



School of Governance, Law and Society

Study area: Social Entrepreneurship

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**SOCIAL IMPACT INVESTMENT NEEDS AND READINESS AMONGST ESTONIAN  
SOCIAL ENTERPRISES IN THEIR START-UP AND EARLY GROWTH STAGE**

Master's thesis

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## ABSTRACT

Estonia, a small country with a vibrant start-up community and active civil society, is on the verge of developing a social entrepreneurship ecosystem to tackle the social, environmental and economic challenges the country is currently facing. Several stakeholders, such as social enterprises themselves, their support organisations, and financial institutions have for decades been working on bringing about necessary changes in order to create a more favorable climate for these ventures to thrive. However, many are still at this time facing challenges due to administrative, legal and financial constraints. Access to sustainable financial mechanisms is one of the key obstacles that many social enterprises need to urgently overcome. Despite several governmental and project based financial support mechanisms in place, many aspire to find more sustainable solutions, grow from one development stage to the next, and increase their positive impact.

This research study has set out a goal to identify the needs and readiness amongst social enterprises in Estonia in their start-up and early growth development stage within the existing ecosystem of Estonia, regarding the social impact investment as one of the possible sustainable financial mechanisms. The mixed method research approach was used by the author to outline the specific needs and readiness of Estonian social enterprises and better understand the ecosystem in which these ventures operate today.

The author of this research study has reviewed relevant and available literature, conducted a survey and several interviews for primary data collection from the perspective of impact-driven organisations, and finally drawn a conclusion based on the combination of theoretical basis and empirical findings in order to suggest adjustments that are to be made by the public sector, private sector, civil society, and the social entrepreneurs themselves to collaboratively create a more favorable ecosystem which welcomes these ventures to tackle challenges through social innovation in a financially sustainable way.

**Keywords:** social entrepreneurship, social enterprise, social innovation, social impact investment, impact investors, organisational life cycle, development stage, research

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## **ACRONYMS & ABBREVIATIONS**

BIA: Baltic Innovation Agency

CSI: Centre for Social Investment

CEO: Chief Executive Officer

CSO: Civil Society Organisation

EAS: Enterprise Estonia

EaSI: EU Program for Employment and Social Innovation

EC: European Commission

ERDP: Estonian Rural Development Plan

ESEN: Estonian Social Enterprise Network

ESIF: European Structural and Investment Fund

ESF: European Social Fund

EU: European Union

EuSEF: European Social Entrepreneurship Fund

EVPA: European Venture Philanthropy Association

GDF: Good Deed Foundation

NFCS: National Foundation of Civil Society

NPA: Non-Profit Association

OECD: Organisation for Economic Co-operation and Development

SBI: Social Business Initiative

SEUK: Social Enterprise United Kingdom

SI: Social Innovation

SI: Social Investor

SIB: Social Impact Bond

SME: Small and Medium Enterprise

SPO: Social Purpose Organisation

SROI: Social Return on Investment

UK: United Kingdom

UNs' SDGs: United Nations 'Sustainable Development Goals'

VPA: Venture Philanthropy Association

WISE: Work Integration Social Enterprise

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# 1. INTRODUCTION

## 1.1. Background of the research problem

There is growing interest in the field of social entrepreneurship as it is a form of doing business by finding solutions to challenges through both social innovation and business activities combined. Furthermore, social ventures have the ability to contribute to improving a variety of areas like the labour market, social inclusion, the quality of public services, development of rural areas, and environmental protection (OECD & European Commission, 2015). Social enterprises are undergoing a period of rapid growth today, not only due to new policies which are being introduced at the European level, but because many initiatives, both old and new, are producing goods and services which are of general interest. There is a great variety of deliverables that these enterprises offer intending to generate positive social impact on challenges that also the United Nations Sustainable Development Goals (UN's SDGs) focus on (Zimmer & Pearson, 2018). Social enterprises are finding innovative ways to meet the needs of a society, filling the gaps of perhaps the public or the private sector, and at the same time being a hybrid of them and the civil society (Borzaga & Galera, 2016). However, despite the wide use of the term and gradual convergence of meanings underway at the European Union (EU) level, social enterprises are still conceived in significantly different manners by national legislation, policy strategies, academics, and the public. Sector-specific definitions of social enterprises are usually policy-driven and connected to funding schemes (e.g. schemes resulting from the national implementation of the European Social Fund (ESF)) and policies targeted to supporting social inclusion (Borzaga et al., 2020).

*'Social economy and social enterprises contribute to important policy objectives, such as job creation, inclusiveness, equal opportunities, sustainability, and civic participation. They are an excellent example of an "economy that works for people" - a high priority for the European Commission' (ibid., 2020).*

In 2011, the European Commission (EC) launched The Social Business Initiative (SBI) to create financial, administrative, and legal circumstances for social enterprises and increase the visibility and recognition of the social enterprise business model (Borzaga & Galera, 2016). The definition of social enterprise by the EC focuses primarily on the aspect of the object of the social economy operator to have a social impact, meaning it is using its profits to achieve social objectives rather than making a financial gain for the owners or the stakeholders of the venture. Another key element that is brought out is that it is openly and responsively governed, and involves employees, consumers, and beneficiaries in its commercial activities. Social enterprises, defined by the EC, are types of businesses: 1) for who the



social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation, 2) whose profits are mainly reinvested to achieve this social objective, and 3) where the method of organisation or the ownership system reflects the enterprises' mission, using democratic or participatory principles or focusing on social justice (European Commission, n.d.). The SBI kept the concept relatively open for the adoption of a more particular definition if it was needed to implement specific encouragements or regulatory measures. This was done soon after the establishment of the SBI for two EU-level measures: the European Social Entrepreneurship Funds (EuSEF) regulation, which established a European label for social enterprise funds, and the Employment and Social Innovation (EaSI) regulation (European Commission, 2019), which set the rules for the EU funding program for EaSI. Currently, there is no single legal form for social enterprises in the EU and therefore they are registered as cooperatives, private limited associations, or non-profit organisations (Borzaga et al., 2020).

In 2016, the start-up and scale-up initiative was launched by the EC to support the social economy's ecosystem in Europe by removing the barriers of the single market for start-up and early growth development stage social enterprises, creating more suitable possibilities for social enterprises to find partnerships and develop their skills, and smoothing the access to finance such as investments that are somewhat limited due to the current legal forms that social ventures are registered under (European Commission, 2016). Aside from the priorities of making the funding more easily obtainable and the legal environment friendlier to social enterprises in Europe, the SBI has set out to increase the visibility and general awareness-raising of social entrepreneurship (ibid., 2016). To sustain their primary goals, social enterprises need to become more viable businesses without losing sight of their mission. Therefore, they should have more commercial and investment-minded financing options open to them than other regular third sector organisations. They can use different forms and amounts of financing depending on their field of activity, stage of development, form of governance, and what tools may be available in their country. Although social and commercial finance for social enterprises have been available for some time now, many social enterprises remain unaware of these options and lack the knowledge of how the available structures could meet their needs in order to grow and increase their impact. In general, social enterprises, just as any other businesses, need funding at any stage of their development. Oftentimes, the life cycles are not gone through linearly, and appropriate funding has to take this into account as well as the changing needs of these enterprises (European Commission, 2015).

*'More recently, private and nonprofit organisations, via contracting, voucher programs, and other reforms that challenge traditional meanings of the notion of publicness too, have become part of*

*the organisational ecosystem providing services to citizens. A constant of organisations, be they public, private, or nonprofit, is change*’ (Ford, 2016).

In the Estonian context, a member state of the EU since 2004, the somewhat rapid transition in the 1990s from socialism to capitalism and a liberal free-market economy was a reason why social entrepreneurship developed with the influence of financial aid from foreign countries and the fact that civil society strongly emerged from the third sector perhaps more naturally than elsewhere in Europe. The concept itself was only introduced in Estonia in 2005, but the mindset of organisations working hybrid across different sectors for a goal of social or environmental positive impact was already strongly rooted by then due to the Soviet period (Reimann, K.-L., 2019). Today, Estonia has one of the highest start-up numbers per capita, and with the active civil society sector and emergence of social entrepreneurship, there is a great potential for expanding the results of social innovation for solving social and environmental challenges through support infrastructures such as social impact investment funds.

## **1.2. Research aim, problem statement & research questions**

Social entrepreneurship, in general, is often still an unknown concept and the ventures that suit the definition of social enterprises do not identify themselves as one due to the lack of awareness of the concept, the lack of a legal framework for it in the country where they primarily operate and the lack of financial tools and partnerships that could potentially promote the relatively new form of social innovation within the social economy of the EU. As the understanding of the size, scope and state of social enterprises in the EU was behind the development of such businesses, the EC undertook two mapping studies in 2014 and 2016 until a full update of the countries participating in the EaSI Program was carried out in 2018-2020 (European Commission, 2019).

*‘There is a need and demand by EU Member States, key actors and stakeholders for mutual learning in this field. Paradoxically, even though social enterprises are not so well known, they are in the spotlight of policy-making*’ (Borzaga et al., 2020).

A general assumption is that even though organisations may experience periods of stability in their life cycles, their development in terms of development stages is unstable. The first important stage of an organisational life cycle is often described by scholars as the birth stage or the start-up stage in which an organisation is going through a process of validation and market entry. The next stage is maturation or the early growth stage in which the venture is already establishing itself in a market, developing an external reputation and internal management systems. Studying organisational life cycles allows both

scholars and the public sector to better understand the challenges organisations face in their different development stages. Better understanding these life cycles can help the decision-makers in the public sector and within the enterprises to create stronger organisations that better serve the public.

Estonia was one of the participating countries in this mapping study from where a report was produced during 2014 and the EaSI 2018-2020 research where still today a lack of comparative data remains an issue and the debates on concepts and definitions continue (European Commission, 2018). Firstly, there is no separate legal structure for Estonian social enterprises and therefore the forms used for social entrepreneurial activities are non-profit association (NPA), foundation and private limited company (Borzaga et al., 2020). The general definition of social entrepreneurship collides with the one of the EU, yet it is often linked to the Estonian Social Enterprise Network (ESEN) which focuses aside the social or environmental impact creation also on profit making through the sales of products or services, either to public or private sector stakeholders, to generate resources for financial sustainability and constrain the social enterprises with clear profit distribution requirements (Varga & Hayday, 2019; Speiss-Knafl & Scheck, 2019). Based on these two facts, it can be concluded that the current legal forms available for social enterprises do not fully favor the needs of those organisations that could, by the EU definition, be categorized as social enterprises in terms of profit making and its distribution (Estonian Social Enterprise Network, 2016).

*'They have the opportunity to access support programs only if they can fulfill other criteria that may not be suitable within the sector. Also, the Good Deed Foundation is looking for high-impact and financially sustainable initiatives that may but do not have to be social enterprises'* (Reimann, K.-L., 2019).

Secondly, the Good Deed Foundation (GDF), in addition to kick-starting many influential initiatives and promoting cross-sector cooperation, has drawn Estonia's attention to a number of important areas, such as introducing the social enterprise model and publishing a guidebook on social impact assessment (The Good Deed Foundation, n.d.). In 2014, the GDF with the ESEN and the Praxis Centre for Policy Studies initiated a feasibility study and cost-benefit assessment for launching Estonia's first social impact bond model initiative. The study found that the awareness of investors of impact investment is currently rather low, and that the capability of social enterprises for implementing impact measuring practices should be improved (The Good Deed Foundation, 2015).

Thirdly, the Estonian start-up scene is active and there are numerous programs where social enterprises can participate regardless of their legal form and have a possibility to scale up to an early implementation

and growth stage. 'Ajujaht', Estonia's largest start-up competition, hosts a special 'social enterprise award'. Developing social entrepreneurial capacity and skills can bring about powerful policy gains. The result would be not only the development of the personal skills of social entrepreneurs and their ventures to scale-up in Estonia or elsewhere, but it would also benefit the labour market and increase the number of people engaged in social innovation to find solutions to social and environmental challenges. There are currently several high-quality capacity building and business development programs in Estonia, but social enterprises that are registered as non-profit associations are more than often unable to access these programs due to their legal forms (OECD, 2020).

In an Estonian context, another change that needs to occur is to put in place policies that can release the true potential of social enterprises whilst supporting the further development of social innovation. A national strategy to boost the understanding and adopt official definitions of the terms is a must. Additionally, legislative changes could provide clarity on tax benefits for non-profit and private limited associations operating as social enterprises. More public awareness about how social enterprises benefit society would also be helpful so that they would have better access to a variety of financial instruments and receiving social welfare service funding that often faces the possibility of uncertainty or even discontinuation. As the Estonian start-up scene has recently stepped into the spotlight in the EU, there is a need to understand how the social enterprises can scale-up for a larger positive impact and continue their growth to expand nationally or internationally (ibid., 2020).

The aim of this research is to analyze the needs and the readiness of Estonian social enterprises in their start-up and early growth stage for social impact investments. This research explores the previously stated problems that social enterprises face and the study is set out to answer a research question:

**To what extent are Estonian social enterprises in their start-up and early growth stage ready to raise social impact investments and what are the needs of these social enterprises in their current organisational life cycle to engage social impact investors?**

The research sub-questions of the study are as follows:

- 1) What are the external and internal barriers of social enterprises in their start-up and early growth stage in Estonia for raising social impact investments?*
- 2) What are the legal, financial and administrative changes that need to be made in Estonia in order to create a favorable environment for social enterprises in their start-up and early growth stage to raise social impact investments?*

*3) What particular opportunities do social enterprises in their start-up and early-growth stage in Estonia have today in comparison to traditional commercial companies in these development stages?*

The research method used is a mixed method research, meaning that both qualitative and quantitative data is being collected, analyzed and integrated. The study aims to answer the research question ‘To what extent are Estonian social enterprises in their start-up and early growth stage ready to raise social impact investments and what are the needs of these social enterprises in their current organisational life cycle to engage social impact investors?’, followed by the three sub-questions presented above. The mixed method research design involves collecting and analyzing secondary data such as documents and reports from social enterprises of Estonia and conducting a survey and interviews with a selected sample.

### **1.3. Authors Note**

Estonia has a vibrant start-up scene and offers an opportunity for foreign entrepreneurs to benefit from it through e-residency, easily accessible online administrative services, and excellent business development and capacity building programs that are available for local and international entrepreneurs. The author of this Master’s thesis believes that it is essential to better understand how these advantages can be implemented in the field of social entrepreneurship in order to create positive societal and environmental changes not only in Estonia, but also on a larger scale. One of the key elements, for the author, why the subject is fundamental to be studied in depth is that social enterprises operate in such a variety of important fields, such as work integration, personal social services, local development of disadvantaged areas, and environmental protection.

Currently, from the perspective of the author, there is a lack of studies conducted in this sector and several social enterprises struggle to scale-up as effectively as traditional commercial businesses due to the legal, financial and administrative constraints they face. The interest in studying this topic came first through the authors’ experience volunteering and interning in different non-profit organisations in Estonia that prioritize creating positive impact ahead of profit making, yet struggle to fulfill their mission, encountering lack of access to suitable support programs and finances that would help them to sustain or scale-up for long-term and for a greater impact.

### **1.4. Structure of the Thesis**

This research study contains seven main chapters. The introduction gives an overview of the background of the ‘Research problem’ that is then followed by ‘Research aim, the problem statement and research question’ with its three sub-questions. Additionally, the authors’ note is included.

The second chapter is focusing on the literature review for a depth explanation, evaluation and justification of the relevant definitions, theories, and models that the research question and its sub-questions aim to answer with this research study. The chapter is divided into three categories that each contain two sub-categories: 1) 'Social entrepreneurship', 'Background and definitions of social entrepreneurship', and 'Social entrepreneurship in an Estonian context'; 2) 'Social impact investment', 'Investing into social enterprises, and 'The trends in social impact investment in Europe; and finally, 'Organisational life cycles', 'Definition and the stages, and 'Scaling up start-up and early growth stage social enterprises'. In this chapter, the author has reviewed different types of literature of various authors and presented relevant data and the facts using figures and tables.

In the third chapter, the author has thoroughly explained the 'Research methodology' including the aspects of 'Research design', 'Data collection' procedure, and lastly the 'Limitations' that impacted or influenced the interpretation of the findings in this research study.

The fourth chapter is where the author of this research study has comprehensively introduced the 'Empirical findings' according to the order of the survey that was carried out. The five topics that are presented are as follows – 'Overview of the organisation', 'Current and ideal revenue streams, 'Team and governance', 'Impact and its measurement', and 'Further questions'. Additionally, the chapter is illustrated by the quotes from the interviews that were conducted with selected social enterprises that participated in the survey and are in their start-up and early growth stages. Furthermore, the data collected from interviews with experts from the ecosystem of social entrepreneurship in Estonia is presented. Moreover, the fourth chapter covers the 'Main findings and discussion' part in which the author has written out noteworthy observations with additional notes based on the results of the empirical findings.

In the fifth chapter, the author gives 'Recommendations' covering a variety of ideas for changes that need to be made, and possibilities for different stakeholders that could all benefit from social impact investment being established as one of the sustainable funding mechanisms for social enterprises in Estonia.

Finally, the sixth chapter offers a 'Conclusion' drawn by the author in order to answer the 'Research question' and its sub-questions raised in the 'Introduction'. The conclusion is drawn based on the analysis of both theoretical and empirical findings.

## **2. THEORETICAL BASIS**

### **2.1. Social entrepreneurship**

Social entrepreneurship is an approach that is used by citizens who wish to establish or reshape institutions to bring ahead solutions to both social and environmental challenges, such as human rights abuses, poverty, mental health issues, destruction of ecosystems etc., to improve the well-being of people in their communities, or on a national or international level. An active civil society sector, a vibrant start-up culture, welfare programs, and strong entities of local governments are all aspects of Estonia to release the potential of creating a successful ecosystem of social enterprises and the use of social innovation.

#### **2.1.1. Background and definitions of social entrepreneurship**

Social entrepreneurship is a phenomenon that has existed long in the past, but social entrepreneurs were previously more known as humanitarians, visionaries, and leaders that carried out ahead of time reforms. The key element here is that up until the seventeenth century, the general public had no right to have any entrepreneurial qualities, such as innovative thinking, idea creation for problem-solving, and a mindset to experiment. It was global changes that revolutionized the way people are involved in or lead the decision-making process. Such changes were urbanization, the rapid increase of the population in both developed and developing countries, and advances in the world of science that later brought about the industrial revolution. At that time, the basis for the private sector and capitalism, that started to emerge alongside a more contemporary economic and political freedom, had already started to take its roots (Bornstein & Davies, 2010).

Everything was starting to rapidly change with the rise of capitalism as people were becoming wealthier and drastically changed their lifestyle patterns. In parallel and in direct interdependence, the global society and the surrounding environment started to see unethical and harmful practices. Moreover, only in recent few decades have there been a significant development of social norms that have brought about change for society as a whole and minority groups that previously suffered unimaginable negative repercussions from authoritarian leaders, lack of or non-excising education and healthcare, poverty, and discrimination. A conclusion can be therefore drawn that social entrepreneurship, as an approach, emerged to tackle the issues that success of traditional commercial businesses and corporations created with the sole focus on profit-making and scarcity of business ethics and consideration of impact.

*'It was during the 1980s and 1990s that disparities in wealth and freedom grew particularly vivid to much of the world through the global media. Governments and businesses found themselves closely scrutinized. [...] Among global civil society organisations, a consensus emerged that governments too often failed in their core representative duties, and corporations too often exacerbated suffering and inequality and destroyed the environment for short-term gain. [...] People seeking solutions are no longer willing to wait for governments, churches, or universities to lead' (ibid., 2010, p. 9).*

Two of the probably most significant pioneers of social entrepreneurship are the economics professor, Nobel Peace Prize winner, and the founder of the 'Bank for the Poor' - Grameer Bank (the 'Village Bank', 1983), Muhammad Yunus, and a former executive of Shell Oil and founder of Bangladesh Rural Advancement Committee (now known as BRAC, 1972), who were among the group of Bangladeshis that started to found citizen organisations in order to support the vulnerable groups that were not reached by the aid provided by foreign countries. One of the key elements of success for both of these foundations was to have an extraordinary skill set to involve governmental and multilateral agencies as financial contributors through grants, low-cost loans, and financial guarantees. It was the cornerstone of a large-scale financial support mechanism for social enterprises (Martin & Osberg, 2007; Murray et al., 2010). However, the term social entrepreneurship was globally recognized only later when the management consultant and assistant administrator for the Environmental Protection Agency, Bill Drayton, founded the organisation called Ashoka (Pratono & Sutanti, 2016; Ashoka, n.d.).

Experts, such as Jean Baptiste Say, Joseph Schumpeter, Peter Drucker, and Howard Stevenson on the field of social entrepreneurship have stated a variety of different characteristics for the term (Dees, 1998). One of the definitions that is probably the most broadly known is by G. Dees, who argues that social entrepreneurs advance societies' ability to bring about social change through social innovation in which the social entrepreneurs find ways to bring together skillful and knowledgeable people with necessary resources in order to discover solutions to societal and environmental challenges that are collectively affecting the local or even global communities (Nicholls, 2006).

*'Social entrepreneurs play the role of change agents in the social sector by adopting a mission to create and sustain social value (not just private value), recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation, adaptation, and learning, acting boldly without being limited by resources currently in hand, and exhibiting heightened accountability to the constituencies served and for the outcomes created' (Dees, 1998, p. 4).*



There is no globally established definition for social entrepreneurship. Yet, the term itself, in its broad variation of interpretations, has led to a new universal understanding of how entrepreneurial skills and mindset can be successfully used in innovative ways to tackle just about any problem that has risen to the attention of individuals and teams looking to generate ideas to bring about positive change.

**The European Commissions' definition of a social enterprise (Varga & Hayday, 2019):**

- A social enterprise is an operator within the area of the social economy whose main objective is to create social impact rather than to make a profit for their owners or shareholders.
- Such an enterprise will operate by providing goods and services for the market in an entrepreneurial and innovative fashion, while using any profits which it makes primarily to achieve social objectives.
- It will be managed in an open and responsible manner and, in particular, involves employees, consumers, and stakeholders who may be affected by its commercial activities.

**Estonian Social Enterprise Networks' definition of a social enterprise (Lepik, 2021):**

- Social enterprises are businesses whose main purpose is to create a positive impact on society. In simple terms – social enterprises sell their products or services with the aim of making the world a better place.
- The social purpose of social enterprises means their direct contribution to people's livelihoods and well-being and to the maintenance of a desirable state of the natural and living environment.
- Entrepreneurship means acting as an economic entity, i.e. providing goods or services for remuneration on a permanent basis.

In addition to the previous definition, ESEN has brought out five key characteristics of social enterprises in an Estonian context. Firstly, they are businesses of which at least 50% of the profits are reinvested in order to achieve the core objective. Secondly, as the key element of these organisations is to create impact, there needs to be a suitable impact measurement metrics chosen that with the help of mentors and counseling experts can be effectively used to demonstrate the positive changes that the activities of the organisation have brought about. Thirdly, a social enterprise has to have an established sustainable business model in order to more financially independently achieve a long-term impact and scale-up when appropriate. Additionally, a social enterprise has an objective to have a positive impact on people's livelihoods, well-being or the environment. Moreover, a social enterprise is a business and it provides

goods and services to a specific target group or society as a whole for a fee just like a traditional commercial business, of course, keeping its main objective to create positive impact intact and in focus.

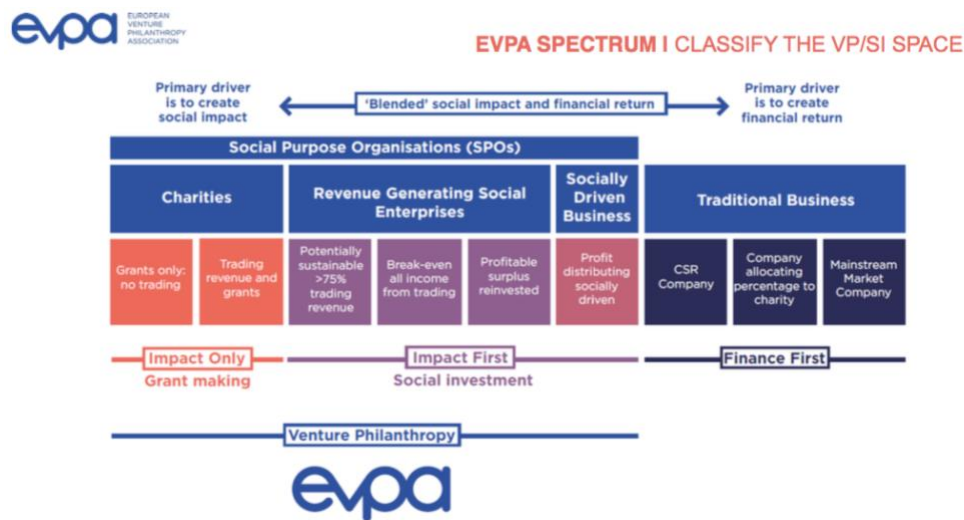


Figure 1: the European Venture Philanthropy Association (EVPA) spectrum. Source: EVPA Knowledge Centre (2018).

In 2011, the EC launched the ‘Social Business Initiative’ (SBI) in order to create the appropriate financial, administrative, and legal circumstances for social enterprises, and to increase the visibility and recognition of the social enterprise business model (European Commission, n.d.). There is currently no single legal form for social enterprises within the EU (including in Estonia) and, therefore, they are generally registered as cooperatives, private limited associations, or non-profit associations (Borzaga et al., 2020). The diagram above (Figure 1) demonstrates the range of organisational types which may have different forms of social or environmental mission. Those organisations which are commonly considered for investment by ‘Venture Philanthropy Associations’ (VPOs) or ‘Social Investors’ (SIs) will generally fall under the category of ‘charities’, ‘revenue-generating social enterprises’, or ‘socially-driven businesses’.

In 2016, the start-up and scale-up initiative was launched by the EC to support the ecosystem of the social economy in Europe by removing barriers for single market start-ups and early development growth-stage social enterprises; thereby creating more suitable future options for social enterprises to be able to find partnerships and to develop their skills; while also smoothing out access to finance in areas such as investment where this can sometimes be somewhat limited due to the current legal formats under which social ventures are registered (Borzaga & Galera, 2016). Aside from the priorities of making funding more easily obtainable by social enterprises and the legal environment friendlier to them, the SBI was set out with the intention of creating an increase in the visibility or general awareness-raising

of social entrepreneurship (European Commission, n.d.). With this approach in use, the EC aims to support social enterprises so that they can become more viable businesses without losing sight of their mission. For this to be achieved, social enterprises in Europe need to have more commercial and investment-minded financing options open to them (Speiss-Knafl & Scheck, 2019). Strategies for investing into social purpose organisations (SPOs) have already been established across Europe. In countries in which such strategies are yet to be developed, social enterprises face a number of barriers which hinder their growth. However, governments have much to gain from helping to ease those barriers while creating an ecosystem in which social enterprises can flourish.

