FUNDRAISING AND INVESTOR RELATIONS IN SOCIAL ENTERPRISE

Marketing your way out of the pioneer gap in African off-grid renewable energy

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- AfDB = African Development Bank
- ANDE = Aspen Network of Development Entrepreneurs
- ARE = Alliance for Rural Electrification
- BoP = Bottom of the pyramid
- CDM = Clean Development Mechanism
- CFLC = catalytic first-loss capital
- CMP = Contemporary Marketing Practices
- CSR = corporate social responsibility
- DESCO = distributed energy service company
- DFI = development finance institution
- ECOWAS = Economic Community of West African States
- ECREEE = ECOWAS Centre for Renewable Energy and Energy Efficiency
- ESG = environmental, social, governmental
- FTM = full-time marketer
- GIIN = Global Impact Investing Network
- GIIRS = Global Impact Investing Rating System
- GRI = Global Reporting Initiative
- GVEP = Global Village Energy Partnership
- HNWI = high net worth individual
- IFC = International Finance Corporation
- II = impact investing/investment
- IOREC = International Off-Grid Renewable Energy Conference
- IR = Investor relations
- IRENA = International Renewable Energy Agency
- IRIS = Impact Reporting and Investment Standards
- MFI = microfinance institution
- MNC = multinational corporation
- PAYG = pay-as-you-go
- PoA = Programme of Activities
- PPP = public-private partnership
- PRI = program-related investment
- PTM = part-time marketer
- RE = renewable energy
- RM = relationship management
- SE = social enterprise / social entrepreneur
- SHS = solar home system
- SIB = social impact bond
- SME = small or medium-sized enterprise
- UNEP = United Nations Environment Programme
- UN PRI = United Nations Principles for Responsible Investment
- VC = venture capital
- WB = World Bank
- WEF = World Economic Forum

1 INTRODUCTION

> *”When we grow up and enter into our careers, we’re asked to basically make choices: You either go into the for-profit sector, or you go non-profit. You either do well, or you do good. You either give money away on a charitable basis, or you invest.”*
> –Jed Emerson 16.8.2011 (Blended Value)

According to a Millennial Innovation survey published by Deloitte in 2013, millennials[1] are of the belief that innovations with the most positive impact on society are driven by business, and according to 87 percent business success should not be measured solely by financial performance. Improving society and generating profit were roughly equally popular as the top answers when asked about the purposes of business. (Millennial Innovation survey 2013, 3, 9). The trend towards broadening beliefs about the role of business in society were also already visible in the Aspen Institute MBA student attitude survey: as well as seeing creating value for the societies they operate in as a primary responsibility of business, students also expressed more interest towards the possibility of contributing to society through their work (Where will they lead? 2008, 2).

Nowadays social entrepreneurship is increasingly taught at hundreds of universities, including Harvard, Yale and Stanford, and millions of citizen organisations have emerged around the world. Bornstein attributes the rise in social entrepreneurship to some key changes in society around the world: The increase in prosperity has brought about the rise of the middle class. There has been an increase in citizen freedoms and (semi)democratic societies. Communication technology has spread awareness of global challenges. Formal education is more readily available. Women and minority groups are able to participate more actively. *“To sum up, more people today have the freedom, time, wealth, health, exposure, social mobility, and confidence to address social problems in bold new ways.”* (Bornstein 2007, 2–7).

The gap between profit-maximising financial investment and philanthropy is narrowing (Bugg-Levine & Emerson, 2011). Emerson and Bonini (2006) among others have written about *“capitalism 3.0”:* how to develop capitalism to meet current challenges. According to them, “capitalism 1.0” created wealth but also brought along a plethora of economic, social and environmental problems. “Capitalism 2.0” has since the 1960’s attempted to regulate and accommodate for the costs and side effects, with-

[1] Millennials are defined as born from 1982 onwards, having a degree and being in full-time employment. Research was conducted in 2012 as online questionnaires in 16 markets in North America, Western Europe, Russia, Asia, Australia, Brazil and South Africa.

out sufficient success. What Emerson and Bonini (2006) call for in “capitalism 3.0” is working the way out of existing frameworks and breaking barriers between for-profit and non-profit as well as financial and social returns.

