, both types of organizations recognize the potential for impact measurement to inform internal learning and decision-making, consistent with the "learning organization" perspective. Here, we find evidence that social enterprises and their funders evolve into a less hierarchical relationship over time, as described in Ebrahim's (2003) recommendations for practice. Ultimately, we find that both social enterprise and social finance organizations learn from each other, and their perceptions are shaped by this closer relationship. Social finance organizations start to recognize the concerns of social enterprises, while social enterprises ultimately recognize some of the benefits of impact measurement for their own organizational learning. While past research has typically assumed that impact measurement was primarily about *either* establishing legitimacy *or* supporting organizational learning, this study contributes to this body of literature by suggesting that the purpose and perceptions of impact measurement actually *change* from legitimacy to learning. The study also finds that these changes are driven by the evolving relationships between social enterprise and social finance organizations. By illustrating this process model, the study also argues for a more balanced perspective of impact measurement in the social enterprise field, that acknowledges the relational aspects of the phenomenon. Here, we see that while social enterprises and social finance organizations resemble Dahler-Larsen's "institutionalized organizations" at the outset, they eventually appear more consistent with the "learning organization" model at later stages of the relationship, as social finance organizations use impact measurement in a more enabling way, and social enterprises gain more confidence in negotiating with their funders. The final stages of the study

are consistent with some of the past research on the nonprofit sector (notably Arvidson & Lyon, 2014; Thomson, 2011), but offers a new dimension by illuminating the process model through which these changes occur.

As is common with many qualitative research projects, this study relies on a small sample of cases, which limits its generalizability. As discussed, this study focused on eight social enterprises in one sector, and a small group of funders. Therefore, I caution against generalizing too strongly to other sectors, or to the broader social enterprise-social finance landscape. Rather, I suggest this study represents an initial, exploratory step in studying the interactions of social entrepreneurs and social finance organizations. As a first step in examining this relationship, this study offers several implications for theory and practice, as well as potential directions for further research. The findings from this study are therefore not only relevant to the field of social enterprise, but also the broader study of organizational relationships that demonstrate similar power dynamics. Additionally, they offer a new critical perspective on impact measurement, with some lessons for organizational learning.

This study makes two important contributions to practice: First, I note the lack of involvement by social enterprises in determining the measurement standards against which they are required to report. In most cases, social enterprises were offered a menu of reporting measures from which to choose. Therefore, while social enterprises do have some flexibility in selecting measures that are appropriate for them, it is likely that social enterprises may initially find the practices burdensome and less relevant for them. As practitioners continue to develop new measurement practices, as well as update existing ones, I suggest that they make greater efforts to include social entrepreneurs in the process.

Additionally, the study illustrates the collaborative nature of the relationship between social enterprises and their funders at later stages, which is quite distinct from similar findings in the field of traditional philanthropy. Purely philanthropic funders tend to provide more top-down guidance on accountability mechanisms and are less flexible in allowing their grantees to select measures that are appropriate to them (Newcomer et al., 2013; Benjamin, 2010; Ebrahim, 2005; 2003). These findings suggest that philanthropic funders in the nonprofit sector may learn from the social finance organizations and their more "empowering" use of social performance measurement.