### Ecosystems for SEs consist of five main components (OECD & European Commission, 2015)

- The legal and regulatory framework, which delivers clarity, visibility, and recognition.
- Access to finance, which should consist of a range of types and sources.
- Access to markets, particularly through public procurement.
- Business support structures (generic and specialist) which cater for starting-up and for growth.
- Training and research, including the co-construction of a policy framework through partnerships.

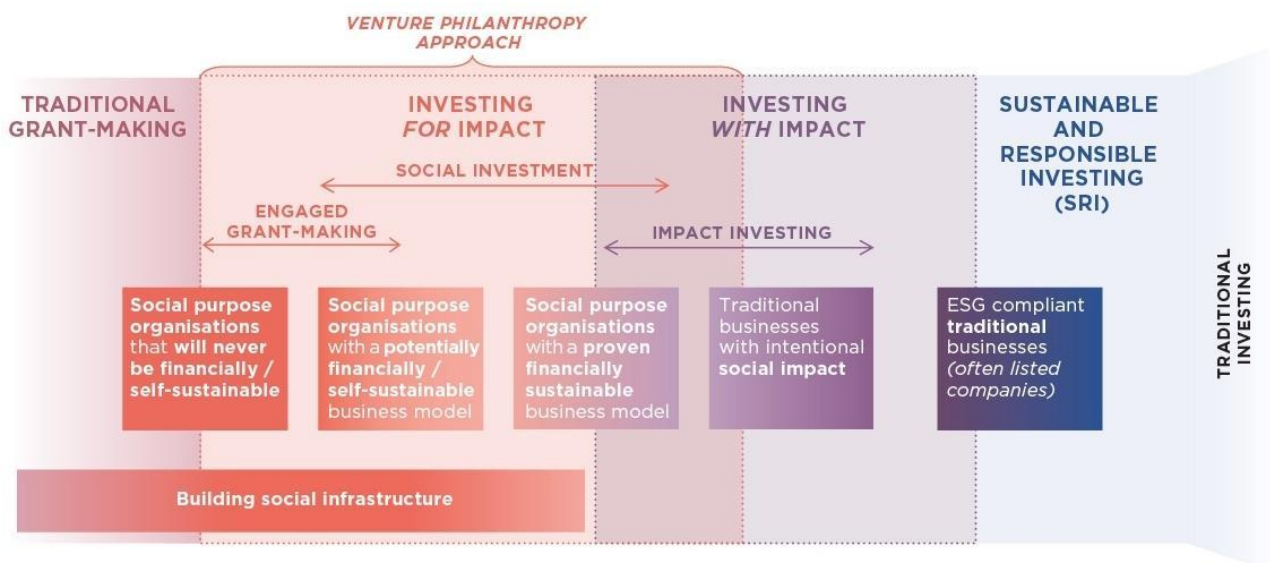


Figure 2: different types of business model for the two impact strategies. Source: Gianoncelli et al. (2019).

The diagram above (Figure 2) demonstrates the different types of business models which have been established both for investing in order to build social infrastructure (in terms of traditional and engaged grant-making), and investing with impact (impact investing). Impact organisations in their start-up development stage have a unique opportunity ahead of traditional commercial businesses to use the period of validation and market trials to network and explore the whole spectrum of impact strategies.

Depending on the unique characteristics of the venture, it can be then decided whether a sustainable business model can be used in order to expand and grow towards social investment or impact investing. The decision primarily depends on whether the impact organisation is focusing on beneficiaries and issues that the public sector needs services for or if there is a sustainable business model to be written when the venture potentially serves a target group that is able to pay a fee for the services or products. The spectrum for funding impact strategies is with a variety of options, yet not available in many countries. In Estonia, in comparison to other countries in Europe, there have been only recently initiatives established to support and fund social enterprises through impact investing. However, start-up and early growth development stage impact organisations operating in a variety of fields are often facing barriers to be eligible.

Some examples of such initiatives in a European context have been presented in a study which was undertaken by the Centre of Social Innovation (CSI) entitled ‘Financing Social Innovation’, which was conducted in 2021. The study showcases the different principles upon which the individual programs act, but it also identifies target groups within those programs which fall under the two impact investment strategies when it comes to social innovation.

Firstly, Vinnova in Sweden has as its principle goal the idea of moving from base funding to innovation funding, the Brabant Outcomes Fund in the Netherlands of bottom-up impact evolution, Sitra in Finland of reforming the welfare state, and Portugal Social Innovation in Portugal designing an ecosystem. All of these initiatives are primarily targeting civil society organisations. On the other hand, Power Up Scotland with its key principle of local social enterprise support, and Big Society Capital with its principle of building an impact investment market, both of which are within the United Kingdom (UK), are targeting social enterprises, some of which are more market-oriented than others (Centre for Social Investment, 2021).

In Estonia, a country that has a remarkably growing economy, a well-performing labour market with continuously lowering unemployment rates (including activation and rehabilitation measures for more vulnerable groups of the society), growingly effective social benefits, and decreasing inequality, the social entrepreneurship ecosystem is on the verge of being fittingly established in cooperation of different actors and several support mechanisms. Much like the previous examples, the ecosystem with its’ key initiatives is being developed whilst raising the general awareness of the term itself and its specific characteristics.

### 2.1.2. Social entrepreneurship in an Estonian context

Estonia is in a situation in which expectations of government intervention, when it comes to being able to resolve various social and environmental problems, are continuously increasing. However, finding solutions to these problems is becoming ever more complicated. There is clearly a need for new, more effective solutions and cooperation between different sectors and stakeholders in society, and rise in the use of social innovation as a method to solve the variety of issues (Good Deed Foundation, 2015).

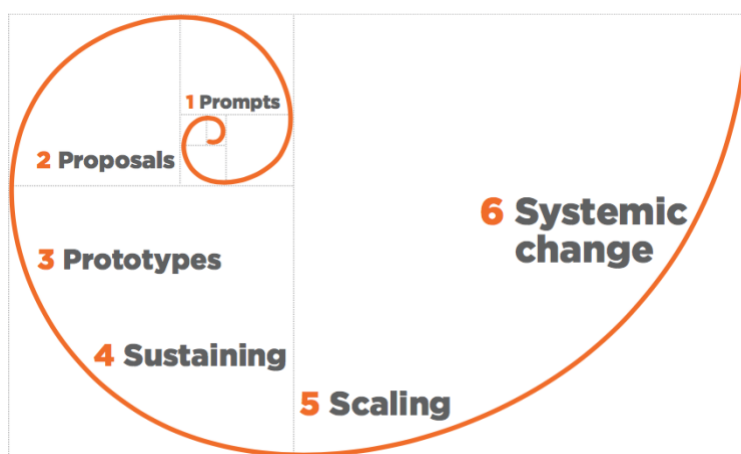


Figure 3: the process of undertaking Social Innovation' (SI). Source: Murray, R., Caulier-Grice, J., & Mulgan, G. (2010).

The effective support of social innovations needs to consider the funding and administrative needs of social entrepreneurs. However, social entrepreneurs are far from the only relevant players when it comes to social innovation. Members of the general public, along with established organisations and networks, play a central role. If governments are interested in resolving societal and/or environmental problems, and creating positive impact through cross-sector cooperation, they would do well to recognize and support this diversity and richness when it comes to social innovators, supporting their entire ecosystem and collective impact orientation. Supporting these effectively requires an ambitious and multidimensional form of financial architecture (Centre for Social Investment, 2021).

Tallinn University and the Institute of Baltic Studies, on behalf of the Ministry of Interior of Estonia conducted a study in 2019 'National Civil Society Strategy Impact Evaluation'. The report concluded that there are an estimated 22,551 Civil Society Organisations (CSOs) in Estonia. Moreover, about 52% stated their primary funding being membership fees, 35% grants by the local governments, and 30% business activities. However, only some CSOs have access to a variety of sources of revenue streams and there is a general decrease of funding possibilities for CSOs from the public sector (USAID, 2020).

When taking a deeper look at the supply side of social finance in Estonia, one can see that it is currently very limited. The 2020 OECD policy report on Estonia draws the conclusion that social enterprises, especially the ones registered as NPAs (which is around 93% of the total), and foundations do not have access to the same business support programs and financial schemes that private limited companies do. Some public financing is available to them through the ‘National Foundation of Civil Society’ (NFCS), which is the main public organisation that provides grants to impact organisation, alongside other support organisations in Estonia. Understanding the specific needs of social enterprises in their different development stages and developing a social investment market is vital to improve their access to finances (OECD, 2020).

However, as it has been recognized by ESEN within their network of financing institutions and investors, there seems to be a growing interest in a new financial mechanism called social impact investment. Needless to say, these investors differ in regard to the extent to which the financial return is still important to them when making a social investment, meaning that the balance between the amount of investment and return is made with an element of validated and measured impact. Another positive factor for social enterprises is the future possibility of participating more actively in the more traditional start-up scene which in Estonia is vibrant, full of various initiatives, network, funding opportunities, and benefits from several incubator and accelerator programs (ibid, 2020). Below is a figure demonstrating the social enterprise ecosystem in Estonia from the perspective of ESEN, where leaders offering social impact investment possibilities to social enterprises are included in the spectrum.

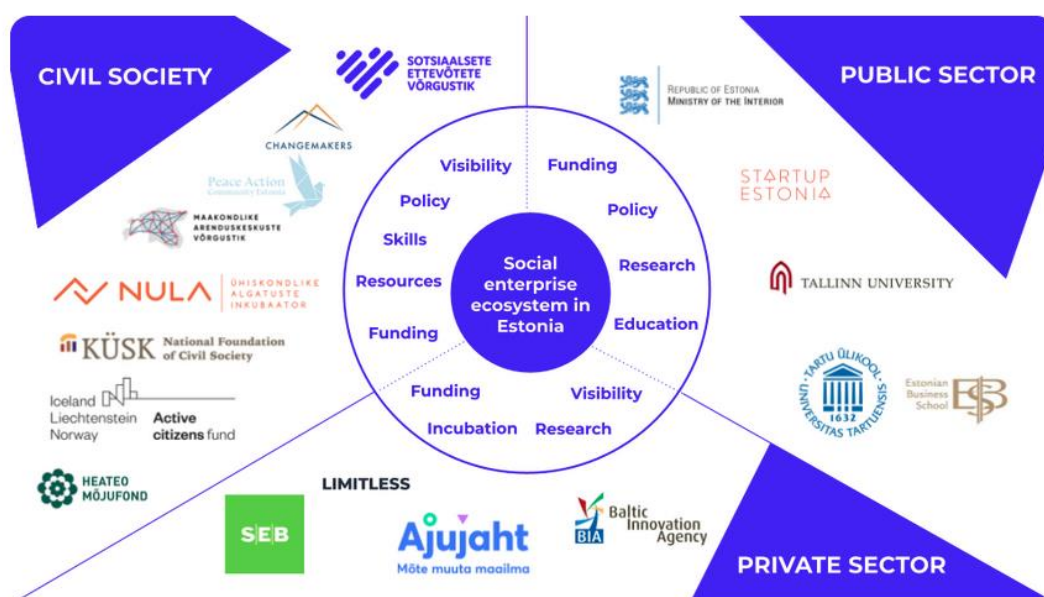


Figure 4: social enterprise ecosystem in Estonia. Source: the website of ESEN.

The social, educational, political, and economic context are all relevant when it comes to creating a favorable ecosystem for social enterprises. Social enterprises often emerge due to an oversight or incompetence of the other sectors and combines the advantages of all the benefits of all three that can then provide the most promising model in finding solutions to the social and economic problems society is currently facing. It is therefore vital that all different stakeholders from the ecosystem offer the network, partnerships, and necessary tools and mechanisms for social enterprises to utilize this model in order to co-operate alongside other sectors as pioneers tackling issues that perhaps have fallen to the gaps of others. Impact organisations, mostly registered as NPAs have generally a wide social network due to working with and for the people in the communities (Pratono & Sutani, 2016). When these local target groups within the social networks adapt the social entrepreneurship business model and shift the mentality, that is currently expecting social enterprises to depend primarily on public funding and serving only a social mission, these ventures could significantly increase their marketing capacity, become more sustainable organisations, and therefore expand their services creating a remarkably larger impact.

There is a need for an effective ecosystem within which social enterprises can thrive from cooperation of stakeholders like the public and private sector, incubation and training programs, educational facilities, and investors enthusiastic to fund organisations that perhaps have a relatively unpredictable turnover, yet a noble mission to make an impact that can be measured. Social enterprises in their start-up and early growth development stages would benefit from such collaborations and networks on a high degree and become essential links between the sectors and the general public as well as development agencies seeking to bring about change that would ultimately benefit all stakeholders (OECD, 2020).

## **2.2. Social impact investment**

This chapter focuses on the elements of ecosystems within which social enterprises could flourish when their specific needs are mapped and roadblocks for development eliminated. The key focus on this part of the theoretical basis is on elements of the ecosystem that are connected to the characteristic of these impact organisations trading in the market and creating economic value alongside its main mission. These five components are the legal and regulatory framework, access to finance, access to markets, business support structures, and training and research (OECD and European Commission, 2015). In this chapter the author of this research study explores the different elements of such ecosystem that governments and other stakeholders could create in order to remove the main barrier – access to funding that would meet their specific needs in early development stages.

### 2.2.1. Investing in a social enterprise

A widely discussed term in the field of social entrepreneurship is ‘earned income’. There are incubation programs and educational facilities across Europe, including in Estonia, that focus on supporting impact organisations to move away from full dependency on philanthropic donations and grant or project funding, and develop and implement ‘revenue from sales’ strategies towards a more sustainable and self-sufficient approach in their business planning. It is important to point out that ‘earned income’ is a term that can be relatively confusing, considering the fact that attracting donations, project funding, governmental support, and other similar sources of finances requires an engaging value proposition, effort, skills and knowledge. Additionally, according to Beth Battle Anderson and J. Gregory Dees, donors can be considered not only as private philanthropists, but also as customers or impact investors (Nicholls, 2006, p. 144-165).

*‘Money is most commonly used to finance working capital, for asset development (e.g. the purchase of property or equipment) or to build reserves or growth capital (growth capital could include the expansion of existing services or investment in infrastructure or innovation) (Varga & Hayday, 2019, p. 30).*

Moreover, the market-based solutions are not always as reliable as perhaps expected due to its competitive nature, and there is a risk of emphasizing organisational performance of financial success over its social performance of creating impact. Furthermore, Anderson and Dees argue that perhaps generating revenue streams solely from earned income is not optimal to social enterprises and the majority have felt the need to have NPA attached to the organisation or as a partner that uses donations and government or project funding to support essential activities and gain the financial freedom required for long-lasting positive social impact. Even if social impact is complicated to measure, the resource environment in different stages of development in the context of financial strategies should correspond to, first and foremost, the organisations’ mission being effectively carried out (Nicholls, 2006, p. 144-165).

There is still little known about social enterprises that seek for conventional financial mechanisms to fill the gaps of traditional lending possibilities available to them today. A significant challenge that social enterprises are facing is the handling of the institutional logics around social impact, value creation, and commercial businesses. There is a need for social enterprises to find ways to overcome these institutional barriers, particularly when focusing on social innovation as a way to find solutions to problems the



communities and individuals in their target groups are encountering (Lyon & Owen, 2019). One of the key characteristics for social enterprises is that they are innovative, which is why they are operating in a variety of areas of economic activity as the globalized world transitions from being industry based as in the previous century to one based on information and technology. Yet, there are still many countries that restrain the legal recognition of social enterprises to certain fields, meaning that they could operate only under the framework of social enterprise when targeting certain vulnerable social groups, for example focusing on labour market and identifying themselves as work integration social enterprises (WISEs). Some of the general approaches in terms of legislation of social enterprises are 1) to create or adapt a legal form that is considerate of the specific features of the enterprise, and 2) a wide recognition of the NPAs that are operating in a variety of forms (Varga & Hayday, 2019).

Another important barrier in terms of raising funding for social enterprises is the lack of understanding of the term and excising legal definition across European countries. There is general viewpoint that the term ‘social’ is to be associated with donations, charities, philanthropy, and non-for-profit activities. If the legal framework, different policies, and educational institutions around European countries continue to struggle clearly defining the term, social enterprises face the risk of being misunderstood even if their social or environmental mission could be easily explained and interpreted, and their business model and target group are strategically written and clear (Doherty et al., 2014). Due to this inaccurate public, governmental, and academic understanding, social enterprises are categorized as charities and therefore still heavily rely on private donations, grant funding, government subsidies, financial support from philanthropic foundations, and national or EU project funding. However, just as public social services suffer under budget cuts and political preferences, social ventures too arrive at financial constraints to expand and, in some cases, halt to actively operate in the market that is highly competitive. One of the possibilities to change this phenomenon is to develop a financial mechanism that is adapted to the particular needs of social enterprises in their different development stages, and would be less dependent on their legal statuses, until one becomes available. Fortunately, one of such financial mechanisms is already taking roots across several European countries – social impact investment. Social investments are becoming increasingly available to social enterprises that are specifically in their earlier development stages and are yet to validate themselves in the market and offer guarantee and insurance to their investors (Lyon & Owen, 2019).

Both public and private sector investors, who are interested in social impact investment, and understand that returns can be both financial and in terms of impact, and combined can create even more sustainable solutions and profits, are still somewhat divided when it comes to concretely defining the impact. There

is a variety of elements that can be evaluated, measured, and reported, which brings out the important aspect that a shared understanding of how impact is measured is essential in order to succeed in collective investments from both public and private sector for sustainable development of societies and crucial actors within the process – social enterprises (OECD, 2019).

As social enterprises have been impacted externally by a variety of previously mentioned barriers, they have also been affected by internal challenges that are in correlation with the others. Two of the most noteworthy perhaps are the lack of traditional investment readiness and deficiency of impact measurement metrics. Many social enterprises themselves struggle defining themselves as ones and therefore remain static with the concept that business strategy can only circle around financially non-profitable activities and objectives. There is a need to overcome this obstacle and search for experts that can provide them with business development services for business planning and training to establish a fitting financial structure (if applicable), development from the start-up stage to early growth stage considering the suitable legal structure, and establishment of networks connecting them to impact investors, mentors, and counseling experts. Moreover, several social enterprises do not have the knowledge, skillset, and, justifiably so, need to have specific metrics in the toolbox to collect data for monitoring, evaluating, and measuring their impact. In order to attract impact investors, not only it is essential to do so in order to identify whether the social or environmental objectives are met, but also to be able to present them to the impact investor that could then make a comparison against financial returns they would gain from more traditional investees such as commercial businesses (Fi-Compass, 2016).

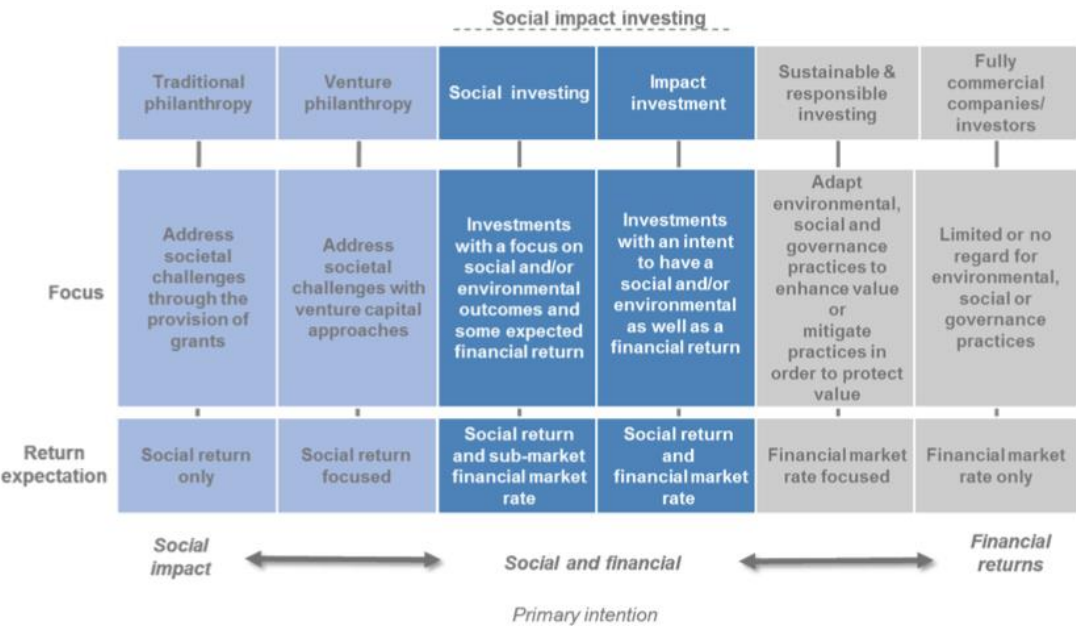


Figure 5: the spectrum of capital. Source: OECD (2019).

According to EVPA a social investment is a type of financial revenue source where the focus of the investment is, instead of a direct financial return or shares of the company, on the social, environmental, cultural and other gains delivered as an end result of the activities of the impact organisations (EVPA, 2018).

The Global Impact Investing Network (GIIN) has given impact investments a definition of being an investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The network has further characterized impact investment with four key elements stating that impact investments 1) intentionally contribute to social and environmental solutions and setting transparent goals for the investments, 2) seek a financial return on capital that can range from below market rate to risk-adjusted market rate, 3) can be made across asset classes, and 4) its hallmark is the commitment of the investor to measure and report, based on impact performance data, the social and environmental performance of underlying investments. This is done in order to mitigate the negative impact factors and be transparent about the learning process to accurately advocate for more impact investors to finance social enterprises for the achievement of a variety of social and environmental objectives (GIIN, 2019).

In most EU member states the social impact investment markets are today relatively under-developed and lack a specific policy and a regulatory framework to create a favorable ecosystem for social enterprises. Therefore, social enterprises in Europe are registered under a variety of legal and administrative terms, depending on the country in which they are established and operate. Nevertheless, social enterprises within Europe all share the aspect of having different dimensions, such as entrepreneurial, social, and open and inclusive governance (European Commission, 2015).

### **2.2.2. The trends in social impact investment in Europe**

Social investment according to the European Parliament study is defined as 'the use of money to generate both social and financial returns, offering a way to help social organisations access suitable financing and improve their ability to deliver impact. There are several barriers social enterprises are facing to raise social investment funds in Europe (Mackeviciute et al., 2020).

Firstly, as stated previously, there is no legislation defining or giving a status to social enterprises, with a few exceptions from Finland, Italy, Slovenia and 'd'entreprise solidaire d'utilite sociale' (ESUS) in France. Secondly, there is a lack of national institutions taking a role of developing the SII market in

European countries. Two great examples from EU countries are SITRA and Impulse. SITRA is an innovation fund in Finland that was brought out in the last chapter, and Impulse is an impact investment fund managing company that is dedicated to impact investments and inclusive finance. Thirdly, there is an urgent need to establish support organisations to help social enterprises to measure their impact as regarding impact investment, it is as essential, if not more, as fiscal financial reports of the activities. In Estonia, there are a few support organisations already established that focus on advocating the wider use of the term and supporting impact organisations with mentoring and training in order to adapt the knowledge and skills needed to measure their impact regularly. Another option is to involve external experts to measure the impact and evaluate whether the main objective is still intact in the process of activities and growth. Lastly, a cooperation with governments and the European Union is essential to apply social impact investment approach as a financial supply for social enterprises and impact organisations (ibid., 2020; Varga & Hayday, 2019).

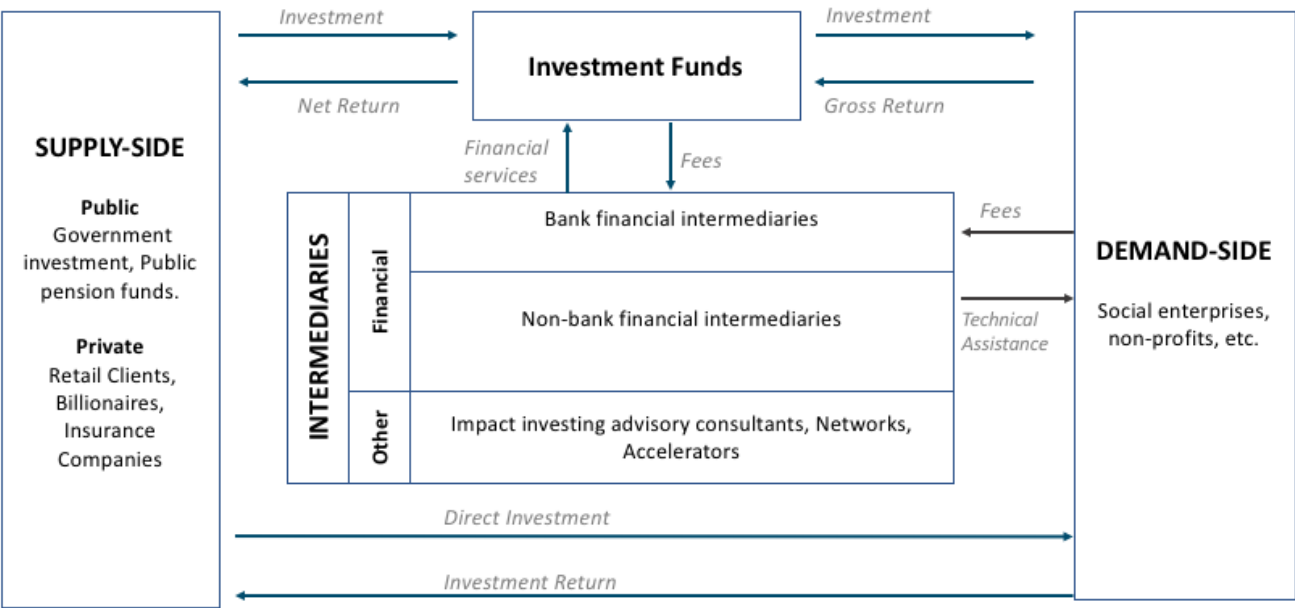


Figure 6: the ecosystem of enabling social investment fund to reach social enterprises. Source: Mackeviciute et al. (2020).

There is a variety of examples from all across Europe of innovative financial solutions to fund social enterprises. Firstly, accelerator loans or grants, that have more effective pooling of resources, are moving from short-term projects to a more sustainable support, and is combining grants with an acceleration program that focuses on the process rather than outputs, can be found in Sweden (Vinnova), Scotland (Power Up), and Portugal (Social Innovation). Secondly, blended non-market finance, that have risk reduction and increasing appeal for private investors though public co-investment, and are potentially combined with premiums or tax incentives for impact-oriented investing, can be found in Portugal

(Social Innovation). Thirdly, social impact bonds (SIBs) that shift the risk to private investors, while providing outcomes-based re-payment by the public sector, and are promoting outcome and impact orientation, are established in Netherlands (Brabant Outcomes Fund), Portugal (Social Innovation), and Finland (SITRA). Additionally, several local SIB initiatives in many other countries of Europe have been founded. Lastly, blended market finance strategy is implemented in the UK (Big Society Capital), that has a purpose of reducing risk for private investors through loss capital or guarantees, and enables private exit for equity investments through establishing a long-term perspective (Krlev et al., 2021).