Jed Emerson introduced the term *blended value* in 2000 (Emerson 2000) to broaden thinking around the nature of value. Emerson underlines that all organisations, non-profit and profit alike, have aspects of *financial, social and environmental value* in their operations, even though this has been forgot in a world where value is seen solely as economic value created by for-profit organisations and social value created by governments and non-profits. Therefore, due to this narrow outlook, total value maximisation is often lost out on by business managers. Blended value means recombining financial, social and environmental value elements so that the end result is more than the sum of its parts. (Bugg-Levine & Emerson 2011, 10–11).

Porter and Kramer (2011, 64) have also taken part in the discussion about the nature of value creation, the outdated approaches companies have towards it and *“presumed trade-offs between economic efficiency and social progress”*. They have called for businesses to reconnect success with social progress; to create *shared value*. They define shared value as economic value created while also addressing needs and challenges within the society and blurring boundaries between for-profit and non-profit. This is what they believe to transform business thinking and broaden the definition of capitalism to meet its true potential to serve society. (Porter & Kramer 2011, 64, 67).

Also Kickul and Lyons (2012, 14) have discussed the detachment of the economy from society as artificially bifurcated, because in reality the two are inseparably linked. As an invention of society, the economy can and should be reinvented every now and again so that it remains aligned with the needs of society. According to them this signifies that it is a natural role of entrepreneurship to solve social problems. As well as it being possible for businesses to solve social problems, non-profits are increasingly operating through sustainable business models and governments are taking market-based approaches to delivering services (Sabeti 2011, 99).

A way of business serving society is social enterprise – the main topic of this thesis, which is viewed from the perspective of fundraising and investor relations. The key terms of social enterprise, the pioneer gap and the context of off-grid renewable energy in Africa are introduced in the following sub-chapters. After this the purpose of this study is defined in more detail.

1.1 Definition of social enterprise

Social entrepreneurship pursues social or environmental goals and aims to develop market capitalism towards a more humane approach. Put aptly by the impact investment management firm Invested Development, *social enterprises* locate the overlap of *need* (the common responsibility of government and non-profits) and *demand* (the common focus of business) (Get Funded! The Dos and Don'ts – – 2012). Social enterprises generate earned income but give priority to social mission, and these *for-benefit enterprises* can therefore be seen as a *"fourth sector"* in society (Sabeti 2011, 99). This is depicted below in Figure 1.

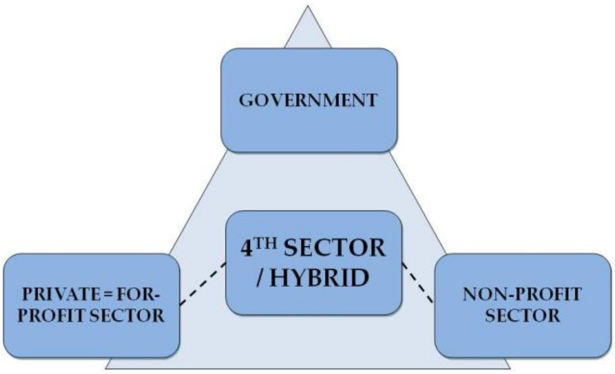

Figure 1 The emergence of the fourth sector: hybrid between for-profit and non-profit organisations

As illustrated above in Figure 1, the fourth sector is a hybrid between the for-profit and non-profit sectors, a crossover between capitalism and philanthropy. In practice social entrepreneurs have existed throughout history, but the person widely credited with coming up with the term in the 1980s is Bill Drayton, the founder of a social venture philanthropic organisation Ashoka. Additionally, J. Gregory Dees was first to envision it as a field of study and a profession at the end of the 1990s (Kickul & Lyons 2012, 13). Dees (1998, 4) draws on the definitions of entrepreneurship from Jean-Baptiste Say, Joseph Schumpeter, Peter Drucker and Howard Stevenson. He adds a social streak and defines social entrepreneurs as the *change agents of society*, applying the best of business to entrepreneurship to pursue a social mission. According to Dees (1998) entrepreneurs:

- recognise and pursue new opportunities relentlessly, as well as seeing opportunities where others see problems;
- engage in a process of continuous learning, adaptation and innovation and
- act boldly without letting current available resources limit them, i.e. are skilled at accomplishing more with less and attracting others' resources.