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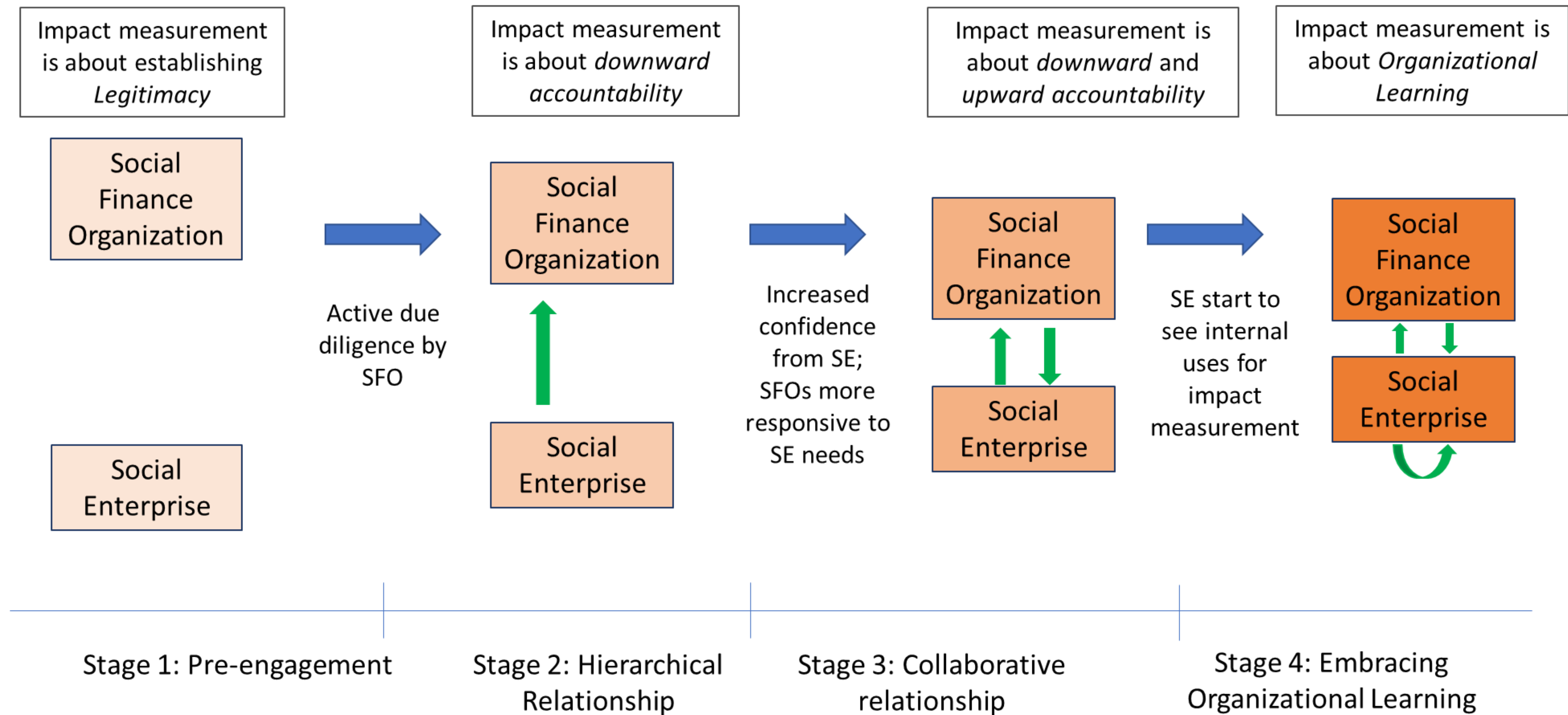
Table 1: An Overview of Social Enterprises in the Study

	SE1	SE2	SE3	SE4	SE5	SE6	SE7	SE8
Year of Founding	1994	2007	2008	2008	2011	2011	2012	2014
Operating Geography	India (Southern)	India (Northern, Eastern)	Global (India, Africa, Latin America, Southeast Asia)	India (Bihar), Africa (Uganda, Tanzania)	India	Uganda	India	Ghana
Technology	Solar Home Systems	Solar Lanterns	Solar Lanterns	Biomass and Solar Microgrids	Solar Microgrids	Solar Home Systems	Solar Home Systems	Solar Home Systems
Business Model	Sell households systems with credit from local banks	Sell lanterns through rural distribution and retail network	Sell lanterns through rural distribution and retail network	Charge households and microbusiness es monthly fee for electricity access	Charge households and microbusinesses monthly fee for electricity access	Provide credit to households to purchase solar home systems	Provide credit to households to purchase solar home systems	Provide credit to households to purchase solar home systems
Founding Team	1 local, (educated in US)	1 expatriate, 2 local (educated in US)	2 expatriate (US)	All local founders, educated in US	2 expatriate (US), 1 local	1 expatriate (Dutch)	3 expatriate (US/Canada)	2 expatriate (US, Australia)
Types of Funders	Foundations, Public Sector Funder	Private Social Impact Investors, Private for-profit investor	Public Sector Funder, Private Social Impact Investors, Foundations,	Foundation, Public Sector Funder	Public Sector Funder, Foundations	Foundations, Public Sector Funder	Private Social Impact Investor, Foundations	Foundations, Private Social Impact Investor

Table 2: An Overview of Social Finance Organizations in the Study

	SFO1	SFO2	SFO3	SFO4
Operating Geography	Asia, Sub-Saharan Africa, Latin America	India, East Africa, West Africa, Latin America	Global (India, Sub-Saharan Africa, Latin America, Southeast Asia)	Global (India, Sub-Saharan Africa, Latin America, Southeast Asia)
Type of Funding Offered to Social Enterprises	Grants	Equity Investments, Debt Investments	Equity Investments, Debt Investments	Grants, Program Related Investments (Equity or Debt)
Type of Organization	Public Sector (Bilateral Funding Agency)	Social Impact Investing Fund	Social Impact Investing Fund	Private Foundation

Figure 3: Process Model for Impact Measurement Perceptions and Practices



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[i] "Access to Energy" (IRIS, 2016) is one of the older and more prominent areas of social enterprise and social finance activity (with over $7 billion in invested), second only to microfinance (Mudaliar et al., 2016).

[ii] Due to the small sample and the relatively high profile of the funders, I am unable to provide too much information about their organizations without revealing their identities.