One of the countries that for almost two decades now has considered social enterprises to be, in the market, considered as just as any other traditional commercial enterprises, the UK, has adapted social investment as a financial instrument through legislation. The definition of social enterprise is effectively adapted considering characteristics, such as having primarily a social purpose, profits re-invested in the company or the community, no interest increasing the profits of shareholders and owners. In 2015, the government of the UK introduced the Companies Act in 2005 (Hazenberget al. 2014; UK National Advisory Board on Impact Investing (UK NAB), 2017).

*‘There is a growing interest in lending for a social purpose amongst philanthropic funds, the government and growth oriented social enterprises in the UK. There are various sources of ‘social investment’ with Big Society Capital acting as a wholesale bank for social investors developing innovative sources of finance’ (Lyon & Owen, 2019, p. 50).*

**There are three main reasons why social investment has become prominent (UK NAB, 2017):**

- It recycles the money we have. Social investment returns to the investor, can be used again to support more social enterprises, and unlock significant funding for societal challenges.
- It attracts new money. Social investment can attract money from new sources such as from individuals, mainstream finance, or the private sector. This can help add to the existing money that is available and drive inclusive and sustainable economic growth.
- More social enterprises are trading, more income is being earned, and there is the potential for money to be invested and paid back. Social investment can play a role in supporting the growth and sustainability of social enterprises, and help achieve the UNs’ SDGs.

In an Estonian context, Limitless Fund, and Good Deed Foundation Impact Fund and Education Fund are pioneers when it comes to impact investing in social purpose organisations that have a business

model and that create measurable impact. However, several social enterprises in Estonia, as still largely registered as NPAs and struggle with these two criteria, due to the lack of knowledge and skills to implement tools, prior experience, and market validation, are not necessarily meeting the requirement of the financial mechanism made available only just recently in order to scale up. When other initiatives, supporting social enterprises to overcome the financial barriers and advocating for co-operation across sectors, are rooted in several countries in Europe to assist seed, start-up, and early growth stage impact organisations to scale, then Estonian impact investment market and its ecosystem is still only in its beginning phase.

### **2.3. Organisational life cycles**

In this chapter the author explores the different definitions, models, and characteristics of organizational life cycles. The aim is to further understand the key concepts in terms of organizational life cycles, different development stages within, and specific characteristics of social enterprises around the concept. The key objective is to identify specific needs of impact organisations in their different development stages, particularly in start-up, and early implementation and growth, in order to scale up without facing unnecessary legal, financial, administrative, and other external, as well as, internal barriers in the process.

#### **2.3.1. Definition and the stages**

Organisations progress through various stages of a lifecycle as they grow, develop, and scale up. These life cycle stages are made up of a set of organisational activities and structures these activities follow. When identifying the changes that occur as organisations grow and develop, the board creates an important understanding in order to implicate accurate strategic planning for scaling (Lester et al. 2003).

Social enterprises, just like any other businesses or organisations, need funding at all stages of their growth. The amount and the source of funding depends primarily on the current development stage of their organizational life cycle, business model, and the field in which they operate for creating positive change for their beneficiaries. More often than not, these impact organisations go through their organisational life cycle in an unpredictable and curved fashion in comparison to traditional commercial businesses. One of the most critical stages, like Koh et al. (2012) study explains (See Table 1 below), for social enterprises is development from the start-up stage to early growth stage. Normally at this stage of development, there are no private investors in sight that have the willingness or flexibility to finance

the business model validation process and entry in the market – the risks, slow growth curve, and social return overshadowing return on impact are often not found attractive to the investors. Therefore, social enterprises look for alternative funding possibilities, most common of which in the start-up development stage are loans, donations, project funding, or financial support from their own personal sources of income. By all means, today there are, more than in the past, investors that care about positive social or environmental impact, but many are still considering generating a (significant) social return on their investment more as a by-product than the primary focus on their investment. These investors have a much more empathetic approach and value more ethical businesses like social enterprises that have, from the very beginning of the establishment of their organisation, characteristics, such as inclusion, transparency, sustainability at the core of the strategic planning. (Varga & Hayday, 2019; Speiss-Knafl & Scheck, 2019; The European Business Review, 2021).

**Table 1: four stages of development in an organizational life cycle**

<b>Blueprint (Seed) stage</b>	<b>Validation (Start-up) stage</b>	<b>Preparation (Early growth) stage</b>	<b>Scaling-up (Late implementation) stage</b>
Understand customer needs.	Conduct market trials.	Stimulate customer/co-investor awareness and demand.	Move into new geographies and market segments.
Develop the initial proposition.	Test business model assumptions.	Are they on a mission?	Invest in talent and assets.
Develop a business plan reflective of mission.	Refine business model, systems, products or services.	Strengthen demand and supply chains up- and downstream.	Exploit systems and processes.
Develop core prototypes.	Is mission intact?	Build organizational capacity to scale up systems, talent, and assets.	Exploit scale efficiencies.
			Respond to competitors and to market need.
			Has there been any mission drift?

*Compiled by the author based on Koh, H., Karamchandani, A. and Katz, R. (2012).*

Even though stages of organisational life cycle can be categorized in order to identify the changes that take place when growth happens from one stage to another, organisations do not necessarily develop according to the pre-set pattern of stages, but evolve through their own unique solid and changeable states due to a variety of influential obstacles and enabling factors, such as skills of people management, strategic orientation, formalized systems that can have errors, prove unable to meet changed requirements or where their efficiency is below their competitors, entry to a new market, obtaining funding, and operational improvement towards an awareness and understanding of process capabilities and the implementation of best practices oriented towards impact gains and the prevention of oversights. Some of perhaps most remarkable factors of such kind are presented in the next part of this chapter (Phelps et al., 2007).

### **2.3.2. Scaling up start-up and early growth stage social enterprises**

There are a number of variables that influence NPAs to success and scale their positive impact or face barriers that they are not able to overcome and become therefore stagnated. Some of the most noteworthy barriers, according to Alex Jacobs, can be organised into three main categories:

- Conceptual issues that can cause confusion at the practical level for social enterprises. There are no established definitions when it comes to aspects, such as development empowerment, and service delivery or humanitarian work. NPAs are not always able to distinguish between these concepts in either their responses or in their organizational or conceptual frameworks. Yet, there are still debates between different stakeholders, such as politicians, donors, NPA managers, and field staff regarding the specific characteristics of them. Additionally, as mentioned before in this research study, some services offered by the NPAs are working in tightly defined project frameworks that have activities, inputs, outputs, and outcomes over specified. Moreover, many NPAs or social enterprises are struggling to clearly explain to the other stakeholders and the public, the expectations they have achieving their objectives in practice.
- Funding pressures from institutions and from the public. Institutional funding pressures can bring about bureaucracy from donors, such as the governments and the European Commission, that force the development of the organisations into project-sized chunks. Alongside this and other struggles, the situation adds up to a lack of openness and trust between the funders and the organisations, and compromised solutions to the issues both



sides are facing. For social enterprises that wish to scale up their impact, it creates an unfortunate reality of adapting their core objectives to the project-based funding solutions that require them to make changes in their strategic planning and keeps them from finding the time and resources to scale up using other, perhaps more favourable, funding opportunities. Funding pressures from the public include competing in branding that in correlation creates a situation where the organisation are bound to the public donors having set up expectations amongst them – a great deal of attention, therefore, has to be put into maintaining their image as effective and efficient development and humanitarian agents. This can be a significant incentive for start-up and early growth stage social enterprises to keep in mind the factors of transparency and accountability in the process of development and scaling up.

- Internal organisational factors can be categories as having 1) complicated operations and difficulty to manage, for example, working in cross-cultural teams, managing their enterprises from the distance, sometimes in areas where the infrastructure is under developed, the overwhelming complexity of local context and external factors, and having multiple stakeholders with different interests and goals, 2) a variety of governance structures, such as choosing the legal structure, setting a clear primary objective that has to be met with the available resources, setting policies and strategies, requiring the reliable, experienced and like-minded staff, choosing the election mechanisms, and overseeing the performance of the organisation in the process of scaling to the next development stage, 3) to put the correct structures in place after growth and not before, due to the fact that often social enterprises develop from one stage to the next unplanned and strongly influenced by external factors whilst struggling to manage the best practices alongside the variety of complex internal factors (Nicholls, 2006).

Social enterprises, just like any other NPAs and SPOs, need a significantly longer time to grow from one development stage to another, raise necessary external funding, be validated in the market, and make a profit. The financial needs for the impact organisations change and adapt to a number of factors in the process of evolving from one stage, such as start-up, to another, such as early implementation and growth. In comparison to traditional commercial ventures, that have a business model with an objective of making the growth curve as rapidly as possible, social enterprises are able to raise only a small fraction of available financial funds at the very early stages of their development. There is a variety of needs that social enterprises have in order to be ready for financial mechanisms like social impact investment.

### 3. RESEARCH METHODOLOGY

This chapter includes the research methodology that has been used by the author to compile this research study. It outlines the research design, method, approach, the method of data collection, the process of selecting the samples, and the process of collecting and analyzing the data. Additionally, limitations are also included at the end of this chapter.

#### 3.1. Research design

The first step for studying and justifying the findings was gathering information and evidence from relevant and valid sources to support the perspective and position on the subject. The literature review was conducted on articles, books, studies, websites, reports and other materials that were available to the researcher – secondary research using the exploratory research methodology was carried out. To better understand the theories and research that have been previously published on the subject, the author analyzed a great variety of literature and created a theoretical basis to discuss and evaluate the theories relevant to this research study. In general, the author has used inductive reasoning that involves the search for patterns from observations and the development of theories. Additionally, the author focused on exploratory data analysis, narrative description, and constant comparison when studying the theories established by other researchers on the topic.

*‘As with any newly emerging field, the literature on social entrepreneurship has grown and there have been several attempts to define the main concepts such as social entrepreneurship, social entrepreneur and social innovation, among others’ (Hadad, 2017, p. 2).*

Moreover, after gathering the secondary data for evaluation, the author commenced on constructing the sample for the survey. For selecting the sample for primary research, the author decided to focus on a case study approach, which is an approach where the researcher explores bounded systems over time through detailed and in-depth data collection involving multiple sources of information. These sources, for the research question stated in this paper, were the collection of document data through websites and reports, and fiscal financial statements of potential participants of the survey using the previously gained knowledge from the relevant theories about social entrepreneurship in order to carefully select the reachable and appropriate participants as the sample.

For the purpose of best serving the objective of the study, a mixed methods research approach, which included both qualitative and quantitative data collection methods, was applied to the work. A mixed methods research approach combines both quantitative and qualitative data collection and analysis in one study. Other terms used for this research approach are convergent methodology, multi-method or multi-trait, convergent validation, triangulation, integration, and synthesis (Atif et al., 2013). The quantitative data collection process in this research study explored and measured variables that were later in the research compared with collected qualitative data of concepts and more detailed experiences of the selected social entrepreneurs from the initial sample. When these research methods are used on a standalone basis, these approaches can answer questions which can vary, and yet combining them can provide the study with more in-depth findings.

This research study used explanatory sequential mixed methods research design in which the author collected and analyzed quantitative data prior to collecting qualitative data. Mixed methods research design is used to answer a broader range of research questions, to integrate qualitative and quantitative approaches and use the strengths of each approach, to further explain and contextualize both quantitative and qualitative theoretical and empirical findings, and to increase the validity of the results and the conclusions by triangulating the data from different methods.

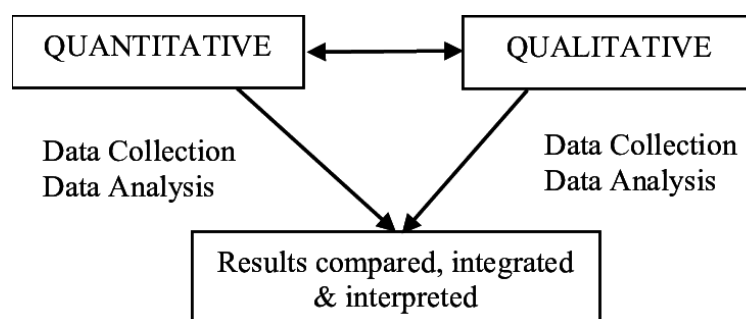


Figure 7: data collection method. Source: Atif et al., (2013), p. 10.

Given the fact that the social economy in Estonia is still in the early development phase and there is in existence a rather limited number of social enterprises, the study did not significantly narrow down the target group for those social enterprises which should be involved in the survey. The predominant legal form being used by social enterprises in Estonia is a non-profit association, although other legal forms exist for social enterprises, such as those of foundation, private limited company, sole trader, public limited company, commercial association, general partnership, or limited partnership, all of which were included in the sample.

*‘In 2016 Estonia had 100 NPAs, nine foundations and 12 private limited companies that met the EU definition of social enterprise. Together they generated around 52 million euros per year out of which 37 million euros (72%) was generated from sales. Collectively, social enterprises employed 1,603 paid staff’* (Reimann, K.-L., 2019).

The survey considered social enterprises as organisations that have an explicit social purpose, i.e. their main goal is to create positive social impact, not to make a profit for the owners or shareholders. It is also important that the organisation is managed responsibly, transparently, and innovative, while also involving its beneficiaries and other stakeholders in open discussions and strategic planning procedures.

In addition, it was important that the organisation plans and measures its societal impact (for new organisations, only a plan to measure impact was appropriate). This can be defined in various ways, such as through monitoring or planning the number of customers, or the volume of raw materials being consumed (such as through recycling organisations), and so on, but it is important to understand how they measure any change which has been brought about.

The final definition (based on several different studies and reports by ESEN, EC and other organisations) of social enterprises in the framework of the study is shown below.

**A social enterprise is an undertaking (Lepik, 2021):**

- Which has a clear social purpose whose primary objective is to achieve social/environmental impact rather than generating profit for owners and shareholders.
- Which earns at least some of its income selling its products or services.
- Which plans and measures or plans to measure its societal/environmental impact.
- Which uses its surpluses mainly to achieve these social/environmental goals.
- Which is managed using accountability, inclusiveness, transparency and social innovation.

**The definition of social enterprise arranges its key features in three dimensions (European Commission, 2020):**

- An entrepreneurial dimension.
- A social dimension.

- A dimension relative to governance structure.

Assuming that the pursuit of straightforward social objectives through economic activities is a priority, the three dimensions can be combined in different ways - a balanced combination is the most important when defining the boundaries of social entrepreneurship. The specific and commonly accepted characteristics of social enterprises in Estonia were identified by the governmental organisations and the Social Innovation Task Force. The task force was active from 2016 to 2017 and its main duties were to *'develop proposals on how to increase innovation capability in order to ensure better services and policy-making in the public sector of Estonia, and more widely, society's readiness for social innovation'* (Republic of Estonia – Government Office, 2016). The key characteristics, guiding the primary research, of social enterprises identified by the European Commission were previously mentioned in the introduction of this thesis.

It is also essential to mention the fact that the researcher wanted to involve in the study all organisations which had revealed a positive social/environmental impact, and not just those which had dealt with social problems. The team also considered organisations which had a focus on the environment, or upon rehabilitation, gender equality, the pay gap, an aging society, education, health, unemployment, integration, migration, and many other such areas, to be social enterprises. However, societies, associations, private educational facilities, congregations, sports unions, and organisations which do not earn or plan to earn their own income through the provision of services or products were not considered within the sample.

The EC (2019) and OECD (2020) studies both identified somewhere between 120-125 social enterprises in Estonia. The studies followed the ECs' operational guidelines in terms of identifying social enterprises. However, accurately mapping out the number of social enterprises is a task which can often prove difficult within an Estonian context, due to various reasons such as self-identification biases which can lead to under- or over-estimations (Reimann, K.-L., 2019; OECD, 2020). Therefore, in addition to concentrating on the already-identified social enterprises within the context of the analysis, the focus of the study was also on areas which involved the early stages of maturity of enterprises.

### **3.2. Data collection**

As mentioned in the chapter above, the study used a mixed method research approach. Firstly, a survey was conducted for which the sample was carefully chosen following the social entrepreneurship

definitions and characteristics laid out in the previous chapter 'Research design'. Moreover, the survey sample was compiled with the two following additional criteria.

**The survey sample was guided by the following two additional indicators (ESEN website, n.d.):**

- At least 25% of an organisations' income is earned from business income which is generated from the sale of its products or services. This percentage may be lower for new organisations, but the goal is to earn at least 25% of ones' own income in the future.
- At least 50% of the profits are used for social purposes. This can also be done indirectly in various ways, such as, for example, where the profits are used for the organisations' development activities and therefore serve to increase the organisations' impact.

Several of Tallinn Universities' partners, along with the SoFiMa projects' consortium, explained in the chapter 'Acknowledgements', were consulted during the process of designing the data collection survey in order to ensure the good quality and representative nature of the results. In order to reach the target group, many social entrepreneurship support organisations were contacted, including incubators, start-up communities, consultancy agencies, and so on, as well as a sample being compiled for direct invites.

The primary sample for the survey has been selected from the following sources: 'Ajujaht' participants within the category of 'Social Entrepreneurship'; 'GoodTech' pioneer participants; and Startup Estonia participants with their social entrepreneurship focus, and taking into consideration the primary goal of the ventures; organisations which have applied funding through the GDF; participants of NULA (supported by the National Foundation of Civil Society (NFCS)) incubation program that is focusing on supporting, both financially and through mentoring, social enterprises or impact organisations; members of the ESEN; and members of the SDG coalition of Estonia. Direct participation invites were sent out to a total of 385 organisations.

Prior to sending out the invitation to participate directly in the survey, with those invitations going to the sample organisations and via the contact lists, newsletters, and social media accounts of Tallinn University and its partners, BIA, SEB Bank, Buildit, Startup Estonia, ESEN, Estonian Association of SME's (EVEA), EAS, and the Võru County Development Centre and other regional development centers, the survey was tested on the projects' consortium, ESEN, the Ministry of the Interior and three randomly-selected organisations from the sample. The survey platform was chosen to be LimeSurvey as

it fitted the needs of the study, such as in terms of offering the option to have it translated, plus with there being no limit to the size of the sample, the fact that reminders could be sent out by the platform itself, the necessary conditional logic was already in place, and there is also the potential for exporting the final results.

During the data collection period for the survey part (which lasted from the end of April 2021 to mid-June 2021) a total number of 91 full responses to the survey were recorded, along with 65 incomplete responses, and 156 total responses, which is a high figure in comparison to previous surveys which have been carried out in Estonia regarding the topic of social entrepreneurship which proved the sampling process being successful in terms of widening the criterium to impact organisations that, perhaps not yet today, consider themselves or can be clearly defined as social enterprises, yet aim to be one in the future.

**The survey was divided into five general topics:**

- organisation
- finance
- team
- impact
- and conclusion.

The invitation to participate in the survey was sent out to the enterprises in order to be able to identify their levels of financial sustainability today and in the near future, their governance structures, their management team skill sets, their defined and scalable social missions and impacts, their growth and investment needs, their knowledge, level of existing interest, related challenges and general access in terms of seeking out impact investments. The survey consisted of a total of 48 questions. One of which was the development stage at which the participating social enterprise defines itself to be at. The table below demonstrates the characteristics of the two organisational life cycles that this study focuses on.

**Table 2: development stages which have been included in the survey sampling.**

Development stage	Description
Start-up stage	<ul style="list-style-type: none"><li>● final development of a prototype of product/service takes place</li></ul>

	<ul style="list-style-type: none"> <li>● market entry stage where enterprises enter the market with a product or service, and prepare for expansion</li> <li>● first customer acquisition takes place</li> <li>● first sales of products and services</li> <li>● new resources due to loans or investments occur</li> <li>● could be already supported by business angels and investors</li> </ul>
Early implementation and growth stage	<ul style="list-style-type: none"> <li>● establishing new channels and markets through expansion</li> <li>● the stage of recruitment of (additional) employees/volunteers</li> <li>● quality management (engagement of people, customer focus, leadership, process approach, improvement, evidence-based decision making, relationship management) is undertaken</li> <li>● standardizations take place</li> <li>● the sales could be increasing</li> </ul>

*Compiled by the author based on European Business Review (2021) and Forbes (2018).*

Furthermore, semi-structured interviews with mainly open-ended questions (which followed the Code of Conduct for Research Integrity, downloaded from Tallinn Universities' public website) were conducted amongst selected samples from those cases which had participated in the survey.

**The criteria for the organisations to participate in the interview were as follows:**

- The participating organisation had left its contact details at the end of the survey.
- From each development stage, at least 25% of those organisations which were participating in the survey were interviewed.

11% of the participating organisations were in the 'Start-up stage' and 37.4% of the organisations were in the 'Early implementation and growth stage'. Following the Table 3 below, the author, alongside their supervisor Dr. Katri-Liis Lepik, conducted eight interviews (four each) with social enterprises in their 'Start-up stage' (one) and 'Early implementation and growth stage' (seven). Personal information such as contact details and other sensitive information that could reveal the identity of the participating organisations has been left out of the annexes.



**Table 3: sampling criteria for the semi-structured interviews.**

<b>Development stage</b>	<b>25% of the survey participants in the development stage</b>	<b>Plans to raise investments in the next 24 months (from the sample)</b>	<b>Does not plan to raise investments in the next 24 months (from the sample)</b>
Start-up stage	3	2	1
Early implementation and growth stage	9	5	4
Total	12	7	5

*Compiled by the author.*

The semi- structured interviews were conducted in order to be able to collect more in-depth information regarding topics which were either covered or missing from the survey. The interviews were conducted in person or via Zoom platform, with each lasting between thirty minutes to an hour. Similar to the survey, the interviews were anonymous and each participant was given an identification token. In this research thesis, the interviews have been cited as Interview 1, Interview 2, etc. depending on the order in which they were conducted. The interviews were recorded for transcription, for which participants' consent was asked at the beginning of each interview. The interviews with social entrepreneurs for this thesis took place in the autumn-winter semester of 2021-2022.

The interview was divided into five general topics, such as organisation, finance, team, impact, and development.

**The invitation to participate in the interview was sent out to the enterprises so that a better degree of understanding could be gained in the following areas:**

- The choice of legal format when registering.
- Understanding development stages.
- Goals for forthcoming years and the funding instruments which would be required in order to be able to implement those goals.
- Obstacles in terms of accessing these funding instruments.

- Levels of understanding in terms of social entrepreneurship, social impact, and social impact bonds and/or investments.
- Challenges in terms of prioritizing impact over the sale of products and services.
- Awareness of social impact assessment and impact reporting.
- Challenges faced and support needed in order to increase impact.

The interviews conducted by the author of this thesis took place via Zoom platform. The interviews were recorded and the audio file was transcribed using the website <http://bark.phon.ioc.ee/webtrans/> which is on the server of Estonian Scientific Computing Infrastructure (ETAIS). Once the initial automatic transcription was sent to the author, the transcription had to be corrected and translated.

Furthermore, after the interviews with social enterprises were conducted and analyzed the author continued the qualitative research method and selected four organisations from the field of the research study to conduct in-depth interviews with the representatives of institutions that offer support to social enterprises in Estonia and have created more favorable ecosystem to those ventures. The aim of further semi-structured interviews was to gain an even further and profound understanding of the needs and readiness amongst Estonian social enterprises from the perspective of the experts from the social entrepreneurship ecosystem. The author of this study selected the organisations to interview based on the data collected from the literature review, the survey, and the interviews conducted with the social enterprises. The characteristics of the interviewed organisations vary, yet create an ecosystem of support for Estonian social enterprises, especially in their start-up and early growth development stages.

**The roles that interviewed support organisations play in the field of social entrepreneurship in Estonia are:**

- To offer broad networking possibilities within their community of partners.
- To provide a variety of funding, such as grants, impact investments etc.
- To give forward their knowledge and skills through training programs, one-on-one mentoring, incubation programs, case specific counseling, and hackathons.
- To help with finding volunteers, experts that could be employed full-time, and companies that offer *pro bono publico* their services in different fields vital to supporting social enterprises.

The organisations were contacted directly with interview questions attached to the invitation e-mails. The questions were relatively similar with few adjustments based on the background and expertise of the interviewees. The interviews took place via Zoom platform, lasted from forty-five minutes to an hour and a half, were recorded with consent, and transcribed for analyzing the data gathered. Similarly, to the interviews with the social enterprises, the Code of Conduct for Research Integrity, downloaded from Tallinn Universities public website was followed throughout the process. The interviews were anonymous and each interviewee received a code, such as Interview W, Interview X, etc. The interviews took place in spring-summer 2022. The results of the analysis and quotes from some responses have been introduced in the 'Empirical findings and discussion' chapter of this research study.

### **3.3. Limitations**

The author used non-probability purposive sampling. The author of this research study has set a specific criterion that was followed when sending out the survey questions and the interview participants were chosen from the social enterprises that had participated in the survey and had stated that they wished to be contacted in the next steps of the study. The author strongly considered the purpose of the research study when putting together the sample and reviewed the characteristics of the organisations that were invited to participate in the survey and/or interview.

Since the sample was selected based on the researcher's prior knowledge and research aim, the sampling was relatively judgmental. There was a reasonable probability of having uncontrolled variability and sampling bias in the estimations of the sampling process. Furthermore, compared to probability sampling, the findings might be somewhat troublesome to generalize. Additionally, despite the number of the social enterprises to whom the invitation to participate in the survey or the interview was relatively high, a large percentage of the organisations that were sent the invitation did not have the time to participate or did not reply. In conclusion, there was different types of sampling biases that occurred, such as self-selection, non-response, pre-screening, and advertising on different social media channels and mailing lists.

## 4. EMPIRICAL FINDINGS & DISCUSSION

In this chapter, the author showcases the study results from both the survey and the interview. The study results are presented as seen in the survey, and all five topics are covered in this paragraph. Part 1 covers general information about the participating organisations such as legal status, main business activity, the geographic levels within which they operate, and their current development stages.

In addition, the discussion paragraph offers an in-depth discourse of the research study topic where the author has combined the literature review of the, available to the author, theoretical basis with the empirical findings, and the research question has been answered accordingly.