On top of this, two more aspects specific to *social* entrepreneurs are that they:

- adopt a mission to create social value and sustain it and

- act on a heightened sense of accountability for the outcomes they create to those they serve.

The environments in which social entrepreneurs operate are often resource-scarce, and creativity must be used to attract non-traditional resources. Social enterprises are accountable to society as a whole, not to private shareholders, and aim for a heightened sense of accountability in surrounding communities also. However, social enterprise aims to circumnavigate politics in order to spend all resources solving the problem instead of debating it. (Kickul & Lyons 2012, xv, 1, 6–7).

Kickul and Lyons (2012, xix) also infer that maximising mission, through maximising the number of beneficiaries reached, is inherent to true social entrepreneurship. Therefore *scaling operations* can be seen a universal issue to all social entrepreneurs. Maximising mission also implies that social entrepreneurs must share what they have learned freely. Social entrepreneurs press for *systemic change* by altering perceptions and behavioural patterns (Bornstein 2007, 2) and therefore not just addressing a symptom of a problem, i.e. feeding 1 000 starving people, but addressing its root cause, i.e. coming up with a long-term solution to rid society of hunger altogether (Kickul & Lyons 2012, 5). Taking on previous *market failures* is also social enterprise's market niche: social enterprises are, therefore, at their most valuable when combating challenges that government or business has previously not been able to solve (Kickul & Lyons 2012, 8).

Bugg-Levine and Emerson (2011, 265) note that social enterprises may be either non-profit or for-profit ventures and may operate through business models using both grant as well as generated revenue. Additionally Austin, Stevenson and Wei-Skillern (2006, 2) state that social entrepreneurship *"can occur within or across the nonprofit, business, or government sectors."* The broadening and evolution of the term has been towards encompassing profit-making activities towards pursuing social mission regardless of organisational structure (Kickul & Lyons 2012, 18). This is also due to the fact that legal structures of social enterprise are in most countries limited to for-profit or non-profit, as for-benefit is not recognised as an official organisational structure (Sabeti 2011, 99). For the purpose of this thesis, a broad definition of social enterprises is used: namely, organisations pursuing social and/or environmental mission while generating revenues.

1.2 Definition of the pioneer gap

Lynch and Walls (2009, 20) have indicated that reasons for traditional businesses failing vs. reasons for social enterprises failing are exactly the same: lack of cash, lousy marketing, failure to innovate, poor customer service, unhealthy culture, inefficient operations, lack of leadership or lack business skills. They mention additional reasons typical for social enterprise failure as unwarranted optimism, failing in cutting losses and a belief that mission will prevail over reality. Therefore, social enterprise demands the same business discipline as any other successful business as well as facing some additional challenges. Dichter et al. (2013, 38) note that social enterprises may encounter difficulties in finding funding, despite an increase in the availability of socially oriented investments. While philanthropy and prize money may aid in getting an enterprise through its seed stage, few investors are willing to fund a firm focused on serving the poor, especially not in its early stages. At this stage the challenges met are sizeable: poor customers, poor infrastructure, missing supply chains and difficulty attracting gifted workforce and management – termed the *pioneer gap* (Dichter et al. 2013). The pioneer gap comprises a *financing (or funding) gap* and *capacity gaps.*

Beck and Demirguc-Kunt (2006, 2941) summarize access to finance to be an important constraint for SME growth. In general, small or medium-size enterprises[2] (SMEs) may often encounter difficulties finding funding when at the stage of being too large for microfinance institutions (MFIs), but too small or otherwise unsuitable for banks due to having no collateral (Banerjee & Duflo 2011, 178, 181). Beck, Demirguc-Kunt, Laeven and Maksimovic (2006, 948) have found that enterprise age, size and ownership are the best predictors regarding financing obstacles: younger, smaller and domestically owned firms have been found to meet more challenges in financing. According to Berger and Udell (1998, 660), a distinguishing factor between small businesses and large businesses is the degree of informational opacity: it is common for small businesses to lack audited financial statements, assets for collateral as well as a repayment or profitability record. Whereas institution building to ease the situation is a long-term process, interim solutions should be looked for in innovative lending technologies even in the absence of developed institutions (Beck & Demirguc-Kunt 2006, 2941–2942).