### 4.1. Survey amongst Estonian social enterprises

In the empirical findings, the author has showcased the findings of a mixed method research process where survey invitations were sent out to around four-hundred organisations. Total responses to the survey were one hundred fifty-six of total responses from which sixty-five were incomplete and ninety-one were full responses that were to be analyzed. The findings are divided into five sections according to the set-up of the survey itself that are then illustrated with the quotes of the interviews held with social enterprises that participated in the survey and were interested in further discussing the topic in semi-structured interviews. The development stages of participating social enterprises in the interviews were as follows: Interview 1 ‘Start-up stage’ and Interview 2 - Interview 8 in their ‘Early implementation and growth stage’ of the organisational life cycle.

#### 4.1.1. Overview of the organisation

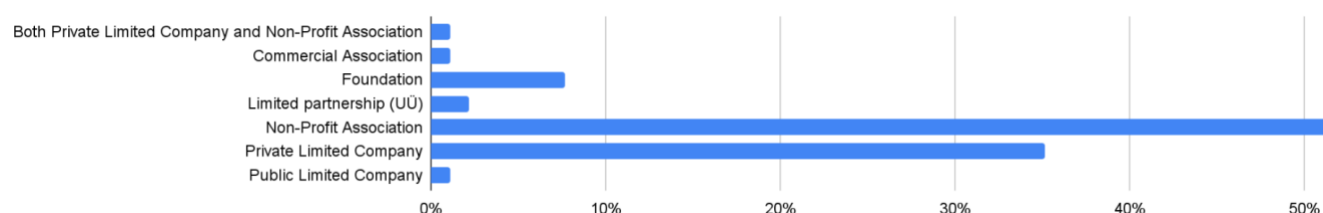
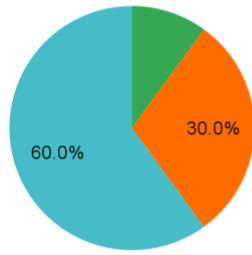


Figure 8: the legal statuses of participating organisations (overall shown above, and for each development stage shown below).

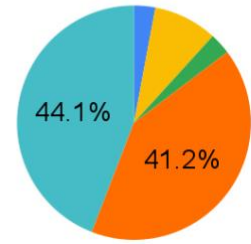
Start-up stage

- Limited partnership (ÜÜ)
- Non-Profit Association
- Private Limited Company



Early implementation

- Both Private Limited
- Foundation
- Limited partnership (ÜÜ)
- Non-Profit Association
- Private Limited Company



‘Start-up stage’ social enterprises that participated in the survey are primarily operating as private limited companies whereas the ‘Early implementation and growth stage’ social enterprises are operating almost equally as private limited companies and non-profit associations.

*‘Right from the start, we registered as an NPA and a private limited company, because it was difficult to apply for a grant as an NPA with our main goal. The concept of our organisation seemed to be confusing for Enterprise Estonia, where we applied for a grant. Once we registered as a private limited company for the same cause and asked for the start-up capital for the same reason from Enterprise Estonia, it was approved. Years went by and everybody said that we are basically functioning like an NPA, yet there are contracted employees and our organisation is earning revenue from sales just like a private limited company. Another difficulty is that most of our employees are our beneficiaries, yet the organisation is legally obliged to have a professional contract of employment for everyone. We are considered as a large-scale production company, yet that is not the case. Therefore, I believe there should be a separate legal body for social enterprises in Estonia,’ (Interview 4).*

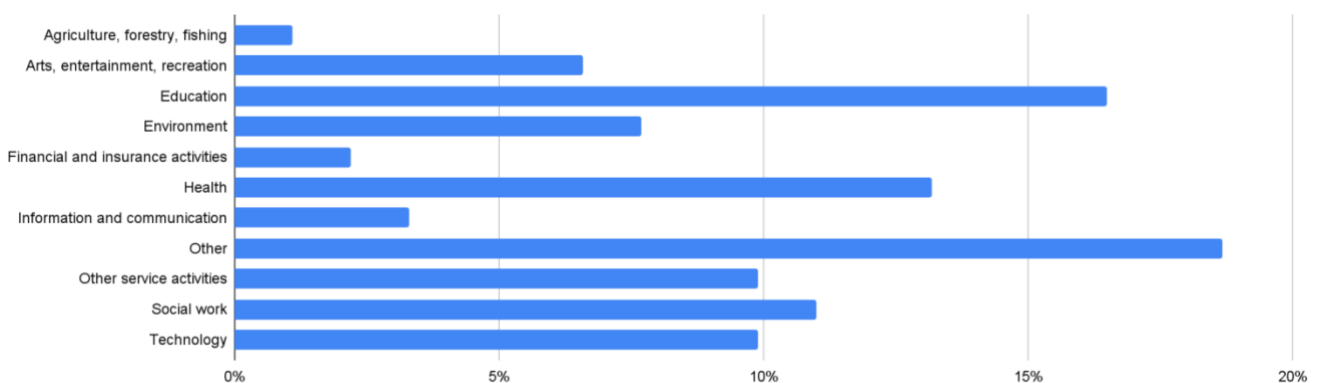
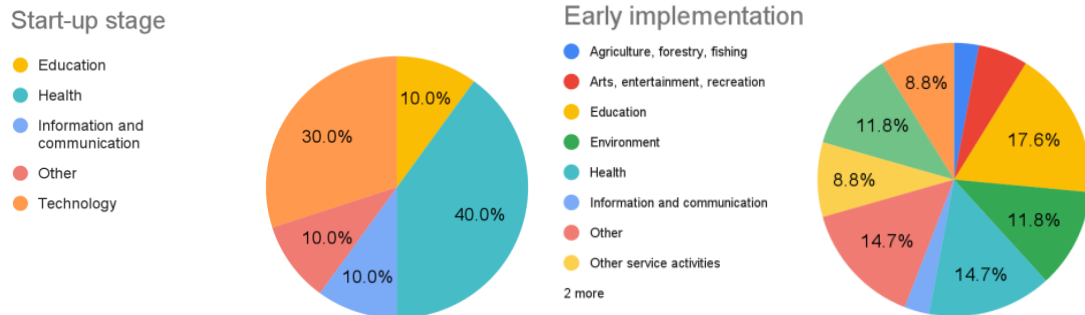


Figure 9: the main business activities of participating organisations (overall shown above, and for each development stage shown below).



The two most common fields in which ‘Start-up’ social enterprises are doing business are ‘Health’ and ‘Technology’. Moreover, the ‘Early implementation and growth stage’ social enterprises have generally a much wider range of fields they are operating in.

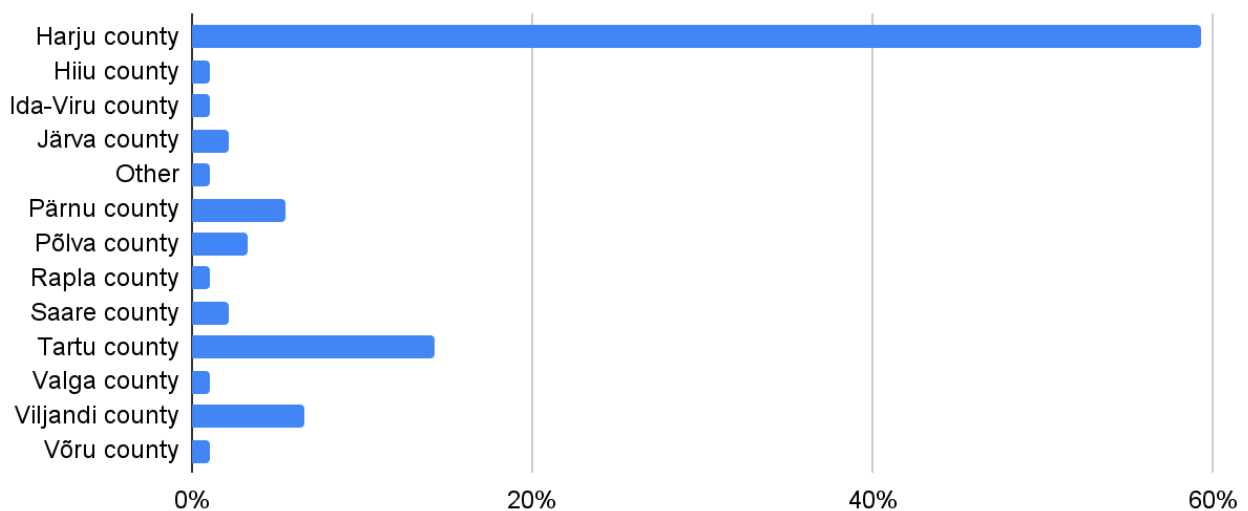


Figure 10: the regions (counties) in which the main offices of the participating organisations are located

Less than 2 respondents have their offices located in countries other than Estonia. One respondent has their main office located in Barcelona, Spain. The social enterprises in the ‘Start-up’ and ‘Early implementation and growth stage’, that were interviewed for this study, are all operating nationally and have their main offices located in Estonia.

*‘I believe that one could find investors for organisations like ours in the city, but are they willing to take the risk of investing in the rural area? Another question is how to communicate exactly what and why you are doing something to someone from the outside? Perhaps it would help to measure social impact like NSCF is doing, I don’t know. The team and our family members understand exactly what we are doing, but people who don’t know anything about the organisation say that they don’t understand why we don’t want to establish the enterprise in town instead,’ (Interview 3).*

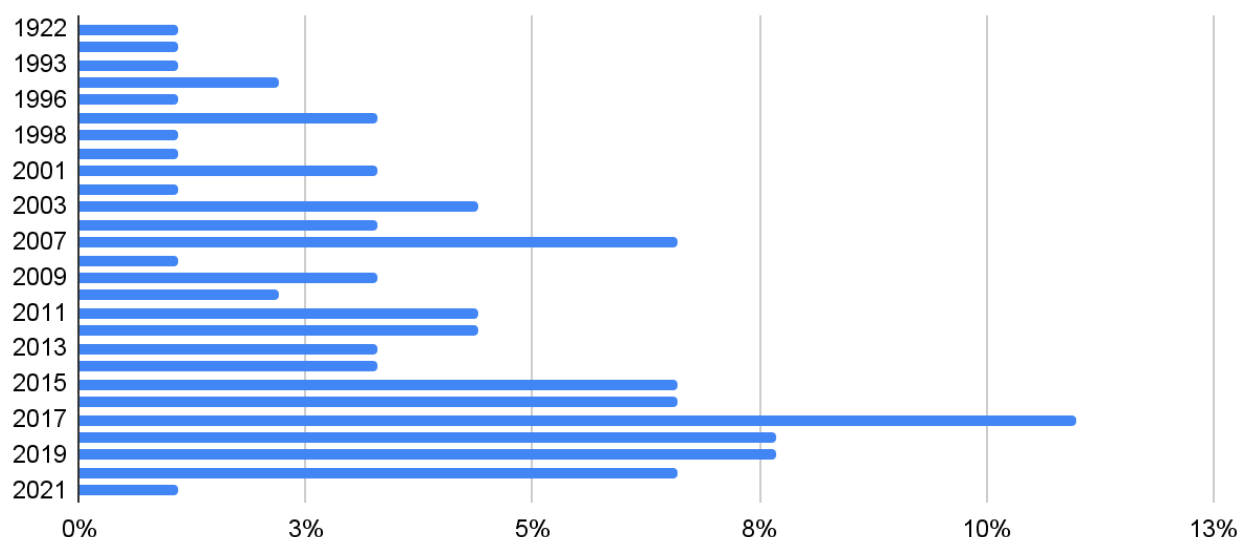


Figure 11: the years in which the participating organisations were founded.

A total of 34% of participating organisations have been founded in the last five years (between 2017 and 2021), while 26.4% were founded ten or more years ago, another 24.2% a total of five or more years ago, and 15.4% have been founded twenty or more years ago. The general trend is that the organisations established in the last five years are in the ‘Early implementation and growth stage’ of development. Many of which, consider the growth to the next development stage being expansion nationally or abroad.

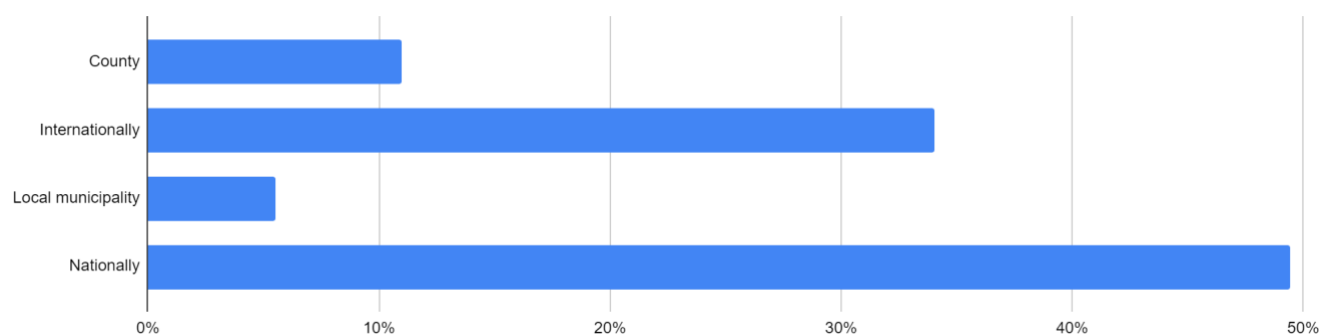
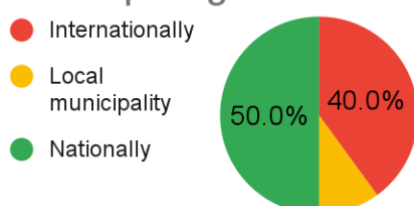
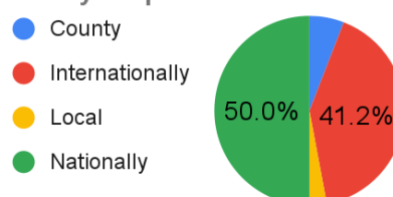


Figure 12: the geographic levels upon which the participating organisations operate (overall shown above, and for each development stage shown below).

### Start-up stage



### Early implementation



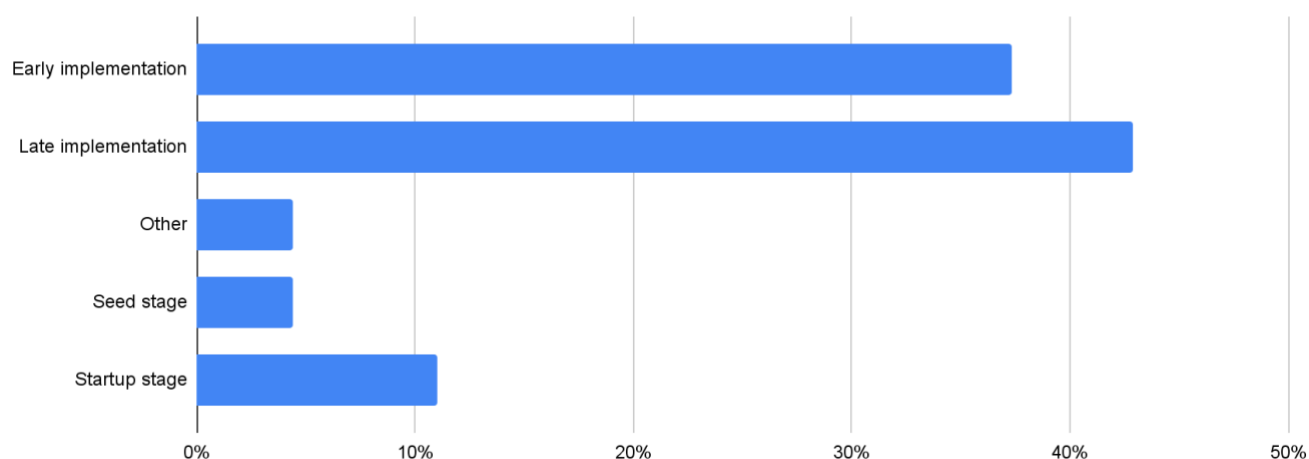


Figure 13: the development stages which best describe the statuses of participating organisations.

Regarding the development stages of the participating organisations, the option of ‘Other’ was described as ‘looking for a new direction for their organisation’. From all the ninety-one respondents, 11% of the participating organisations were in the ‘Start-up stage’ and 37.4% of the organisations in the ‘Early implementation and growth stage’.

*‘We are in a growing phase. We’re now at the stage at which we know where the need is in society, but we still have to help our product a little. We have a plan for the next year which should raise even more funding for this. [...] We are really at that stage today of testing and trying out things. [...] In five years, we could expand into about three to five more countries,’* (Interview 7).

*‘Our growth does not depend on any particular external factors as much as it depends on our own capacity. If we do things very well, then the enterprise is doing very well. We are in a growth phase. But to redefine this, I would say that we are in a scaling phase, because this is where the enterprise can use some kind of investment to grow much faster,’* (Interview 5).

Once the data about the background of the impact organisations, such as the legal forms, geographic operational stage, year of establishment, field in which they operate, and development stage was gathered, the survey further explored the financial mechanism used by these ventures. The aim of the survey questions regarding the finances was to understand which revenue streams are most common in different organisational life cycles, and what are the specific needs and constraints in order to raise ideal and more sustainable funding opportunities or generate income from business activities through sales in for the purpose of expansion and increase of positive impact.



#### 4.1.2. Current and ideal revenue streams

This chapter outlines the current and ideal revenue goals of the participating organisations. Additionally, it explores the topics of funding applications and investment readiness, and those barriers which are being faced by social enterprises in terms of their financial sustainability.

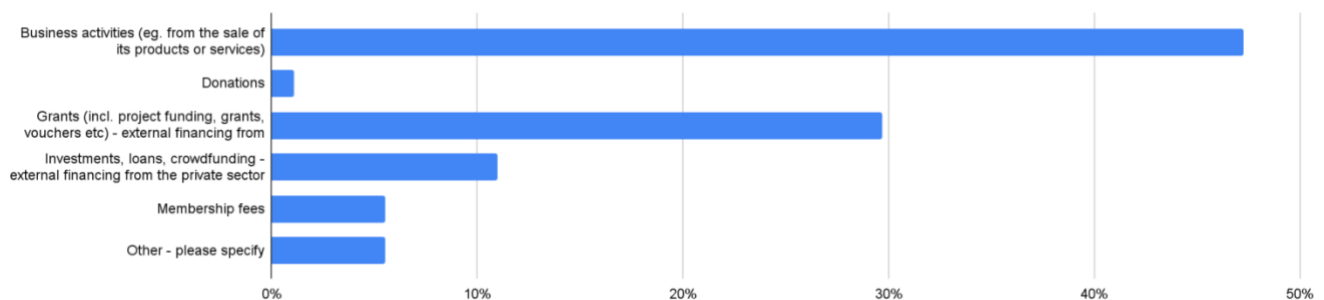
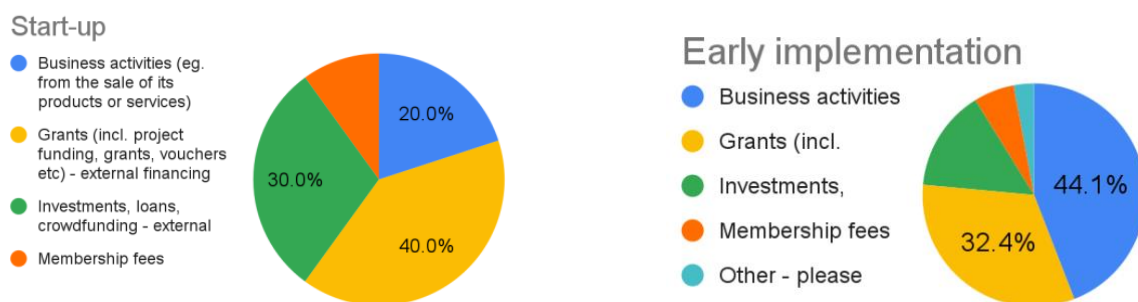


Figure 14: the main revenue sources of participating organisations based on the past twenty-four months (overall shown above, and for each development stage shown below).



Regarding the main revenue sources of social enterprises, the participants had to select the main revenue source as ‘Selection 1’ and the least important or not at all relevant as ‘Selection 6’. Above is demonstrated the overall data considering the first choice of the participants.

*‘First we went through the Starter program and there we were asked whether we were a research institution or something else. I didn't understand why it had to be put into such scales, but I think that in social entrepreneurship you are in between multiple worlds. Then we went to another hackathon where we developed the idea a bit further. Later, we went through some social entrepreneurship courses to learn about the business plan and to the NULA incubator, which was very useful. From the NULA incubator we were able to apply for funding through the NFCS where it is possible to apply for twenty-five thousand in the case of an NPA. In that case, NPA fits us really well,’ (Interview 1).*

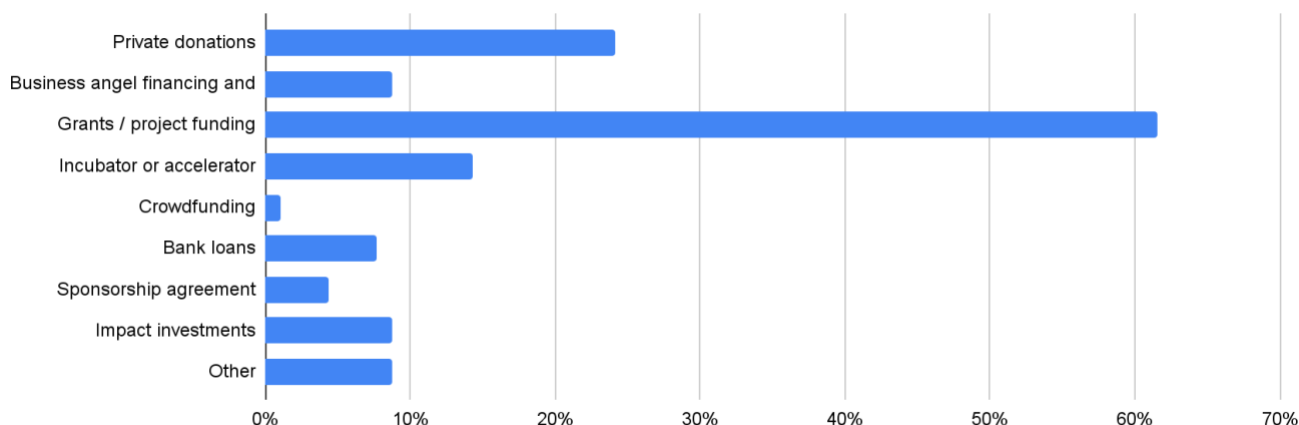
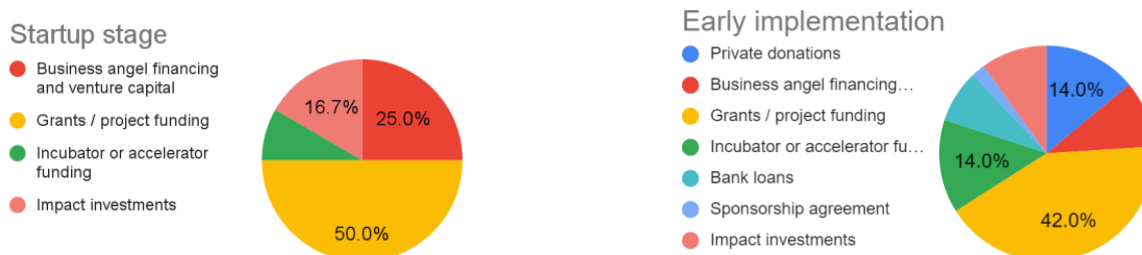


Figure 15: the main sources from which the participating organisations have applied for their funding or from which they have raised their funding over the past twenty-four months (overall shown above, and for each development stage shown below).



When it came to the main sources from which the participating organisations have applied for their funding or from which they have raised their funding over the past twenty-four months, several answers were available for selection, and a total of 127 responses were recorded from 91 participants. ‘Impact investments’ were described as follows: ‘In addition to the financial benefits, the social or environmental impact is important for the investor’, and ‘Other’ was selected by organisations who added additional comments stating they applied for European Union funding, private loans etc. Both ‘Start-up stage’ and ‘Early implementation and growth stage’ social enterprises have applied, in the last twenty-four months, for funding from ‘Grants and project funding’ sources. However, as gathered from the interviews with social enterprises in these development stages, it can be concluded that the majority is looking for more sustainable and favorable funding possibilities as they are moving towards having their main revenue source ‘Business activities’ and ‘Impact investments’.

*‘I think it should be a common practice for municipalities to support those local organisations whose activities benefit society. There could be local foundations that could offer either a simplified version of co-financing or guarantees to organisations that provide public services. It is much more complicated to go through this process with traditional banks. It seems to me that acquaintances still*

*play a role, like during the Soviet era when one had to get the foot in the door to get signatures from the right person in order to apply for co-financing. [...] Currently, there are no specific loans available to social enterprises in Estonia. The municipalities could support them by refurbishing unused buildings and renting them out on preferential terms with a long-term lease for several social enterprises at once' (Interview 4).*

*'It depends on where the funding comes from. For example, let's say the first years for us were quite difficult in this respect. You're reading the tenders that come and realise that you don't qualify because the area falls between the Ministry of Social Affairs and the Ministry of Education. Everybody is saying that it's an important area, but in reality, there's zero money on that line. However, I think changes are coming from the Ministry of Education and Research, but I think it will take some time. In addition, we are not actively looking for more money, just keeping an eye on the possibilities as we are focusing on developing our product or service to be more substantive. When we reach that goal, we will enter the next development stage and raise additional funding. [...] The thing is that you don't get a hundred and fifty thousand for an NPA just like that. You have to be able to translate it into little chunks so that you can ask for a bit here and a bit there. It really means that you have to have a very good sense of the system to understand how these chunks are going to come together at some point.'* (Interview 1).

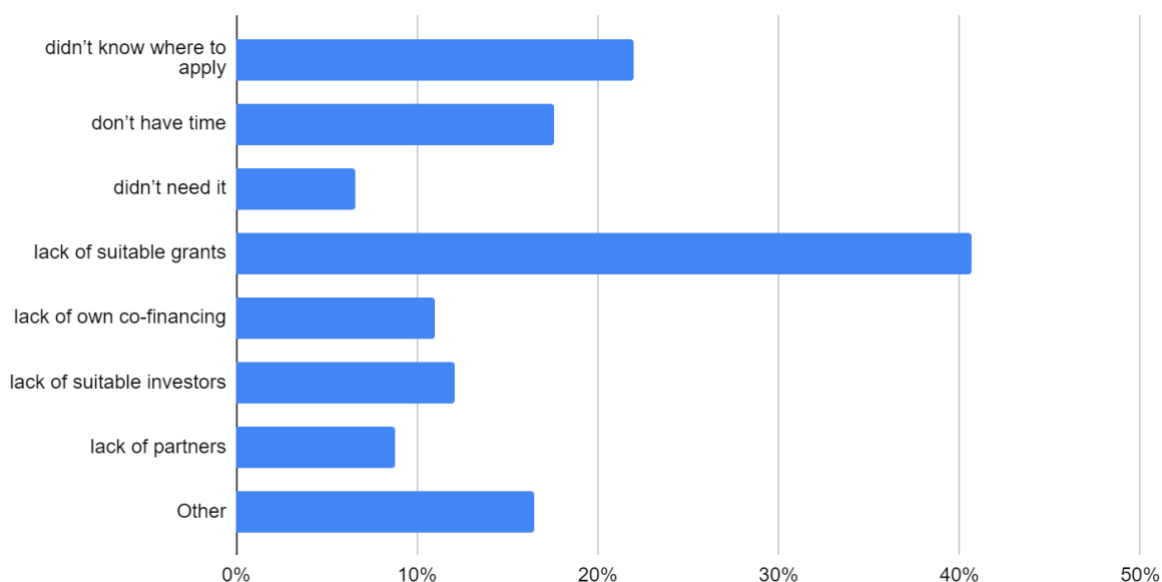
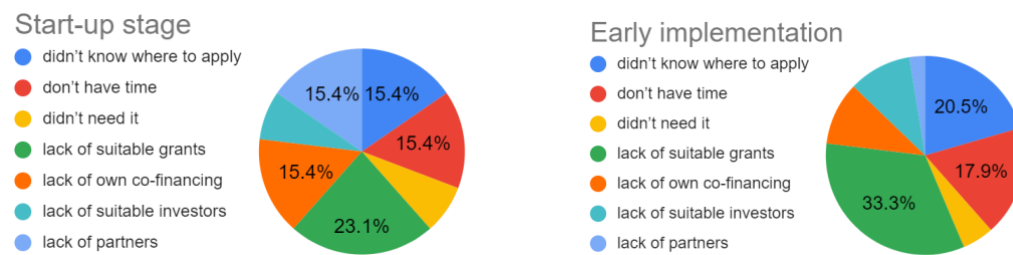


Figure 16: reasons for the participating organisations not applying for or receiving external financing from the public or private sector in the past twenty-four months (overall shown above, and for each development stage shown below).



In terms of reasons for the participating organisations not applying for or receiving external financing from the public or private sector in the past twenty-four months, several answers were available to be selected, and a total of 124 responses were recorded from 91 participants. Some of those concerns which were also raised in relation to the topic included the following: ‘There was uncertainty during the Covid-19 pandemic’, and ‘The amount of bureaucracy throughout the application process in comparison to the value of the grant which is being applied for is often disproportionate’. The social enterprises in their ‘Start-up’ and ‘Early implementation and growth stage’ commonly expressed the main reason for not applying for or receiving external funding from the public sector being ‘Lack of suitable grants’.

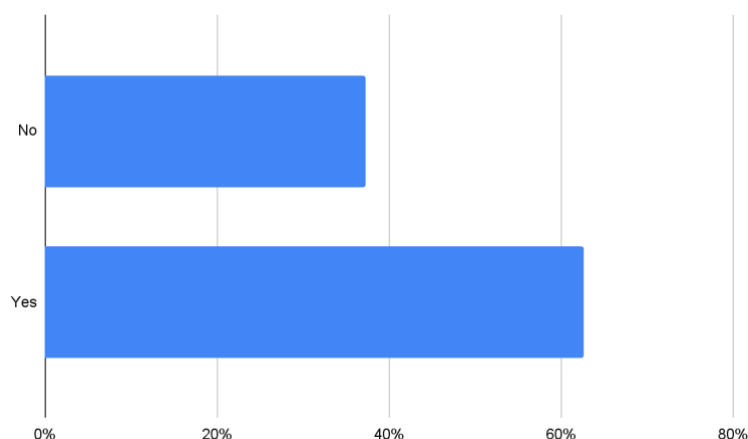


Figure 17: the percentage of participating organisations for which at least 25% of the organisation's revenues are generated by sales ('Yes'), and the percentage which do not achieve this ('No').

From social enterprises in ‘Start-up stage’ that participated in the survey, 50% answered that they already achieve to generate their revenue from selling their products or services. Moreover, 67.6% of ‘Early implementation and growth stage’ organisations stated that their revenue is generated today from sales of their goods or services. The ‘Early implementation and growth stage’ result in terms of generating at least 25% of their revenue from ‘Business activities’ is higher than the average of all development stage social enterprises combined, which was 61.5%.

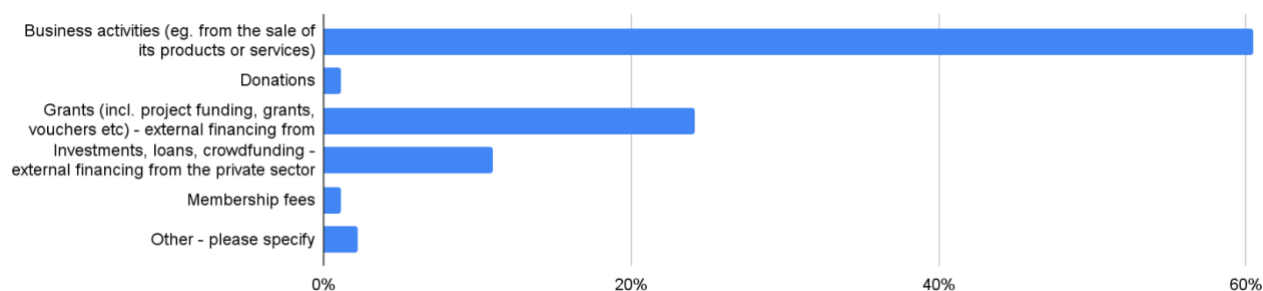
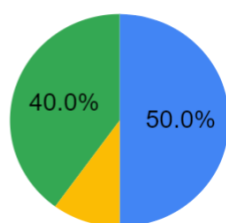


Figure 18: the ideal goals for the participating organisations regarding revenue for the next twenty-four months (overall shown above and each development stage shown below).

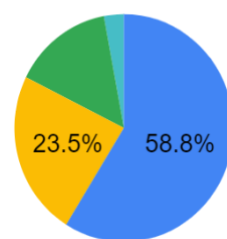
### Start-up

- Business activities (eg. fr...
- Grants (incl. project funding,...
- Investments, loans, crowdfun...



### Early implementation

- Business activities (eg. fr...
- Grants (incl. project funding,...
- Investments, lo...
- Other - please...



In addition to the previous comment of current revenue generation, the general trend is that ‘Start-up stage’ and ‘Early implementation and growth stage’ social enterprises that participated in the survey wish to generate their revenue in the near future primarily from ‘Business activates’ and ‘Investments’.

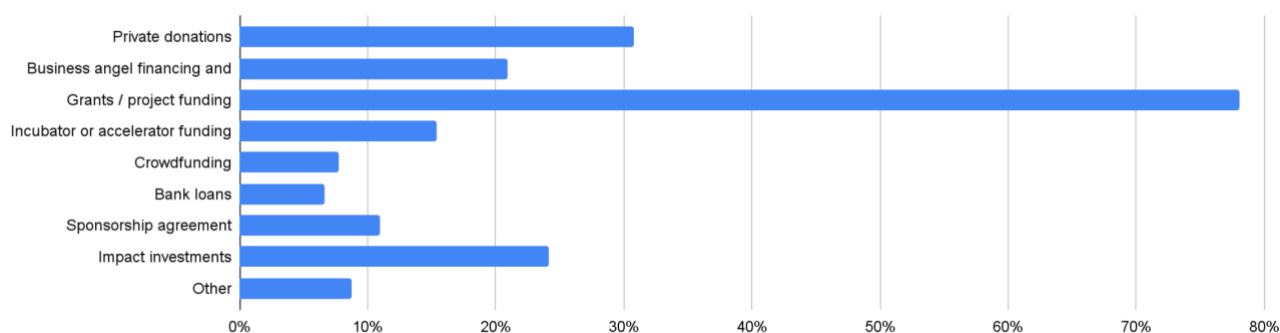
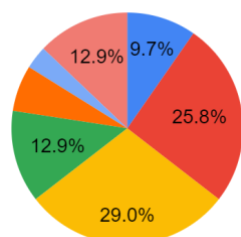


Figure 19: sources from which the participating organisations are planning to apply for their funding or from which they are raising their funding across the next twenty-four months (overall shown above, and for each development stage shown below).

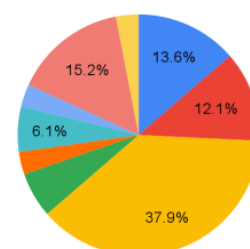
### Start-up stage

- Private donations
- Business angel financing and venture capital
- Grants / project funding
- Incubator or accelerator fun...
- Crowdfunding
- Sponsorship agreement
- Impact investments



### Early implementation

- Private donations
- Business angel financing and venture
- Grants / project funding
- Incubator or accelerator funding
- Crowdfunding
- Bank loans
- Sponsorship agreement
- Impact investments
- Other



In terms of sources from which the participating organisations are planning to apply for their funding or from which they are raising their funding across the next twenty-four months, several answers were available to be selected, and a total of 185 responses were recorded from 91 participants.

*'We have received funding from the EU. There could be similar funds in Estonia which are particularly meant for social enterprises,' (Interview 7).*

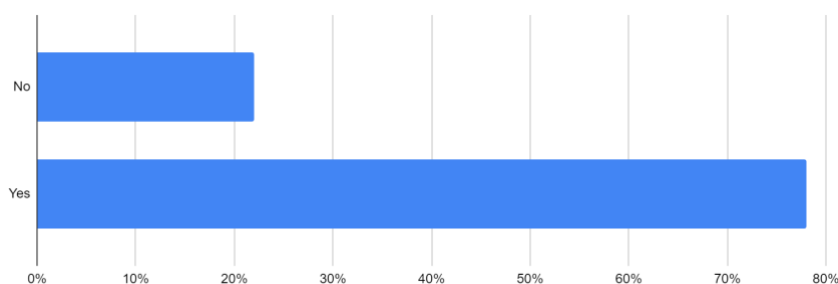


Figure 20: the percentage of participating organisations which expect ('Yes') or do not expect ('No') to earn at least 25% of their revenues from sales across the next twenty-four months.

The general trend, in terms of expecting to generate at least 25% of their revenue from 'Business activates' in the next twenty-four months, is that social enterprises in Estonia, especially in their 'Start-up stage' and 'Early implementation and growth stage', are moving towards more independent and sustainable financial solutions in order to grow, expand, and therefore increase their impact.

*'It seems to me that in Estonia, everyone looks at what your turnover is. It's like saying that you understand that Estonian schools are poor and it's not ethical to ask children with mental health problems for payment for the service, but nevertheless, we still have a culture of financial success and money-centeredness. It's as if it would be somehow more honorable to be socially considerate if you have a high turnover. If you don't have a high turnover from what you are doing, you're considered a bit mad. [...] We are developing a premium model, that would be for the parents. But here's the issue, if you know that a lot of the problems are in families that have a poor socio-economic background, you know that there might be a lack of finances and also a lack of willingness to pay for such services in some cases. Therefore, a whole new area of ethical issues arises when creating that product or service,' (Interview 7).*

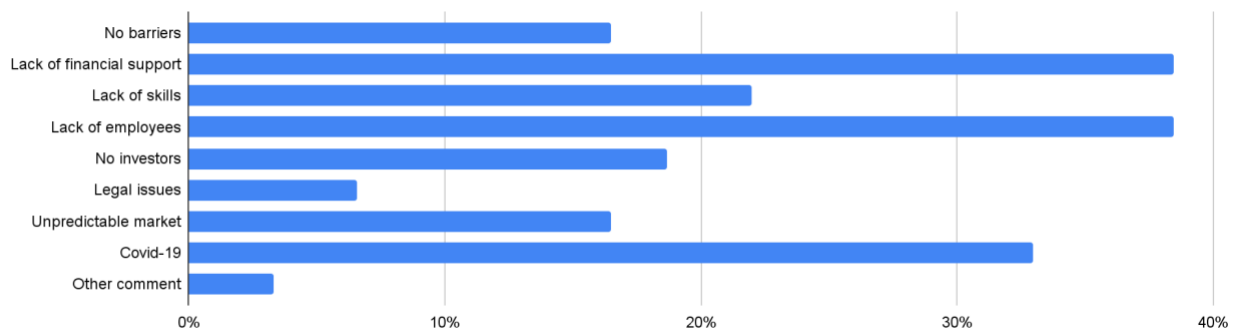
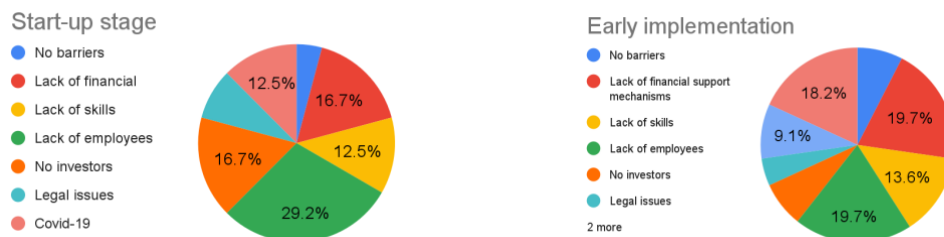


Figure 21: barriers for participating organisations in terms of being able to reach their ideal revenue goals over the next twenty-four months (overall shown above, and for each development stage shown below).



Regarding barriers for participating organisations in terms of being able to reach their ideal revenue goals over the next twenty-four months, several answers were available to be selected, and a total of 176 responses were recorded from 91 participants. The barrier selected by most social enterprises, in terms of reaching their ideal revenue goals over the next two years, in both ‘Start-up stage’ and ‘Early implementation and growth stage’ was ‘Lack of employees’. Second most commonly selected barrier by social enterprises in these two development stages was ‘Lack of financial mechanisms’. Additionally, for ‘Start-up stage’ social enterprises a lack of investors is also an equally notable barrier.

Moreover, comments were added by the participating organisations in order to specify what they meant by particular barriers:

A total of 38.5% stated that there was a ‘Lack of financial support mechanisms’, sharing concerns such as: 1) a lack of governmental interest and therefore support funds for those issues which the organisations are tackling; 2) governmental support programs are lacking the right volume of financial tools to be able to support these organisations; 3) there exists a lack of support for training programmes; 4) the expansion and rebuilding of organisations is a barrier for growth; 5) the process of applying for grants or financial aid is time-consuming, and often expensive due to the fact that assistance is required in order to be able to work through the application process, something which is unnecessarily complicated to many organisations; 6) there is little of access to large-scale grants, impact investments, and EU and

governmental funds; 7) there is a lack of support for organisations which earn little profit or which are in the early implementation and growth stage, plus there is a lack of flexibility in terms of the available mechanisms that could support specific needs; and 8) the uncertain political situation hampers organisations, especially when there is no clear vision regarding which future directions local government authorities may take.

A total of 38.5% stated there exists a 'Lack of employees', sharing concerns such as: 1) the difficulty of finding specialists in Estonia and, especially, when the organisation is not able to pay a competitive salary; 2) there is a lack of financial tools to aid in making progress; 3) staff training is required; 4) the lack of potential employees who are interested in the non-profit sector in general and who are sufficiently motivated or willing to take the lead on projects; 5) the lack of opportunities to employ staff or talents or specialists from outside the EU; and 6) there are not enough full-time employees available, especially those who could solely focus on tasks related to finances, public relations, and business growth.

A total of 33% found the Covid-19 pandemic to be a considerable barrier due to the prevailing government restrictions on organisations in terms of business activities, training, sourcing the necessary goods, the lack of financial support from the government, and uncertainty regarding the future.

A total of 22% stated that there was a 'Lack of skills (financial, marketing, etc)' within the organisation, such as those required for writing project funding applications or creating marketing strategies both for the local and international market, and a lack of skills of the team members when it came to finances in general.

A total of 18.7% stated that their organisation has 'No investors', sharing the fact that they do not know how to find investors, and especially investors who would be interested in: 1) those issues which these organisations are tackling; 2) social enterprises in general; or 3) organisations which are growing slowly or are still in the 'Seed stage', 'Start-up stage', or 'Early implementation and growth stage'. Several organisations also shared what they believed were the reasons for not being able to meet the requirements of investors, such as fulfilling goals on time or having the organisations' monitoring validated.

A total of 16.5% of participating organisations found the main barrier to be an 'Unpredictable market' due to Covid-19, the effects of the global market, uncertainty regarding whether the consumer was willing to pay higher prices, or costs at all for services which used to be free to them, along with the unpredictable patterns of the consumers in general.



A total of 6.6% of the participating organisations stated that they have ‘legal issues’ which act as barriers when it comes to being able to meet their financial goals, such as: 1) for NPAs it is difficult to compete with organisations which have a private limited company status; 2) there is fear of taking action which may be against the rules when it comes to data protection or the required permits for certain activities; 3) political barriers or outdated laws; and 4) the lack of funding to make any evaluation of prototype possible. Other barriers which were highlighted were: 1) the organisations’ main goal is not actually making a profit from selling goods or services; 2) the lack of finances to make expansion possible; and 3) the lack of income from agreed membership fees.

A total of 16.5% of the organisations did not identify any barriers to reaching their ideal revenue goals over the next twenty-four months as they: 1) already have grants or funding confirmed; 2) they are expanding abroad; 3) their product has a higher level of demand; and 4) several new support programs are to be opened in 2022 which suit their financial needs.

*‘Of course, I agree that obviously there are always obstacles, because we don't have investment funds in Estonia. So, if we had them, that would mean more accessibility to investments, which would mean more start-ups getting funding. 2020 was probably one of the years, where the start-ups received only 1% of any funding. In the past it's been continuously between 1-3%. Estonia has been kind of lagging behind in that respect, because there are countries where social impact bonds and impact investing in different variations is already well developed,’ (Interview 5).*

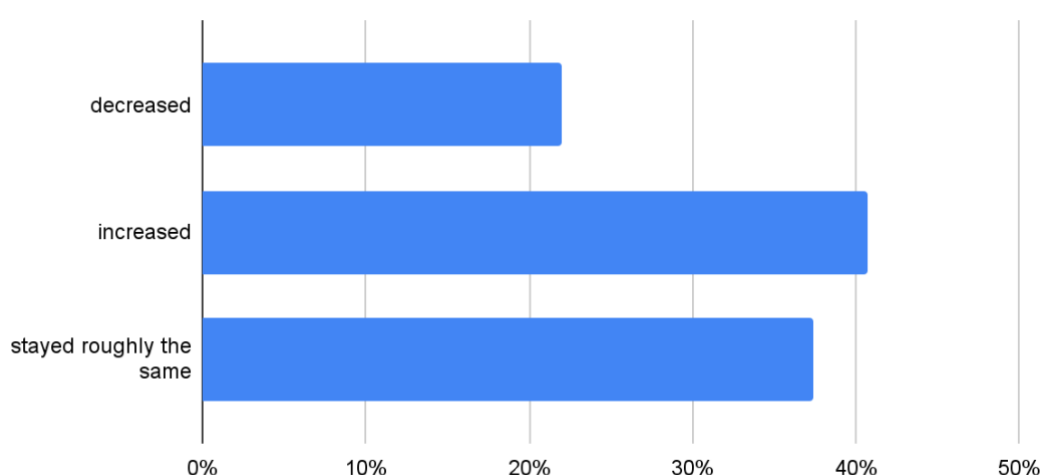
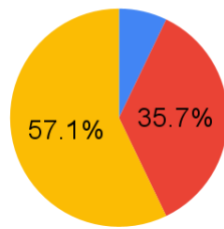


Figure 22: the percentage of participating organisations whose revenues in the past twenty-four months either increased, decreased, or remained roughly the same (overall shown above, and for each development stage shown below).

### Start-up stage

- decreased
- increased
- stayed roughly the same



### Early implementation

- decreased
- increased
- stayed roughly the same

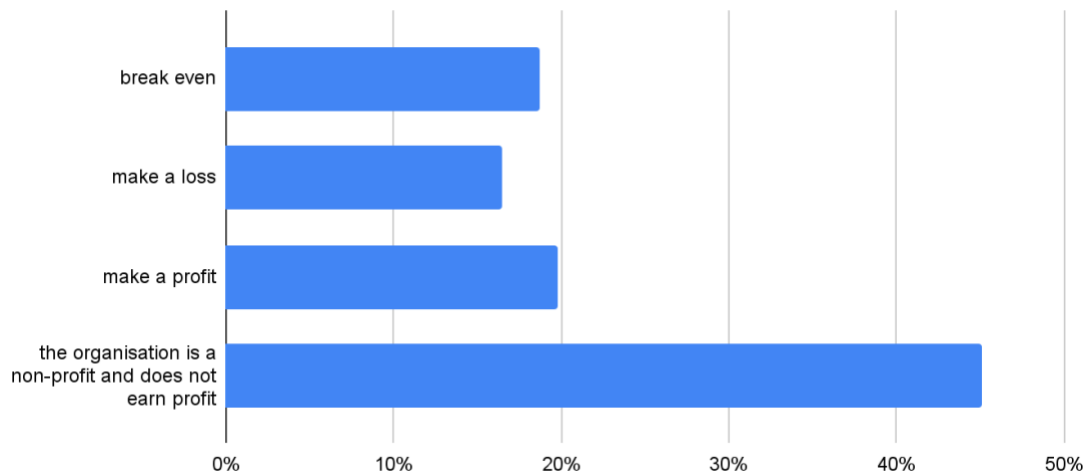
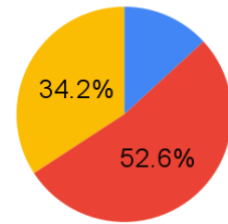
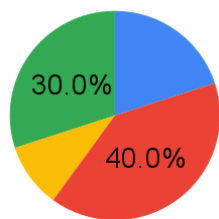


Figure 23: the percentage of participating organisations which, over the past twenty-four months, either broke even, made a loss, made a profit, or are NPAs (overall above, and for each development stage shown below).

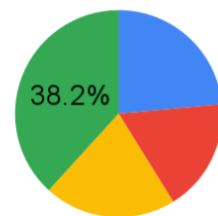
### Start-up stage

- break even
- make a loss
- make a profit
- the organisation



### Early implementation

- break even
- make a loss
- make a profit
- the organisation



As Covid-19 pandemic was one of the barriers that both ‘Start-up stage’ and ‘Early implementation and growth stage’ social enterprises stated, it is also one of the observable possibilities for organisations in these same development stages having made a loss in the last twenty-four months. Particularly affected were the ‘Start-up stage’ social enterprises. The same conclusion was later drawn by the author when analyzing the interviews with the social enterprises after the survey. As the national and international restrictions of Covid-19 pandemic, considering the possibility to carry out business activities, are gradually relieving, the social enterprises in the two development stages are looking to make a profit in the upcoming two years. This can be validated from the figures presented below.

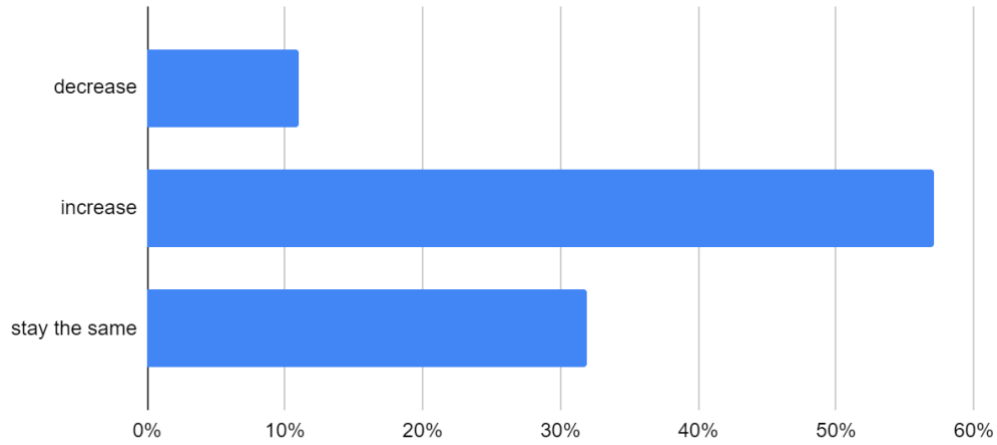
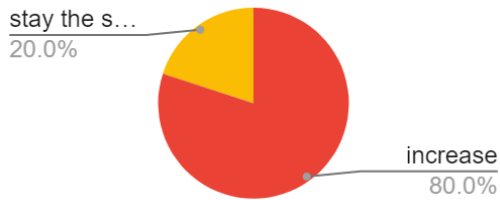


Figure 24: the percentage of participating organisations which expect, within the next twenty-four months, that their revenues will either increase, decrease, or remain the same (overall shown above, and for each development stage shown below).

### Startup stage



### Early implementation

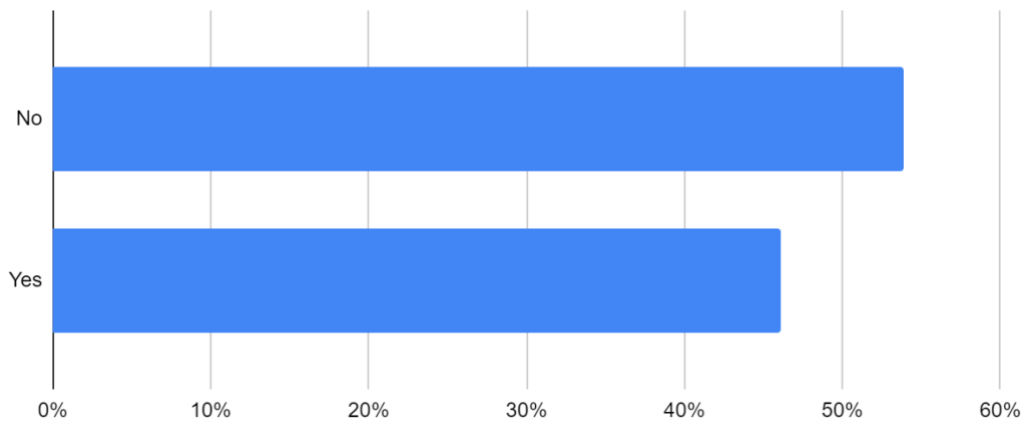
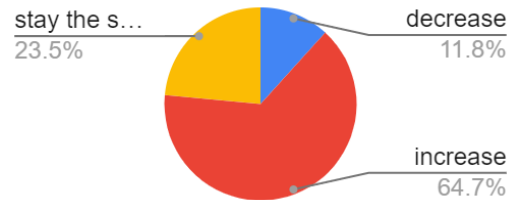
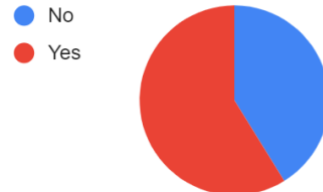


Figure 25: the percentage of participating organisations which are planning to raise their levels of investment in the next twenty-four months ('Yes'), and those which are not ('No').