Findings of the Sustainable Business Institute, Technische Universität Berlin and Micro Energy International GmbH have supported the notion that in the case of energy SMEs a *financing gap* exists. According to their research it is caused mainly due to *information asymmetries* between the enterprises themselves and financial institutions; *high upfront costs* due to building up the infrastructure for distribution and service; *high working capital* costs because of sourcing product parts internationally and therefore battling international trade issues like import duties; and finally *diminished liquidity due to offering end-user financing* to its customers. The financing gap therefore limits the

[2] According to the International Finance Corporation (IFC), a common definition of SMEs is a business with under 250 employees. Microenterprises are distinguished as having either under 5 or 10 employees. (The SME Banking Knowledge Guide 2010, 9).

growth and scaling up of energy SMEs and consequently hinders reaching the break-even point. **(**Exploring Energy SME Financing – – 2013, 6, 14–15, 44–45). The International Off-Grid Renewable Energy Conference confirms a critical financing gap in the early stages of enterprise, which needs to be bridged to ensure scaling up of viable projects. Impact investors are playing a role in partly bridging this gap, but funding availability as well as commercial banks and other financial institutions active in the off-grid energy sector still appear limited. (IOREC 2012 - - 2013, 28). More than being about the general availability of capital, the challenge revolves around amounts of required capital being unsuitable. Therefore, existing funding sources have been deemed inadequate overall for scaling up energy access in emerging and developing countries via the private sector **(**Exploring Energy SME Financing – – 2013, 4).

Estimations about the actual size of the financing gap met by SMEs vary. The Sustainable Business Institute has characterised the gap as starting between USD 5 000 and USD 20 000 and going up to anywhere between USD 500 000 and USD 2 million, based on their previous research[3] **(**Exploring Energy SME Financing – – 2013, 11). Barreiro, Hussels and Richards (2009, 5–6) also identify the financing gap as reaching up to around USD 2 million, based on lack of private equity in most cases below this amount, and attribute the gap as a "*missing middle*" in the developing country economic structures. An illustration of the financing gap is given in Figure 2 below.

[3] Additionally, in their interviews they came across rough estimations of between USD 50 000 and USD 500 000 (Exploring Energy SME Financing – – 2013, 6).

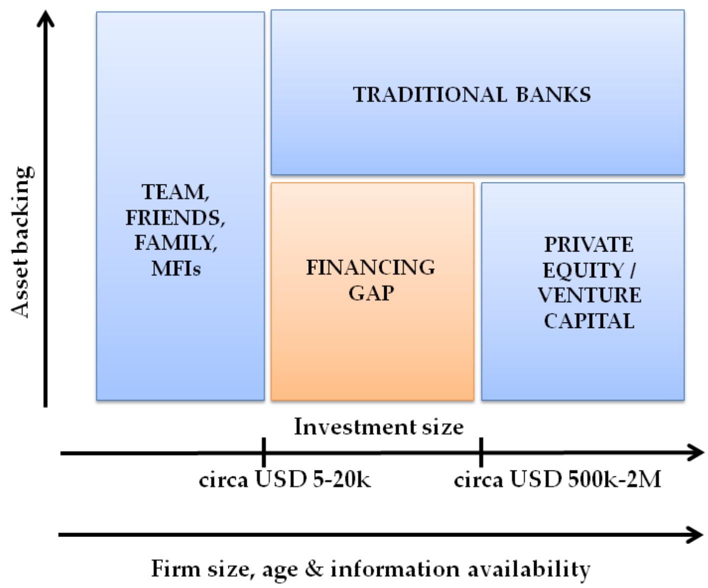

Figure 2 Financing gap of SMEs in developing countries (adapted from Exploring Energy SME Financing – – 2013, 12 and Berger & Udell 1998, 623)

Variations in the starting and ending points of the financing gap as portrayed in Figure 2 may be caused by country context, for example. MFIs provide loans up to a few thousand USD to micro or small enterprises as well as households for short payback periods. They are therefore however not optimal for incubating new risky business models. (Exploring Energy SME Financing – – 2013, 11–12). Initial insider finance can be provided by the team, friends and family. Financial needs and funding options change along with the growth cycle of the enterprise, as it gains experience and is able to clarify informational opacity and may gain access to intermediated finance like venture capital for equity, and banks or finance companies for debt, as well as public equity and debt markets later on. (Berger & Udell 1998, 622). Barreiro et al. (2009, 5) state that in early stages a limited source of finance in addition to friends and family are money lenders, which however charge high interest rates.