### Startup stage



### Early implementation



During the interviews, the participants were asked to clarify why they had selected the option in the survey, which stated that they were not going to seek out investment funding over the next twenty-four months. Several answers showcased a general difference in understanding around the term, especially for those social enterprises which are primarily registered as NPAs.

*‘In Estonia, and in the case of private investors, the issue is that we don't have a network through which we could proceed in order to present our ideas or from which we could actually get any feedback via our investors regarding what we are lacking and how we could improve,’ (Interview 7).*

*‘The investment world is also partly moving towards more turnover-based investments. There are different variations of impact investing. As long as there are no such investments in Estonia, then obviously some companies or new models are left out. Especially in social entrepreneurship, where the business models are a bit more multi-layered and it's a bit of an unknown territory, ventures get ruled out and just don't get anything from anywhere. Turnover-based investments could be the solution, because it would allow enterprises that think about business differently, to have investments in smaller amounts,’ (Interview 5).*

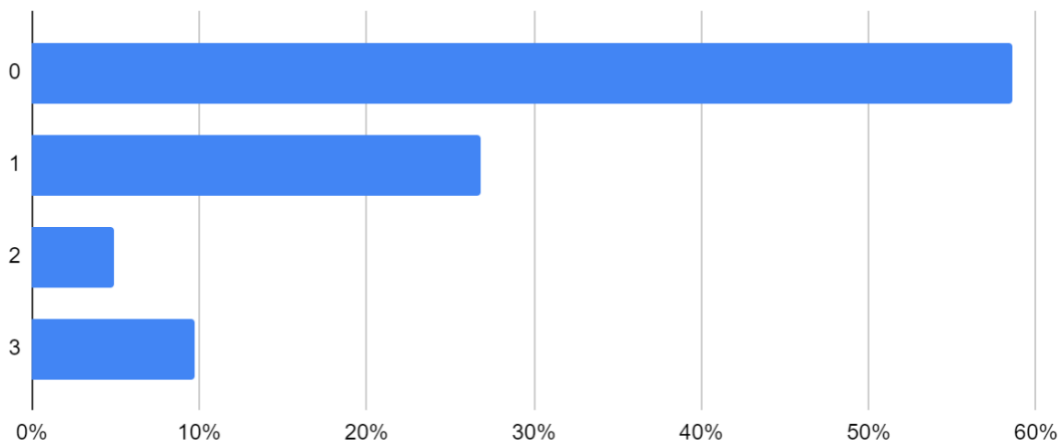
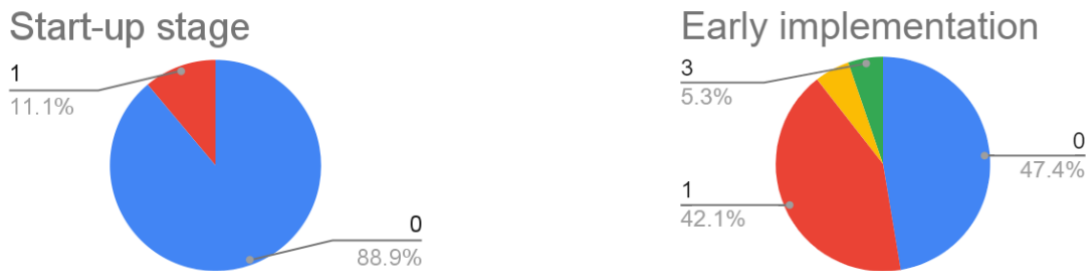


Figure 26: the percentage of participating organisations which plan to raise their levels of investment this year or in the next three years (overall shown above, and for each development stage shown below).



From the participating organisations, the highest percentage of those social enterprises, that plan to raise investments in the next year or in the next three years, were in the ‘Start-up stage’ of the development.

*‘We are ready to raise investments. Generating our own revenue is the way to cover our daily costs and not necessarily how we scale-up. That requires external investment. It could be in the form of national and international grants or corporate sponsorships, but also in the form of direct investments that would require a smaller financial return. We are open to all of these channels, but we are not allowed to raise investments as an NPA and at this point we wouldn’t re-register for raising investments. Our objective is that the services we offer would cover our operating expenses, salaries and costs for maintaining the premises. But the new acquisitions for scaling-up from one site to multiple sites or abroad would require involving investors. There are such instruments already in place in Estonia, but receiving them depends drastically on the field you are operating in. Several other organisations have been able to define and introduce themselves more clearly and it has given them that advantage,’* (Interview 8).

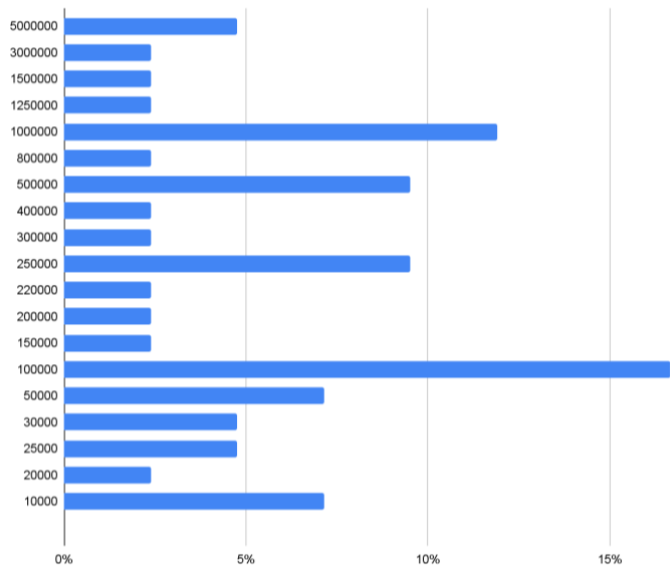
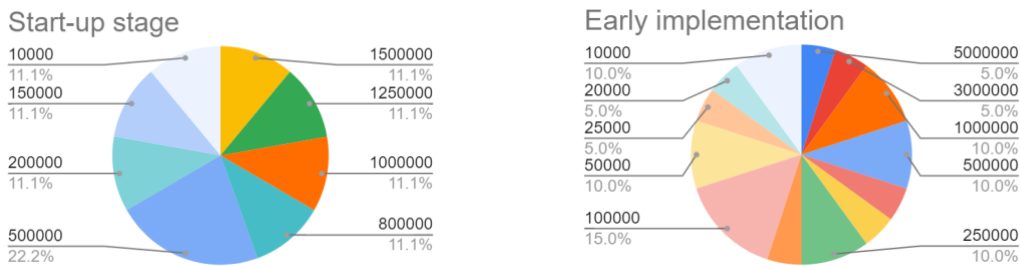


Figure 27: the investment figure which participating organisations are ready to target over the next three years (overall shown above, and for each development stage shown below).



Organisations that stated that they plan to raise investments were much more likely at the ‘Early implementation and growth stage’ and at the ‘Start-up stage’ than in any other development stage. In order for these social enterprises to raise investments, the term ‘social impact investment’ needs to be more widely introduced to both impact organisations and investors looking to fund businesses that not only offer financial return, but also return on impact. Organisations that participated in the survey and are in the ‘Early implementation and growth stage’ and ‘Start-up stage’ are ready to raise investments in the amount of more than 19 million Euros. The next chapter of the survey was set out to explore the positive impact these organisations create, how they measure it, and who are the specific target groups and beneficiaries of these social enterprises.

### 4.1.3. Impact and its measurement

This chapter represents findings from the survey regarding the decision-making processes, the inclusion of beneficiaries, target groups to which the profit is distributed, and views regarding the social impact of the participating organisations.

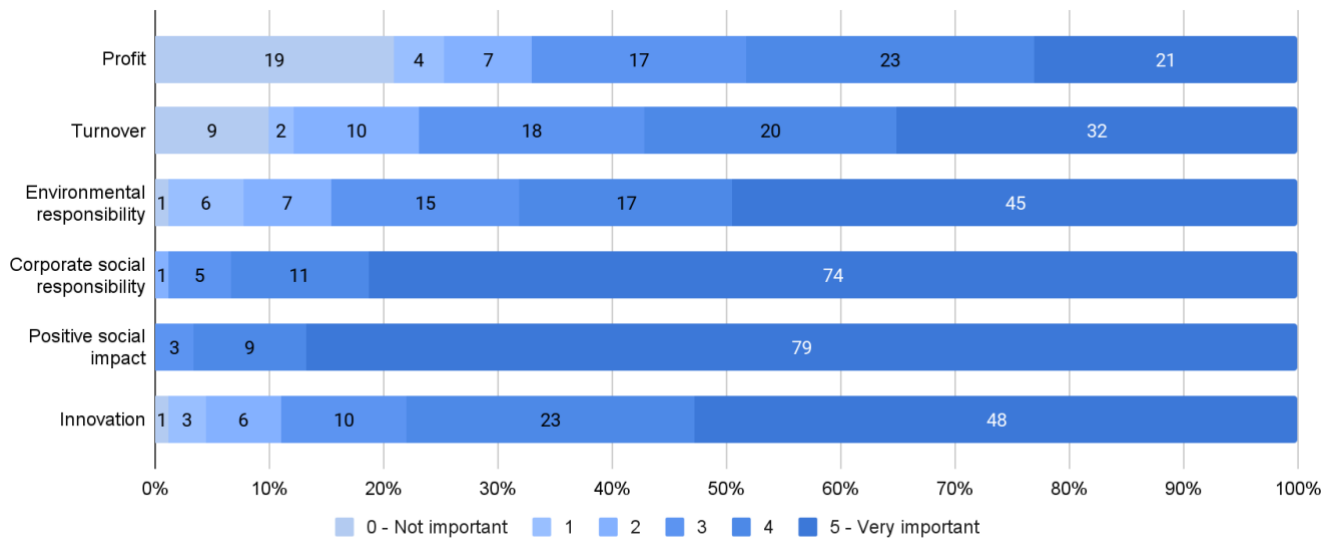
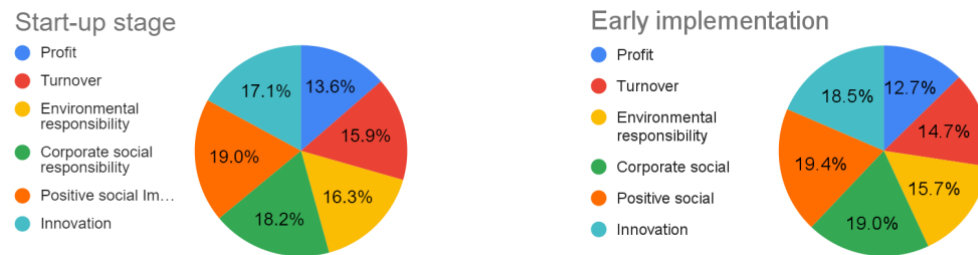


Figure 28: the importance of various aspects in terms of the decision-making process for participating organisations overall shown above. Aspects rated 5 (‘Very important’) for each development stage shown below.



*'In my opinion, investors and foundations are supporting organisations that plan to exponentially grow in a short period of time or have done so already. For example, we wanted to go to Germany with the organisation for a fair and we didn't receive any support to attend it or have interpreters accompany us. At the same time, companies with a turnover of at least a hundred thousand euros a year did. As there is no support, we have to think how to bring together our mission of circular economy and financial sustainability through social entrepreneurship,' (Interview 4).*

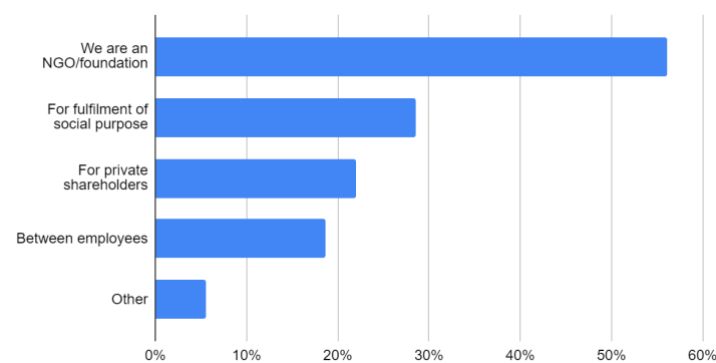
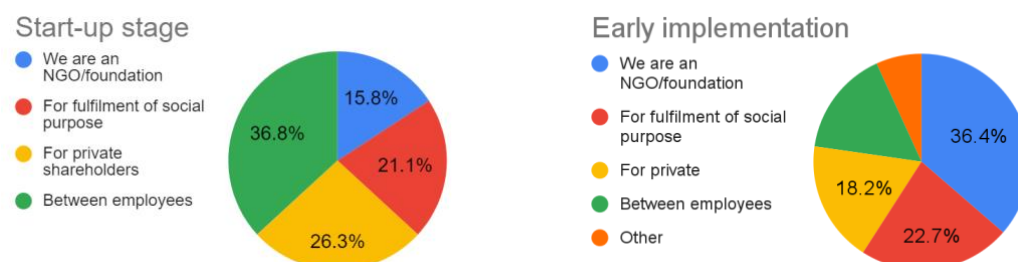


Figure 29: target groups of the participating organisations to whom they will distribute their profits (overall shown above, and for each development stage shown below).



In terms of the target groups of the participating organisations to whom they will distribute their profits, several answers were available for selection, out of which a total of 119 responses were recorded from 91 participants. Of that total, 5.5% of participants indicated that they either do not distribute their profits, or that they reinvested them back into the organisation in order to expand the business, or that they have

not set a particular percentage figure for any profits because the amount to be reinvested into the business or to be distributed between target groups is fluid and depends upon the current needs of the organisation.

*‘First, a social impact enterprise is a business without any sales targets. Secondly, if we look at where we are heading - the social impact that could come out of our activities will appear in the long term. But at the same time, if we can identify issues of children's mental health and work on prevention earlier, then it will actually reduce the costs to society later on, both in terms of health care and also in terms of the ability of these people to be in the labour market in the future. These two aspects would not only decrease the costs to society, but actually increase the income of the state,’ (Interview 1).*

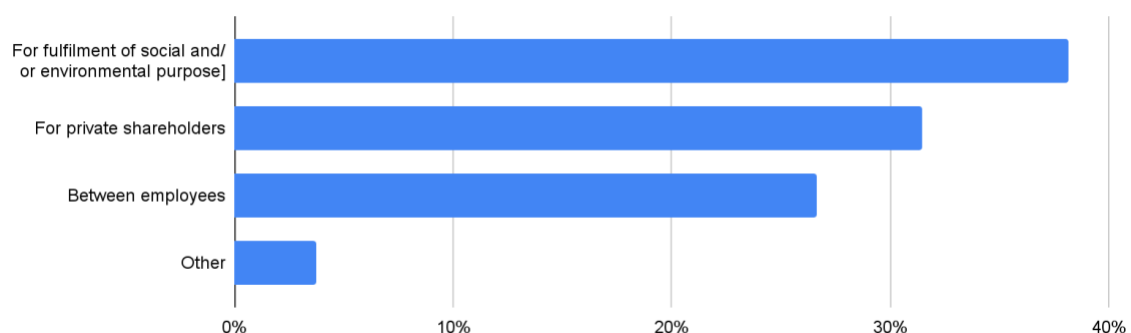
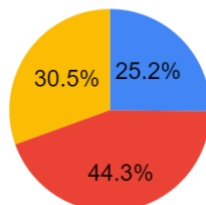


Figure 30: an indication of which percentage of a participating organisation's profits will be distributed (overall shown above, and for each development stage shown below).

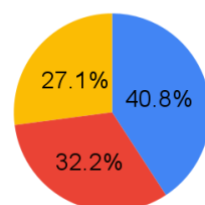
#### Start-up stage

- For fulfilment of social and/or environmental purpose]
- For private shareholders
- Between employees



#### Early implementation

- For fulfilment of social and/or environmental purpose]
- For private shareholders
- Between employees



For ‘Start-up stage’ and ‘Early implementation and growth stage’ social enterprises, the option of distributing future profits, was more likely selected as ‘For private shareholders’ than for any other development stage organisation. The reason for such choice could be explained by a correlation between looking to increase the level of generating revenue through business activities and being more likely ready to raise investments. Those investments are most commonly known to social enterprises in Estonia as investments, where the shares of the enterprise are given as a return for the financial contribution.



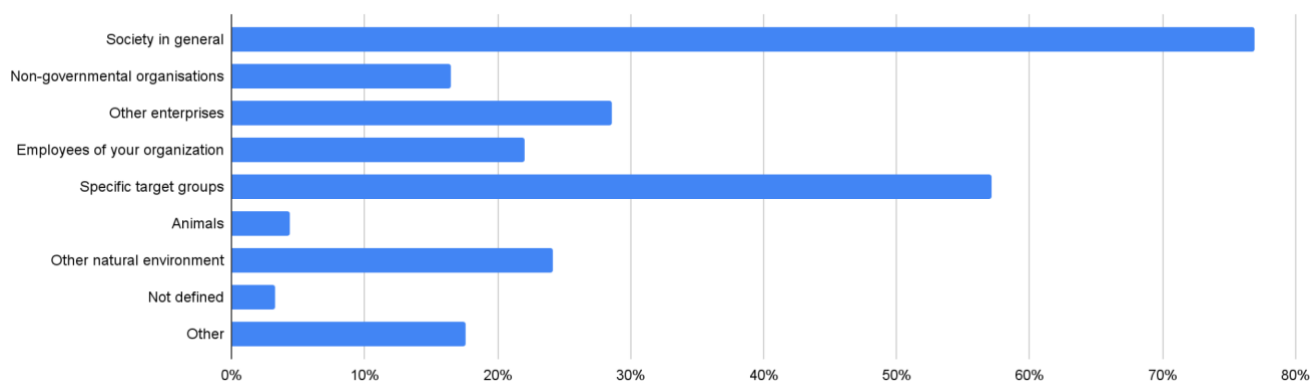
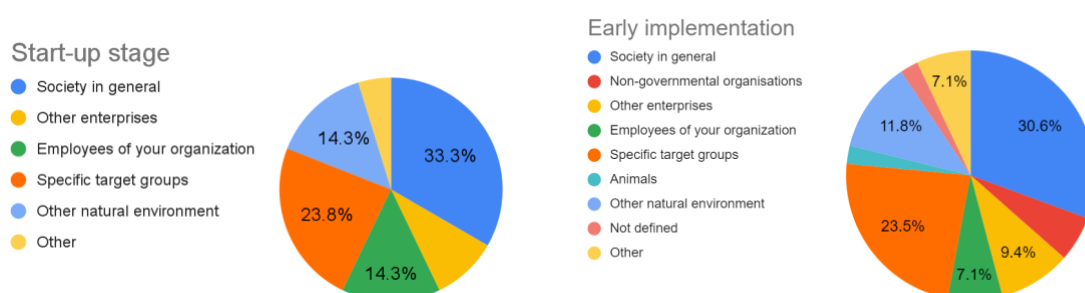


Figure 31: beneficiaries of participating organisations (which will be positively affected by the organisation in question) (overall shown above, and for each development stage shown below).



For both ‘Start-up stage’ and ‘Early implementation and growth stage’ social enterprises, the most common selections for identifying beneficiaries were ‘Society in general’, and ‘Specific target groups’, that based on the interviews, were all relatively dissimilar.

*‘It is vital to understand that every municipality has to take care of individuals with mental disabilities. It was a concept that perhaps was clearer in the past than it is today. This brings me to the point of impact assessment and why it is needed. If there were no services like the one we are offering, it would mean that sooner or later individuals with mental disabilities would require psychiatric treatment. Psychiatric treatment is really expensive for society and there are very long waiting lists. The work integration of individuals with mental disabilities is rather the provision of occupational therapy. Their bodies are healthy and they simply have the wish to feel needed. [...] They have a desire to get a job, but not full-time or on a night shift due to their abilities. A large target group is actually out of the labour market because the traditional business sector is not offering them suitable jobs,’ (Interview 4).*

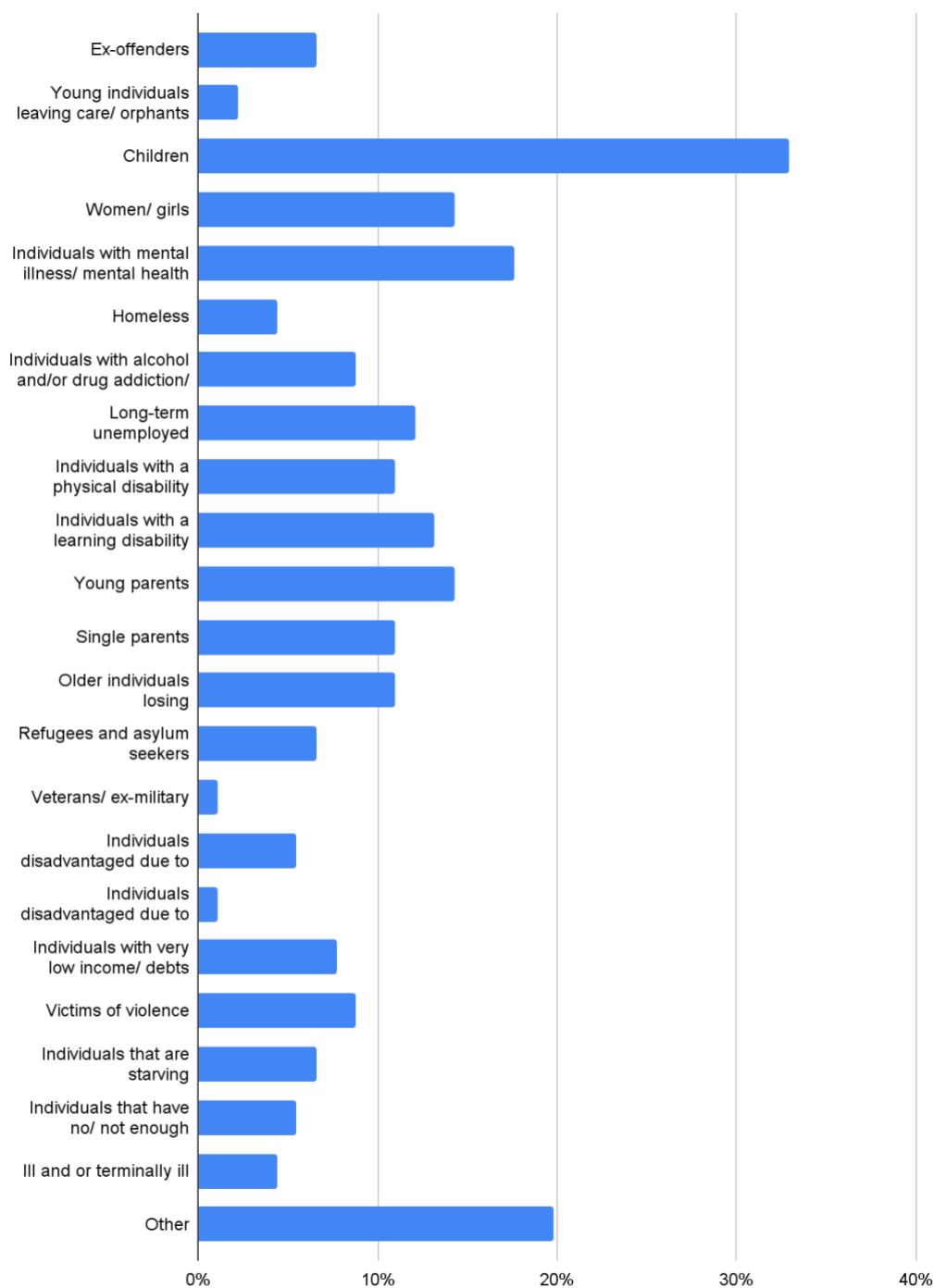


Figure 32: the specific target groups (or individuals) for beneficiaries of participating organisations.

In terms of the specific target groups (or individuals) for beneficiaries of participating organisations, several answers were available to be selected, and a total of 228 answers were recorded from 91 participants. The specification for ‘Other’ in the subgroups, ‘Specific target group (persons)’ and ‘Employees of the organisation’, was stated as follows: 1) people or organisations which require legal

support or any other form of support and which are dealing with mistakes or corruption or other issues which are directly related to the activities of the government; 2) foreigners; 3) farmers; 4) enterprises and entrepreneurs; 5) teachers; 6) men; 7) the visual minds behind creative projects; 8) homeowners; 9) basic school students with learning difficulties; 10) friends or relatives of drug users; 11) the parents of young children (including foreign living in Estonia); 12) residents of local communities; 13) people actively involved in the field of folklore; 14) victims of political persecution; 15) patients suffering from incurable wounds; and, finally, 15) workers who are at risk of burnout and who are being overloaded by general work stress.

*‘It is difficult to understand in our field (health and education) what the things that the public sector wants to do itself are, and what the public sector wants the third or the private sector to do. The fact is that the third sector and private sector do not compete with the public sector - if it decides that it wants to do these things itself. The state, unlike others, has the necessary resources,’ (Interview 1).*

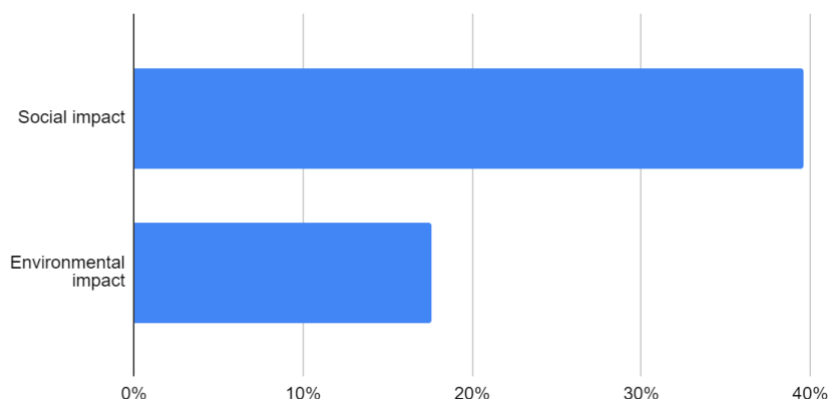


Figure 33: the percentage of participating organisations which regularly measure their social and/or environmental impact.

It is notable, that all the social enterprises, in their ‘Start-up stage’ and ‘Early implementation and growth stage’, that the research study interviewed, were one way or another measuring their impact regularly, using different tools and methods to do so, and analysed the gathered data for strategic planning and other governance activities.

The survey left an open-ended question for the participating organisations to be able to indicate impact measurement methods (such as via a questionnaire or in the social return of investment amounts), with those indications being supplied as follows: 1) surveys; 2) baseline and end line impact research amongst beneficiaries; 3) an internal evaluation of the organisations’ work; 4) focus group interviews or

quantitative observations; 5) using a feedback form or a book in which to record customer satisfaction levels; 6) testing the specific target group or beneficiaries to see if there has been any progress in their situation; 7) statistics; 8) the MEL system ('Monitoring, Evaluating, Learning'); 9) calculations, and collecting data and statistics; 10) a comparison with previous periods of evaluation; 11) interviews and their analysis; 12) using the footprint calculator; and 13) direct in-person feedback during sales of the organisations' service or product.

Additionally, another open question was asked in order to investigate the topic of regularly-used impact indicators (such as satisfaction, numbers of clients, an assessment of beneficiaries, etc.) that those organisations which regularly measure impact actively make use of it. The results were as follows: 1) satisfaction levels of clients, customers or beneficiaries; 2) the number of clients or customers; 3) the number of beneficiaries; 4) objective change (such as an increase in revenue, or improvements in the organisations' ability to cope with its workload); 5) an increase in the levels of satisfaction amongst employees; 6) a decrease in wastage; 7) a decrease in CO2 emissions; 8) the profitability of social investments; 9) the area involved in terms of ecological land use; 10) production volumes; 11) social return; 12) meeting previously set goals; 13) the number of participants at events that have been set up by the organisation, such as seminars or training sessions; 14) a change in the available skills within the organisation; 15) health scores; 16) an increase in exports; 17) an increase within society in terms of awareness regarding the issue at hand; 18) the income from membership fees; 19) the number of volunteers, partners, repeat visitors, clients, customers, or beneficiaries; and 20) general online engagement.

All of those organisations which regularly measure the impact of their organisation (in environmental and/or social terms) stated that an 'Internal evaluator (e.g. a team, an employee, a CEO, etc.)' is responsible for measuring any perceived impact.

*'We can't broadly say what the social impact is today, either in percentages or in terms of outright figures. But we can give a few examples of projects which have been effective and successful. These examples are those on the basis of which we are actually moving forward and trying to adapt for use in other countries and other situations. We use quantitative figures or success stories. There is no other way to measure our impact,' (Interview 7).*

*'To me, our impact is a somewhat unstable condition. I know it is essential today to measure it and we have discussed it at the general meetings, but we are lacking time to do it. It would be perfect if*

every year an external evaluator, like a student, would join the team as an intern and fill the task of impact assessment. For me, it is clear that when our beneficiaries are able to live independently and without a need to have treatment, that is already an impact that our organisation has created,’ (Interview 4).

‘It is easy to measure our impact. But the issue is that it is non-standardized in Estonia. The way we do it might seem arbitrary to others. There is very little comparability on that side. The other challenge is how to visualize it. Enterprises have voluminous Excel sheets with voluminous information - only the team members can understand them. Ultimately, it's just about how to make it easy to show to others or how to make it easier for others to understand [...] In Estonia, generally, impact measurement is done or understood on a very little scale. There are very few enterprises who know how to really define impact,’ (Interview 5).

‘One aspect of all of this is that, while perhaps in other countries it is possible to get some kind of efficiency effect when measuring impact, but Estonia is so small that it simply doesn't happen. You can cry or laugh about it, but at the end of the day we are only one point three million,’ (Interview 1).

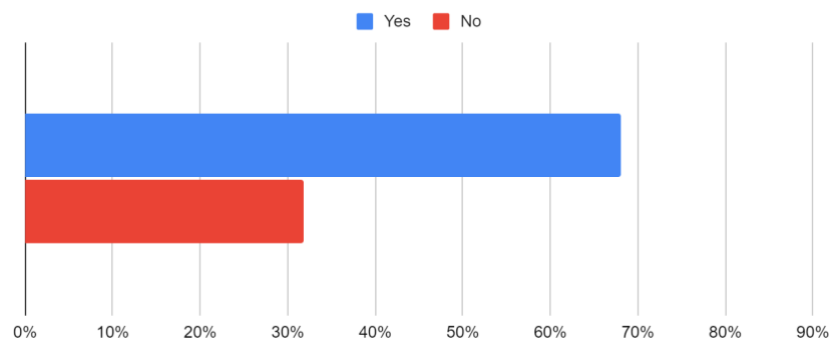


Figure 34: the percentage of the participating organisations which are following the United Nations 'Sustainable Development Goals' in terms of their organisations' activities ('Yes'), and those which are not ('No').

Of those organisations which are following the UN's SDGs, the survey asked for specifications. The responses were as follows: 1) the indicators are in direct accordance with the SDG indicators; 2) SDGs are being added into the organisations' mission or goals; 3) SDGs are involved in the discussion when creating the development plan and/or action plan for the organisation; 4) SDGs are being introduced into workplace habits and to the staff themselves; 5) some organisations help their beneficiaries to reach the SDGs; and 6) in general, being more aware of environmental or social issues in the everyday life of the organisation, taking action which will encourage a positive level of impact.

4.1.4. Team and governance

This chapter outlines the patterns in terms of the number of paid employees and long-term volunteers who are in the participating organisations. Additionally, it explores the inclusiveness and openness of the organisations and their strategic management.

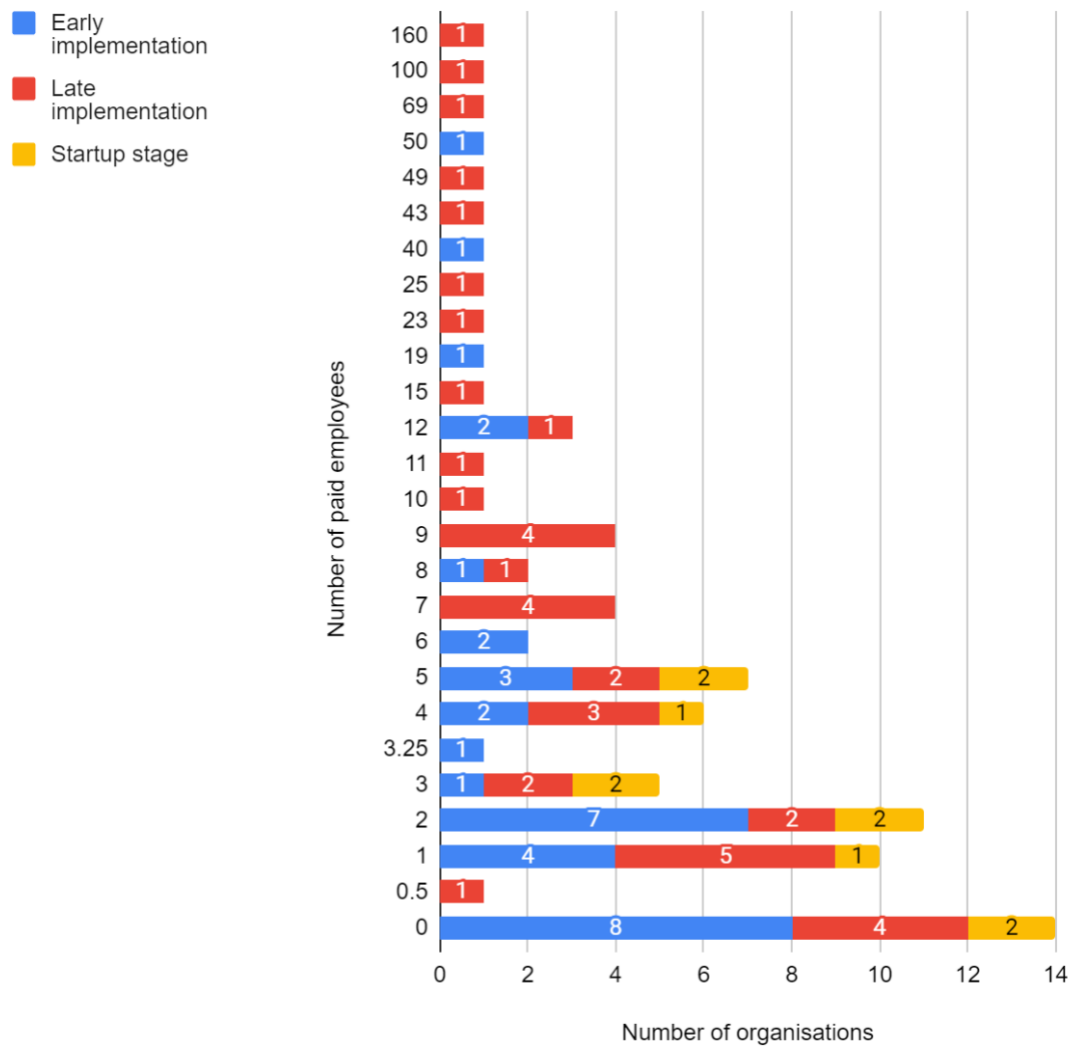


Figure 35: the number of paid employees within the participating organisations.

Additionally, 22% answered that they have less than one paid employee, while 1.1% responded that they had 160 paid employees.

*'We've had quite a high number of volunteers here and we still do. But I think we've got maybe five people in the core team who do this on a daily basis. As everyone is doing it aside from their primary job, it is difficult to find the time to meet up, unless there is an important thing to discuss. This is why I think social enterprises could have some additional support through organized discussion days or something like that. Every once in a while, you go through an incubator somewhere. It helps to just keep some sort of rhythm within yourself. Because if the whole thing depends only on you, then it's about not letting the ball drop. And you need additional discussion partners, because sometimes maybe you don't notice that you're not thinking logically and then somebody else comes along and asks one really good question and you realise that you didn't see any of the stuff through. I have a feeling that maybe every now and again, there could be some kind of development day with other enterprises. It would be in the sense of being in dialogue with other social entrepreneurs and with people outside the field you are operating in,' (Interview 1).*

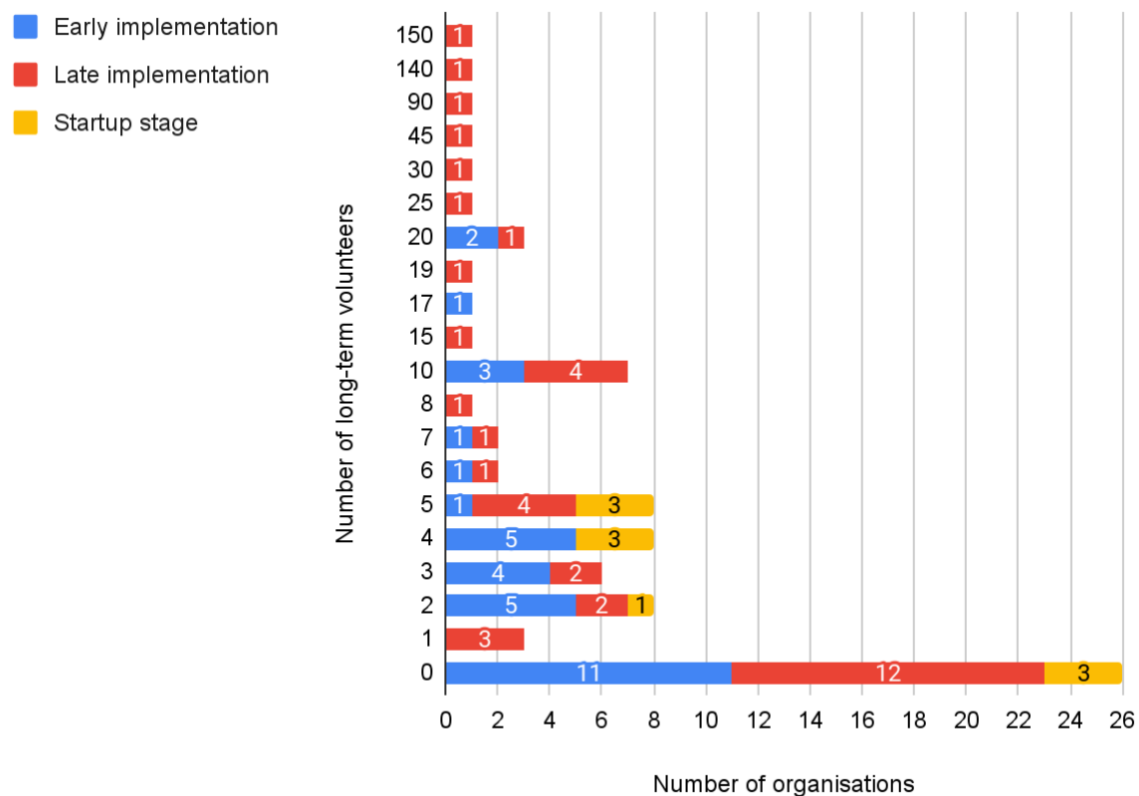


Figure 36: the number of long-term volunteers within participating organisations.

A total of 31.9% responded that they had less than one volunteer, while 1.1% said that they had 150 volunteers.

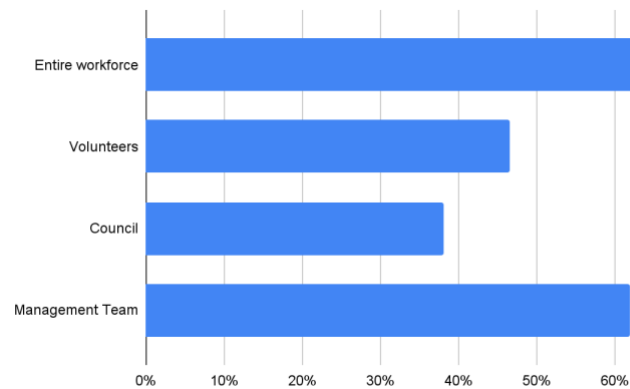


Figure 37: the share of female employees within participating organisations.

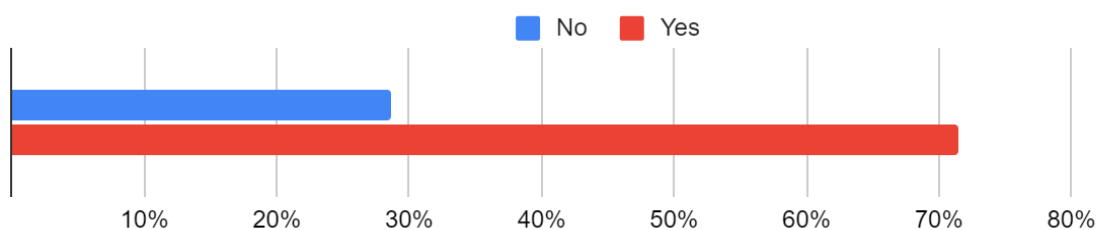


Figure 38: the percentage of participating organisations which have employees who are involved in their organisations' strategic management processes ('Yes'), and the percentage of those which do not have any such employees ('No').

Of those organisations which answered 'Yes', the survey asked them to specify further in terms of how their employees are involved. The most common replies were as follows: 1) important decision-making takes place in team meetings; 2) the compilation and implementation of the strategy and/or development plans takes place through working groups; 3) conducting panel discussions in groups or regular meetings on a daily, weekly, or monthly basis; 4) putting together annual reports as a team; 5) working together to set out common goals and an action plan; 6) carrying out evaluation work as a team; 7) the entire team participates in strategic seminars; 8) open protocols are available to all team members, and there is a general transparency regarding important information such as planning, decision-making, etc; 9) using a democratic system of governance, with everyone's vote within the organisation being equal regardless of their position; 10) workshops; 11) management is open to receiving feedback from team members; 12) inclusive leading practices being in place, and conducting surveys within the organisation; 13) conducting brainstorming sessions for ideas; 14) the entire team uses a Logframe for setting out its action plans; 15) setting out a common vision and mission; 16) forming a sociocracy or a system which involves dynamic governance when it comes to the decision-making process; 17) designing new products or services together as a team; 18) planning new marketing or partnership strategies as a team; 19) dealing with problem-solving and barriers as a team; 20) involving those team members who are currently relevant in the area where decisions have to be made; and 21) the respondent's team is rather small, with



the result that the employees are also the organisation's members of the board, or the managers, or the owners.

*'It is very important for us that everyone within the organisation is equal. Full-time employees or volunteers alike, everyone has an equal opportunity to provide suggestions, to participate, and to have their say,' (Interview 7).*

One of the key characteristics of a social enterprise, as stated in chapter '2.1.1. Background and definitions of social entrepreneurship', is that they are managed in an open and responsible manner and, in particular, involve employees, consumers, and stakeholders who may be affected by its commercial activities in their decision-making process. More than 70% of the participating organisations stated that their employees are included in the strategic planning of the venture. In the next chapter, the survey explored whether the participating organisations consider themselves social enterprises and why, and which are the other stakeholders, partners and support organisations that they have within the ecosystem.

#### 4.1.5. Additional information

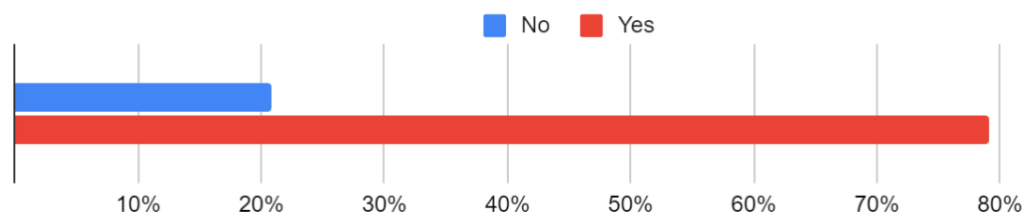


Figure 39: the percentage of participating organisations which consider themselves to be a social enterprise ('Yes'), and those which do not ('No').

Those organisations which consider their organisation to be a social enterprise clarified their choice by adding that: 1a) their organisations' work has a positive social impact (or social value, or it provides positive social well-being or social processes), through the progress which their beneficiaries are undergoing such as, for example, in terms of their financial, physical, mental, emotional, educational, or professional state (even more options are available in this respect), and where that progress is showing improvement for them thanks to support from and the activities which are being undertaken by the organisation in question; 1b) their organisations' work has an environmental impact which amounts to the same general outcome as given above for social impact, or both options are true at the same time; 2) profits are reinvested into the organisation in order to fulfil its mission or are donated to other organisations or social enterprises or social projects which are supporting causes about which they care;

3) in the act of founding the organisation it was clearly stated that it is a social enterprise and that its mission or goal is to provide resolution or support for a social and/or environmental problem; 4) the organisation does not buy from, or sell to, or partner with organisations which have a negative social and/or environmental impact or which can be seen to damage the well-being of its beneficiaries; and 5) not only do they focus their work on social or environmental issues, but they also raise awareness and educate others about those issues which they are working to resolve. In general, it was clear to the respondents that a social enterprise is an enterprise which does not work towards making a profit (and yet for which revenue is being generated from the sale of products and/or services), but instead works towards a positive social and/or environmental impact.

*'The first thing we should think about is what kind of world we are creating and not what number is there in the Excel file or in the accounting program. In this sense, these instruments [legal form for social enterprises] are obviously useful, because they simply guide us to think more in this direction [...] It is part of our mindset that we don't just do what we do for money. It doesn't mean that the financial side is also not important. But I think the first thing we look at is exactly what it is supposed to bring about or what purpose or what effect it creates around us or for the beneficiaries,'* (Interview 5).

*'My enterprise is not for making profit, but a company that values people's well-being and health and contributes to the education of young people. The books that I publish have an alliteration style and can be used by speech therapists. All the products that I create value development and health and that is why I consider it a social enterprise'* (Interview 6).

Of those organisations which do not consider their organisation to be a social enterprise, a total of 26.3% did not clarify any reasons. 73.7% shared their thoughts as follows: 1) the organisation is registered as a non-profit, and one of the revenue sources is not related to business activities (such as the sale of products and/or services), or such a revenue source is still at a very low level; 2) the organisation is registered as a private limited company which does not have a goal of making a positive social and/or environmental impact; 3) the organisation never presents itself as a social enterprise because it would be difficult to include investors or to raise investment funds; and 4) the organisation is unsure about whether or not it should define itself as a social enterprise.

In addition, the survey explored whether the respondents received any support or information from the business support organisations shown below. In terms of this question, several answers were available for selection, and a total of 148 responses were recorded as follows from 91 participants:

1) The term ‘Incubator’ was selected by 19.78% of respondents (‘KÜSK’, ‘NULA’, ‘Ajujaht’, ‘Tehnopol Startup Incubator’, ‘Female Founders Lab’, ‘Tartu Science Park’, ‘Loomeinkubaator’, and ‘Paprika Tervisliku Turunduse Kool’).

2) The term ‘Accelerator’ was selected by 17.58% of respondents (‘Ajujaht’, ‘Õpiveski’, ‘KÜSK’, ‘MILTTON’, ‘Climate-KIC’, ‘Storytek HUB’, ‘xEDU’ in Helsinki, ‘Challenger’, ‘New Nordic Leads’, ‘Prototron’, ‘Tartu Centre for Creative Industries’, and ‘Overkill Ventures’, while for museums the term selected was ‘international accelerator for education’: ‘Katapult’ and ‘Health Founders Accelerator’).

3) The term ‘Membership network organisation’ was selected by 20.9% of respondents (Estonian Social Enterprise Network, the Estonian Association for SMEs, the Estonian Union for Dance Education, the Estonian Social Work Association, the Estonian Social Institution Board of Directors, Estonian Rural Tourism, the Estonian Association of Designers, ‘Hea Kodanik’, the Association of Special Care Providers, ‘Health Cluster’, the Estonian Beekeepers' Association, and the Estonian Childcare Association).

4) The term ‘County development center’ was selected by 35.2% of respondents (from Harju county, Tartu county, Põlva county, Pärnu county, Võru county, Saare county, Viljandi county, and Hiiu county).

5) The term ‘Unemployment fund’ was selected by 18.7% of respondents (practice or training, unemployment benefits, Covid-19 relief benefits, partners from or with the center, new employees or volunteers, support for the organisations’ beneficiaries, or career counselling).

6) EAS (training, travel, support for development, design and innovation, support with construction and refurbishment work, support for exports, a mentoring program, a start-up grant, and an innovation voucher), which was selected by 20.9% of respondents, while 8.8% stated that they had received support or information from ‘Other’ organisations such as ministries, EU grants, the Estonian Business Angels Network (EstBAN), Climate-KIC through CleanTechforEst, or the ASSITEJ Estonian Centre.

*‘We really need a good mentor, someone who has been through the process themselves and who could perhaps provide advice and support. Another thing that’s missing is a network of investors or donors [...] But perhaps with ESEN involved there could be more meetings and discussions for social*

enterprises. After all, we have very similar problems, such as funding and how volunteers are managed, etc,' (Interview 7).

*'Apart from the fact that social security contributions of 33% do not have to be paid in relation to an employment contract, our legislation still does not really allow for any concessions in other respects [social tax benefits apply if an organisation employs a person with reduced work ability]. In my opinion, this is where the government could make some form of concession to the employer when it comes to employment contract law. Perhaps this would better help to retain people who have special needs. Perhaps something could be done with income tax too, so that the state could actually refund this income tax at the end of the fiscal year [...] There could be separate funding or investment options for service providers in order to allow them to assist people who have special needs, so that the working environment could be better developed for their needs [...]. There could perhaps be more training arranged for organisations regarding how to engage in business activities,' (Interview 2).*

*'The EAS could also support small businesses to go to fairs not only in Estonia, but also abroad. I've heard that you can get a lot of good contacts at such fairs and I'd like to go, but again I don't have the finances for it. At the moment, there are also corona restrictions, but it's the lack of money that's the main restriction. The EAS could help small businesses to expand abroad and offer other support, for example, cheap loans at favourable interest rates or help with finding partners,' (Interview 6).*

*'It would be really useful to have some support for social enterprise communication, for both impact measuring and marketing. And of course, there it would be useful to receive more information about different fundraising and funding opportunities on a regular basis. [...] Sometimes this [by pro bono experts: author] support is even more vital than the funding that might end up being used for technological solutions that eventually can take you nowhere if you don't know what you need exactly. [...] Another thing is that there are three billionaires in Estonia. Perhaps we should reconsider our social values and think of ways where those who are economically more successful could support others by sharing their knowledge or mentoring social enterprises with their experts. In general, the mentality and the system have to change,' (Interview 1).*

*'It would be beneficial to have incubation programs that focus specifically on measuring the impact. Measuring impact is difficult and case by case dependent. Usually you don't have the resources and time to focus on that, because once you are operating you have so many different tasks and concerns to work on a day to day basis that require so many skills to be developed so quickly. These kinds of*

*'abstract' things like impact measurement, that are not urgent, like paying rent, for example, are somewhat secondary. An incubation program dedicated entirely to measuring impact would be highly useful, because it would give the social entrepreneurs time to go through their individual cases, to get the attention to details and give other participants comparative contexts on how they measure their impact and exchange ideas. I would sign up for it,' (Interview 8).*

A total of 20.9% of respondents said that they had not received any support or information from any business support organisations, adding reasons such as 1) there is no need; 2) they are still in an 'Early implementation and growth stage'; 3) they have asked but have not received it; or 4) they haven't actively looked for support.

In order to finalise the survey, the organisations were asked whether social enterprises needed new and more efficient financing opportunities and, if so, then what expectations they have (such as in terms of focus, type, volume, etc). A total of 60.4% of participants replied 'Yes', and added points such as: 1) governmental support (but without political bias); 2) a stable and sustainable system; 3) on a needs basis, what and when; 4) support for construction work; 5) refurbishment and rooms or space in general; 6) tax exemptions; 7) consultation and training on CSR and how to have a more positive impact as an organisation in general; 8) improved partnerships; 9) a greater or broader focus group of organisations which also need specific financial support systems; 10) more staff training options; 11) less bureaucracy; 12) additional support and a better variety of options in terms of raising investments from funds; 13) a creation of a stronger network; 14) better training for applying for funding, and improved access to national and international funds; and 15) more specific support for SMEs.

In terms of those organisations which wish to receive additional information on the topic, the survey asked them what they were most interested in. In terms of this question, several answers were available for selection, and a total of 183 responses were recorded from 91 participants.

Finally, forty-six participating social enterprises, 50.6% from the total responses, stated that they are interested in receiving information about further interviews and left their contact details for the researchers.

## **4.2. Interviews with the support organisations**

Additionally, four interviews with different support organisations for social enterprises were conducted by the author. The aim of the semi-structured interviews was to further understand the social impact investment needs and readiness of Estonian social enterprises in their start-up and early growth development stage from the perspective of organisations that have been working with social enterprises for a longer period of time than many of previously interviewed ventures have been active. Another goal was to lay out important aspects from the experts within already existing social entrepreneurship ecosystem in Estonia, and draw conclusions and recommendations for the ventures themselves facing barriers that they had stated via the survey and the interviews. The discussions took place online via Zoom platform and were recorded for transcription.

The questions for each support organisation were individually tailored, depending on the services and assistance they offer to the social enterprises. However, the questions had similarities when it came to the research question and sub-questions of this study.

**The interview questions for selected support organisations in the sample were as follows:**

- Please describe the background of the organisation. 1) How and why did the idea to create the organisation evolve, 2) Was there inspiration of working support mechanisms, core knowledge, and practices from other countries in Europe, 3) What was the financial structuring process like, and 4) Which social enterprises were initially in focus and why?
- Please describe the specific characteristics of the different support mechanisms for Estonian social enterprises of your organisation?
- What are the agreed definitions and terminologies of ‘social entrepreneurship’, ‘impact investments’, and ‘impact measurement’ in your organisation?
- What are the criteria for Estonian social enterprises to receive support from your organisation?
- To what extent are Estonian social enterprises in their start-up and early growth stages ready to raise social impact investment?
- What are the main concerns with which Estonian social enterprises turn to your organisation for support today? Have these concerns changed over time?
- What are the needs of social enterprises in the start-up and early growth stage to raise social impact investors?

- From the perspective of your organisation, what are the external and internal barriers of social enterprises in their start-up and early growth stage in Estonia for raising social impact investments?
- From the perspective of your organisation, what are the legal, financial and administrative changes that need to be made in Estonia in order to create a favorable environment for social enterprises in their start-up and early growth stage to raise social impact investments?
- From the perspective of your organisation, what particular opportunities do social enterprises in their start-up and early growth stage in Estonia have today in comparison to traditional enterprises in these development stages?

**Key findings about the ecosystem from interviews with support organisations are presented below:**

**Table 4: types of support offered to Estonian social enterprises.**

Support organisation	Type of support offered
Organisation W	<ul style="list-style-type: none"> <li>• direct financial support (grants)</li> <li>• network of mentors</li> <li>• case specific development experts</li> <li>• development accelerator incubator program</li> <li>• case specific counselling service</li> <li>• impact evaluation and measurement training</li> </ul>
Organisation X	<ul style="list-style-type: none"> <li>• direct financial support (grants, and impact investments)</li> <li>• network of volunteers</li> <li>• idea creation and development training</li> <li>• development accelerator incubator program</li> <li>• network for pro bono or low-cost expert services</li> <li>• impact evaluation and measurement training</li> </ul>

Organisation Y	<ul style="list-style-type: none"> <li>• direct financial support (turnover-based impact investments)</li> <li>• development experts</li> <li>• impact evaluation and measurement training</li> </ul>
Organisation Z	<ul style="list-style-type: none"> <li>• network of mentors</li> <li>• case specific development experts</li> <li>• skills in marketing and sales</li> <li>• writing a sustainable business model</li> <li>• leadership skills</li> <li>• management of personal habits as a social entrepreneur</li> <li>• impact evaluation and measurement training</li> </ul>

*Compiled by author based on the data collected from the interviews.*

*‘There are no fields that are excluded, but the most common ones are social, educational and environmental fields’ (Organisations W).*

*‘Being part of EVPA is certainly our cornerstone. They provided us with the network and the expertise and the courses and all of our know-how’ (Organisation X).*

*‘There is no percentage criterion for revenue that comes from sales of products or services. The focal point is on a sustainable business model, turnover, and, most importantly, creation of positive impact and its measuring. The only criteria for our selection of enterprises is that they have an impact as the main objective of the company and not a by-product’ (Organisation Y).*

**Table 5: identified internal and external barriers for Estonian social enterprises.**

Support organisation	Internal and external barriers
Organisation W	<ul style="list-style-type: none"> <li>• lack of employees or team members</li> <li>• difficulty of defining their mission</li> <li>• miscorrelation between the problem and the solution</li> </ul>



	<ul style="list-style-type: none"> <li>• business model not professionally written</li> <li>• lack of clear definition and a legal regulation for social entrepreneurship from the public sector</li> <li>• lack of suitable support for social enterprises in their start-up stage</li> <li>• lack of validation of products and services on the market</li> <li>• public mindset that the impact organisations should not make a profit</li> <li>• grant schemes are too regulated and support specific expenditure only</li> </ul>
Organisation X	<ul style="list-style-type: none"> <li>• NPAs lack employees</li> <li>• grant schemes are too regulated and support specific expenditure only</li> <li>• public mindset that the impact organisations should not make a profit</li> <li>• it can be unethical to charge many different target groups for products or services offered</li> <li>• Estonia is a small country with a limited market in which to operate</li> </ul>
Organisation Y	<ul style="list-style-type: none"> <li>• dependency on mainly project funding where social enterprises have to often adapt to the project rather than their main objective</li> <li>• private investments offered on poor terms</li> <li>• growth curve not fast enough for investors</li> <li>• investors seek for more reliable return</li> <li>• lack of ambition and fear to expand nationally or internationally</li> </ul>

	<ul style="list-style-type: none"> <li>• the amount of bureaucracy is unbalanced in comparison to the financial gain</li> <li>• public mindset that the impact organisations should not make a profit</li> <li>• needing to adapt activities to projects funders</li> </ul>
Organisation Z	<ul style="list-style-type: none"> <li>• NPAs do not focus on the development of the financial side of the organisation</li> <li>• lack of knowledge about possibilities social entrepreneurship has ahead of impact organisations registered as NPAs</li> <li>• public mindset that the impact organisations should not make a profit</li> </ul>

*Compiled by the author based on the data collected from the interviews.*

*‘Our interest is that this company can grow and at some point, make a bigger impact. And we approached it in a way that we offer a turnover-based financing. And one of the differences from the beginning was to try to change the mindset not just to look at the returns in terms of money, but to look at the returns in terms of impact. So, when they invest, they get their money back, but there is also an impact side. These two things are equally important to us and investors in our fund’ (Organisation Y).*

**Table 6: identified opportunities in comparison to traditional commercial companies.**

<b>Support organisation</b>	<b>Identified opportunities</b>
Organisation W	<ul style="list-style-type: none"> <li>• at start-up stage they can evaluate and either choose to register as an NPA, to raise funding from local government or project funds, or to register as a private limited company for a possibility of applying for start-up funding</li> </ul>
Organisation X	<ul style="list-style-type: none"> <li>• possibility to be active an impact organisation as an NPA and add investments later, after a time-period of market evaluation and business model</li> </ul>

	<p>(with a growth potential) creation, if wanting to expand nationally or internationally</p> <ul style="list-style-type: none"> <li>• possibility to register as both NPA (that get grants, project funding, donation etc.) and private limited company (that reinvests back into the social enterprise to expand and increase positive impact)</li> </ul>
Organisation Y	<ul style="list-style-type: none"> <li>• a variety of funding possibilities</li> <li>• at start-up stage they can register as an NPA for the process of validation, and later create a sustainable business model and add the entrepreneurial side with a private limited company</li> <li>• easier than for many traditional enterprises to make their message or global issue they are solving clear</li> </ul>
Organisation Z	<ul style="list-style-type: none"> <li>• easier, than for many traditional enterprises, to articulate clearly the societal or environmental impact they are creating with their activities and tell their story</li> <li>• get the benefits for both NPAs and private limited companies</li> <li>• new generations are looking for meaningfulness which social enterprises can offer from the start-up stage</li> <li>• possibility to connect, network and work with like-minded and innovative people that want to create positive impact</li> </ul>

*Compiled by the author based on the data collected from the interviews.*

*‘If you have an impact organisation, especially one founded by a female social entrepreneur, the investment funds get even two ticks in the box. That is the world we're in today where funds are chasing after good impact companies. The most important thing is to make the message or a global issue you are solving clear’* (Organisation Y).

**Table 7: suggested legal, financial and administrative changes that need to be made in Estonia.**

Support organisation	Suggested changes
Organisation W	<ul style="list-style-type: none"> <li>• a clear definition and a legal regulation (Commercial Code, Non-Profit Organisations Act, etc.) for social entrepreneurship</li> <li>• start-up support made available for social enterprises, such as an innovation shares and development shares that are available today for traditional commercial companies</li> <li>• support measures regulated in a way that social enterprises in different development stages fit to the grant schemes</li> <li>• include salary expenditure to the grant schemes</li> </ul>
Organisation X	<ul style="list-style-type: none"> <li>• raise awareness and promote the positive impact of charity work, philanthropy, and donating finances <i>pro bono</i> expertise to impact organisations</li> <li>• stronger cooperation between the public and private sectors and civil society</li> </ul>
Organisation Y	<ul style="list-style-type: none"> <li>• raise awareness impact measurement</li> <li>• key metrics for investors and the public to understand where positive and negative impact is created</li> </ul>

	<ul style="list-style-type: none"> <li>• grant funding (national and EU level) should have more balanced system in terms of bureaucracy and grant amount</li> </ul>
Organisation Z	<ul style="list-style-type: none"> <li>• raise awareness of terminology (such as ‘social enterprise’, ‘impact investment’, etc.) and variety of options available today</li> </ul>

*Compiled by the author based on the collected data from the interviews.*

*‘When drafting the law and support measures, it must be borne in mind that the main objective of social enterprise is to alleviate a social problem and not to make a profit’ (Organisations W).*

*‘The term itself ‘social entrepreneurship’ is not widely used. More instinctively used idioms perhaps are ‘impact entrepreneurship’ and ‘sustainable entrepreneurship’ (Organisation Z).*

Based on the collected data from the semi-structured interviews with the support organisations, many findings, somewhat contradictory to previously gathered data, have risen for this research study. In order to compare the collected data for the final conclusion, the next chapter outlines these and previous findings from the empirical research and offers a discussion for further idea development.

### **4.3. Main findings and discussion**

In this paragraph the author has presented the significant aspects, that the author finds noteworthy, about the social enterprises in Estonia that participated in the survey and the interviews. Some additional information is added in the discussion section in a form of analysis of the gathered theoretical basis and collected data for empirical findings, from both the survey and the interviews of this research study.

Similarly, to the previous mapping studies (USAID, 2020; Reimann 2019; OECD, 2020), social enterprises in Estonia are primarily registered as NPAs. A total of 51.7% of those organisations which responded are registered as NPAs. However, the data showed that there is a growing trend amongst Estonian social enterprises in their ‘Start-up stage’ to register as private limited companies. Most commonly, social enterprises, who participated in the survey, offer services or products to vulnerable target groups such as ‘Children or young individuals in general’ (33%), ‘Individuals who are living in rural or remote areas’ (24.2%), and ‘Individuals with mental illness or mental health problems, or a psychological disability’ (17.6).

Another aspect that was also pointed out in the USAID (2020) and Lepik (2021) studies is that social enterprises in Estonia are operating primarily on a national level. A total of 49.5% of the participating organisations operate mainly at the national level. From the interviews with the support organisations, one of the internal barriers stated was the fact that impact organisations are running their social businesses locally-minded. Of course, the social network due to this notion is strong. However, the expansion and growth of these ventures is oftentimes withheld by the dwelling of exiting the zone of comfort and working with new target groups and beneficiaries.

From all the ninety-one respondents, 11% of the participating organisations were in the ‘Start-up stage’ and 37.4% of the organisations in the ‘Early implementation and growth stage’ meaning that the majority of social enterprises are young and yet-to-be developed organisations. A total of 34% of the participating organisations were founded in the last five years (between 2017 and 2021), while 24.2% were founded just little over five years ago. Of the participating organisations, 37.4% are in the ‘Early implementation and growth stage’, and 11% of the participating organisations were in the ‘Start-up stage’. Additional data from the interviews suggested that today many social enterprises grow from ‘Start-up stage’ to ‘Early implementation and growth stage’ rapidly due to access of ever-growing ecosystem of more suitable funding possibilities, of incubator and training programs, case specific mentoring and counseling services, and *pro bono* support from experts from the strong network in Estonia.

In the USAID (2019) study, 17% of the CSOs were operating in recreational activities, 16% in sports, and 14% culture. However, this research study found that participating social enterprises are active within the fields of ‘Education’ (16.5%), ‘Health’ (13.2%), ‘Social Work’ (11%), and ‘Technology’ (9.9%). ‘Technology’ and ‘Health’ are more prevalent in the ‘Start-up stage’ of their development. Moreover, the ‘Early implementation and growth stage’ social enterprises have generally a much wider range of fields they are operating in.

The respondents of the USAID (2019) study named their third most common source of revenue to be economic activity (30%), and it was added that these figures were largely unchanged from previous five years. Notwithstanding, the participating organisations of this study proved that there is a growing trend focusing on revenue which will be generated via their business activities. A total of 47.3% of participating organisations stated that the main revenue source for them today is ‘Business activities’ and this figure is even higher for ‘Start-up’ and ‘Early growth’ stage social enterprises. Additionally, 61.5% of those social enterprises which participated in the survey stated that at least 25% of their income

comes from the sale of their products or services, and 78% of social enterprises expected to earn at least 25% of their revenue from the sale of their products or services over the next twenty- four months.

Another important aspect from the survey and additional interviews is that Estonian social enterprises are actively applying for or receiving external financing, which primarily comes from project funding. A total of 61.5% of those organisations which responded said that, in the last twenty-four months, they applied for or had raised funding from ‘Grants/project funding (including vouchers and operating grants)’. Additionally, 78% of the organisations stated that they planned to apply for or raise funding from ‘Grants or project funding (including vouchers and operating grants)’ over the next twenty-four months. Several interviewees stated that project funding is the most reliable source of funding in the ‘Start-up’ stage when process of validation takes place and (impact) investments are not a possibility. Moreover, a total of 38.5% of the organisations stated that there is a ‘lack of financial support mechanisms’ in place, and 38.5% said that they were suffering from a ‘lack of employees’ especially due to the lack of ‘lack of financial support mechanisms’ that consider paying wages as an expenditure.

Additionally, impact organisations that stated that they plan to raise investments were much more likely at the ‘Early implementation and growth stage’ (53.8%), and at the ‘Start-up stage’ (78.6%) than in any other development stage. A total of 46.2%, including other development stages, planned to seek investment into the organisation over the next twenty-four months.

Moreover, Estonian social enterprises need support when using impact assessment tools. A total of 60.4% of the participating organisations do not regularly measure their social impact. Yet, all eight social enterprises that were interviewed stated that they measure their impact, but struggle with finding the right tools and metrics. There are several support organisations, such as ESEN, GDF, NFCS, and Limitless, that have experts supporting social enterprises, and raise general awareness in society and investors, to understand the importance of impact measurement and its case specific tools and metrics.

Nevertheless, the participating impact organisations in this research study are managed in an open, responsible, and inclusive manner. They consider ‘Environmental responsibility’ (at 84.6% of the total number of organisations), ‘Innovation’ (89%), ‘Corporate social responsibility and ethical behavior in the organisations’ activities’ (98.8%), and ‘Positive social impact and the organisation’s outcome for a specific target group’ (86.8%) to be ‘rather important’, ‘important’, or ‘very important’ in the organisation’s decision-making processes. Additionally, a total of 71.4% of the organisations stated that their employees are involved in their strategic management work.

The survey results suggest that the current ecosystem for social enterprises in Estonia has many aspects which serve to hinder, generally holding back the growth of the sector as a whole. As their main barrier to meeting their ideal revenue goals, a total of 18.7% of the participating organisations stated that their organisation has ‘no investors’. Those organisations added that they did not know how to find investors, and especially investors who may be interested in: 1) those issues which these organisations are tackling; 2) investing in social enterprises in general, or 3) organisations which are growing slowly or are still at the ‘Seed stage’ or ‘Early implementation and growth stage’. In order to further explore barriers against growth and needs regarding impact investment readiness, this paragraph analyses the different development stages amongst those Estonian social enterprises which participated in the study.

Out of the 91 social enterprises which responded to the survey, ten identified themselves as being in the ‘Start-up stage’, mainly being active within the sectors of ‘Health’ (at 40%) and ‘Technology’ (at 30%), as opposed to later, more fragmented, stages. The lowest number of NPAs of the entire sample (at 29%), and the greatest number of private limited companies (at 58%) could be found at the start-up stage. Social entrepreneurship, as defined most commonly in Europe and around the world, is a relatively young concept in Estonia, a phenomenon which is related to starting up a business and which places social goals as being equal to making a profit, something which has not been taking place for long enough for many of these businesses to have entered the ‘Early implementation and growth stage’. A positive aspect can be brought out in terms start-ups which express the greatest levels of interest in moving away from their heavy reliance on grants and project funding. Such funding, based on the survey, provided 40% of their entire revenue within the last twenty-four months. Ideally, for those organisations, 40% could be instead raised through impact investments and a further 50% being supported from business activities. This is once again confirmed by the fact that 90% of organisations, in this development stage, are planning to raise investments within the next year, and 80% estimate that their revenues will increase in the next two years. A ‘lack of investors’ and lack of financial support mechanisms’ are perceived to be a significant barrier in terms of funding by 33% of respondents. Moreover, 29% perceive a ‘lack of employees’, who can work full-time and have the necessary and sector-specific expertise, to be a barrier. Social entrepreneurship as a concept is becoming more prevalent, with new initiatives now realizing that they can achieve the same objectives as a private limited company and, therefore, become more financially sustainable, subsequently being able to expand, and then increase their impact. Start-ups offer a unique opportunity to enter the social economy as an investor.

Of the 91 respondents, a total of 43% identified themselves as being at the ‘Early implementation and growth stage’, and these are for the most part engaged in the sectors of ‘Education’ (at 18%) and ‘Health’



(at 15%). When compared to the start-up stage, the early implementation stage is the most fragmented in terms of its varying sectors and beneficiaries. This provides more opportunities to spread an impact portfolio, but is most likely a reflection of the smaller number of start-ups in the sample (11%). The early implementation stage is divided when it comes down to the legal status they adopt, with 44% being private limited companies and 41% being NPAs. This could mean that social entrepreneurship in the form of private limited companies is in fact growing its roots in the Estonian social market. The large intent by start-ups to have 50% of their revenue coming from business activities is almost becoming a reality at the early implementation stage (at 44%), as 53% have indicated that their revenue actually increased over the past twenty-four months. There is, however, less of a need for funding when compared to start-ups, as only 59% plan to raise finances over the next twenty-four months. Sources of finance have also broadened, with 14% having applied for private donations or accessing incubators or accelerators. This may be the reason for both the lack of investors (8%) and the lack of employees (20%), with these figures having decreased quite noticeably when compared to those for the start-up stage. Their main barrier, pretty much equal to the worry of a lack of employees, is still the lack of financial support instruments (20%).

## 5. RECOMMENDATIONS

The chapter below focuses on recommendations to different stakeholders within the ecosystem such as the social enterprises/impact organisations, the public sector, the banks and investors, and the social entrepreneurship networks and incubators in Estonia. Based on the analysis of the data gathered from the survey and interviews with social enterprises and the experts in the ecosystem the recommendations by the author for different stakeholders are presented below.

Firstly, tax exemptions regarding employment taxes could be considered for social enterprises in the ‘start-up’ and ‘early implementation and growth’ stages. Those organisations which are at the early stages identify a lack of employees as being a barrier, something which is also connected to their available opportunities to employ people. Volunteers which the organisations currently include are not entirely able to fulfil the required skill sets. A different skill set is especially required when developing a start-up to the early implementation stage and beginning to generate revenues.

Secondly, long-term loans for investments for infrastructure and equipment could be provided by the banks to the organisations either in the form of NPAs or private limited companies, perhaps being guaranteed by the public sector (e.g. KredEx foundation). As the organisations provide their services in various fields such as education, health, or social work, they often tend to fill up service or product gaps in the public sector domain. Their main customers are often the public sector organisations which pay for their services. Therefore, they are organisations for which the public sector has already carried out proper due diligence.

Thirdly, social impact investments by private sector organisations or investors could be provided for the social enterprises in their ‘late development’ stages. Investments would need to come with a slow return of investment expectations as the organisations are not looking for fast growth or large-scale expansion. Instead, the ‘Social Return on Investment’ (SROI) should be directly linked to measuring created impact. Currently over half of organisations do not measure their societal impact, but this factor is also linked to the lack of any necessity to do so.

Also, awareness of impact investments and the specificities of impact organisations in different development stages could be raised amongst stakeholders such as banks and investors. Social enterprises in a seed and start-up development stage are in a critical position when it comes to financing development and recruitment of team members with a variety of skill sets needed for social innovation. There is a

great need for investors that are social and/or environmental mission driven. Additionally, when providing the financial support, it is vital to align it with the specific needs of the organisation's development stages. Awareness of the positive long-term impact that social enterprises create could be raised amongst stakeholders such as banks and investors. Social enterprises or impact organisations have a very high impact potential, but several investors needlessly fear the financial risks and consider the financial return too low. However, the concept of systematic change and how measuring impact is more time consuming and complex due to a variety of social, ethical and other reasons than a presentation of financial returns. Emphasising the long-term nature of social impact would be important amongst stakeholders such as banks and investors. One of the solutions could be turnover-based investment that would allow social enterprises to raise investments in smaller amounts based on their current development stage.

In addition, engaging with stakeholders which work with social enterprises (e.g. ESEN) could be considered by the banks. The financial institutions could reassess their policies of providing funding to various types of organisations and expand their market to the NPAs. The various guarantee schemes could be considered in cooperation with the public sector. Several interviewees also pointed out the need for low interest loans for social enterprises due to their specific characteristics in terms of access to funding in comparison to traditional commercial businesses.

Moreover, awareness of the possibility of using the dual legal form (NPA & Private Limited Company) or registering a Private Limited Company having an NPA could be raised amongst its shareholders. Registering two separate legal forms enables better access to a larger pool of financial instruments and various forms of support. The NPAs are allowed to establish private limited companies if it is in accordance with their statutory aims. This is a suitable option for those NPAs who want to generate revenues but it is too complex using the legal form of an NPA. A company which is founded by a NPA may distribute profits and pay dividends to the NPA which is its shareholder. Although a company which has an NPA among its shareholders does not have any restrictions at the level of law compared to a traditional company, such restrictions can be set by the articles of association or shareholders themselves to emphasise the social nature of the company. If the company distributes profits, the NPA may use it for the benefit of its statutory purposes. By doing so the earning of income remains the core activity of the company and not that of the NPA which is its shareholder. As there is no separate legal form for social enterprises, this could be considered by social enterprises that are struggling to find support due to the limitation of their current legal form.

Furthermore, additional opportunities for social enterprises to help each other could be considered. Even though there is a lot of helpful information out there embedded within support organisations, several interviewees pointed out the need to discuss shared industry problems more often. Specifically, problems with impact assessments, financial possibility, and the attainment of skill sets. By organising network events and meet- ups, both formal and informal, social enterprises operating on a variety of fields could share their knowledge and thoughts with one another. In addition to this, it helps to keep each other motivated through discussions about the generally common goal - to bring about positive change.

What's more, additional opportunities for traditional commercial companies to help social enterprises could be created. In addition to industry specific knowledge or skill gaps within social enterprises, there is also a need expressed for more traditional commercial skills such as: financial management, IT, marketing, and legal. It would be mutually beneficial to create platforms on which the private sector could help social enterprises by letting social enterprise employees participate in their company training procedures for free, or lend employees on a volunteer basis. This helps the private sector companies with their corporate social responsibility and work enjoyment of their employees.

Finally, additional opportunities for the general public to help social enterprises could be created. Another source of skills and knowledge is the general public which can be tapped into through raising more volunteers or internships. Especially the potential of internships from studies other than social studies have not been fully explored. In general, there is a need to raise awareness about social entrepreneurship, its benefits to the society as a whole and its specificity.

## 6. CONCLUSION

In order to answer the research question and its' sub-questions, it is essential to understand the social entrepreneurship ecosystem in Estonia, its specific characteristics for 'Start-up stage' and 'Early implementation and growth stage' organisations, and the nature of current social impact investment market within that ecosystem. Additionally, it is important to discuss the different aspects that were thoroughly explained in the theoretical basis and then compared with empirical findings presented from the data collection process.

Estonia is gradually taking steps towards the establishment of a social enterprise ecosystem which could be more successfully developed with sufficient political support, start-up incubation programs, and a diversity of support structures, which meet the specific needs of social enterprises in their start-up and early growth development stages. This progress, if it were to take place alongside the strengthening of the prevailing impact measurement culture, could provide credible and sustainable solutions for societal and environmental problems, while also raising awareness regarding the importance of social enterprises, relieving pressure on public services, and promoting cross-sector collaborations for social innovation. More importantly, it is vital to recognize that, to set up financing and funding instruments, specifically for social enterprises, it is important to differentiate between development stages of impact organisations. Not only do social enterprises need longer time on average to break even or become financially sustainable in comparison to traditional commercial or even socially responsible businesses, but their financial needs are more fluid when developing from one stage to another.

Based on the theoretical basis that was gathered and analyzed for this research study, it can be concluded that Estonian social enterprises are ready to raise social impact investments, especially in their start-up and early growth development stages. In order to do so, there is a need for collaboration between different stakeholders, such as governmental institutions to make necessary legislative changes, private sector to consider social enterprises in the market in order for them to go through the validation process successfully, the society to change the mentality of considering social enterprises as solely non-profit associations that have only an objective to create positive social and environmental impact through social innovation, investors and other donors to understand the complexity of organisational life cycles in the social entrepreneurship field when setting expectations in terms of social and financial return, educational faculties to raise awareness and advocate social entrepreneurship as an innovative approach to finding solutions to most pressing challenges, and support organisations to consider the specific needs mapped out in this research study in order to better understand the barriers that social enterprises are

facing, such as choosing the correct metrics in order to measure impact, carefully selecting the suitable legal forms in which they can best operate for optimal gain for the development and growth of the organisation and society at large through expansion of impact, and understanding to the best possible scale the opportunities in which business model creation and strategic planning can benefit these impact organisations.

Some of the most noteworthy external and internal barriers of Estonian social enterprises in their start-up and early growth development stages are 1) lack of employees or team members due to restricted funding possibilities, 2) difficulty of clearly defining their mission in order to connect with the social network, stakeholders, and investors, 3) the lack of knowledge and experience in terms of writing a professional business model, general development of the financial side of their organisation, and opportunities they have ahead of classic NPAs and even traditional commercial ventures, 4) lack of clear definition and a legal regulation for social entrepreneurship from the public sector, 5) lack of suitable support mechanisms for social enterprises in their start-up stage in comparison to traditional commercial ventures in these same stages, 6) lack of validation of products and services on the market for which they can charge a fair fee as the public mindset that the impact organisations should not make a profit and that it can be unethical to charge certain vulnerable target groups they focus on, 7) grant schemes being strictly regulated and support specific expenditure only, 8) dependency on mainly project funding where social enterprises have to often adapt to the project rather than their main objective, 9) the amount of bureaucracy is unbalanced in comparison to the financial gain, private investments, such as social impact investments are still often offered on poor terms as the expected growth curve is not rapid enough for more reliable financial return minded investors, 10) lack of ambition to expand nationally or internationally to grow their impact out of their social networks, and finally 11) Estonia being a small country with a limited market in which to operate.

There are several legal, financial and administrative changes that can be made, like from other countries in Europe of which examples are brought out in the theoretical basis chapter. However, the key takeaway is that social enterprises in Estonia need to, use the advantages they have ahead of traditional commercial business in times of growing interest in impact creation and meaningful initiatives, and decide, during their start-up stage, which are the exact objectives, target groups, and beneficiaries they wish to bring positive changes for, and partner with suitable organisations within the ecosystem from either public, private, or civil society sector to generate the best solutions specific to their needs and readiness.

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