The terms funding and financing gap are used interchangeably in this thesis. However, the pioneer gap is about more than just that. Especially in the case of social enterprises operating in off-grid renewable energy, the enterprises by definition are pioneers operating where energy grids do not exist and the whole industry is underdeveloped; hence the term pioneer gap (used by Dichter 2013). Koh, Karamchandani and Katz (2012, 15) refer to the challenge of getting promising business models developed up to later, more investable, stages in their development without receiving support early on. This critical *capacity gap* affects the burden shouldered by these innovating enterprises and the availability of investable deals in the social sector. What early-stage enterprises lack in addition to funding, therefore, is assistance in business development, in the form of coaching or mentoring. This assistance needs to be tailored to the unique needs and existing capabilities of the enterprise (Toniic E-Guide to Early-Stage – – 2013, 3). Considering these aspects, the term pioneer gap encompasses the overall challenges of financing and capacity gaps faced by the early-stage social enterprises operating in an early-stage industry and attempting to scale up their operations.

1.3 Off-grid renewable energy in Africa

The number of people lacking access to electricity globally is close to 1,3 billion, of which nearly half are in Africa (World Energy Outlook 2013 – –, 1), including an often omitted one billion more who have access to only low quality and interrupted grid electricity and therefore suffer from systemic failures and blackouts (Energy for a Sustainable Future 2010, 7). Reliance on grid extension has often left scarcely populated areas without electricity, because extension may not be viable from an economic or technical point-of-view. A clear rural electrification strategy is required to reduce uncertainty about where it is reasonable to expect official grid extension and where *off-grid energy* should be implemented. (IOREC 2012 - - 2013, 14, 17).

Those reliant on off-grid energy can therefore be either customers with unstable or no access to official grids. Lack of energy most intensely hits the bottom-of-the-pyramid (BoP) community, an estimated four billion people living on less than 1500 USD per year per capita. People at the BoP commonly live in rural areas or urban slums and suffer from lack of education and other basic service and limited access to markets. Therefore BoP business strategies are directed at boosting inclusive growth and integration into the formal economy and improving the quality of life through enterprise. (Prahalad & Hart 2002, 3–4). The poor often tend to pay more for energy than the wealthy, both in absolute terms in cost per energy unit, due to having to buy in smaller quantities, as well as in terms of time spent on fuel collection. In 2012 off-grid households in Africa spent over 10 billion USD on non-renewably fuelled lighting like kerosene, batteries and candles. (Lighting Africa Market Trends Report 2012, 9, 34). The Secretary-General of the United Nations has called for sustainable energy for all by the year 2030 to maximise benefits for development and combat climate change in the longer term (Sustainable Energy for All 2011). Thereafter the UN General Assembly has declared the 2014–2024 the Decade of Sustainable Energy for All, emphasising the importance of energy access for sustainable development (United Nations General Assembly declares – – 2012). In order for the global challenge of achieving sustainable energy supply for all by 2030 to be achieved, an estimated average of 50–60 billion USD[4] needs to be spent annually for the next two decades. (Bhattacharyya 2013, 463, 471).

Renewable energy (RE) consists of solar, wind, geothermal, ocean, hydropower and bioenergy, as listed by the report of the 2012 International Off-Grid Renewable Energy Conference (IOREC). It is estimated that the majority of energy installations will in the future come from off-grid electricity, i.e. mini-grids or stand-alone, not from grid extension as typically has been the case. Stand-alone systems for single households can kindle electricity demand, leading the way to local mini-grids, which can further be integrated into regional mini-grids or even the main grid. The most economically viable option for this in the rural and sparsely populated areas is provided by renewable energy technologies, due to their cost-competitiveness compared to kerosene or other highly price-volatile fossil-based fuels, based on the lifecycle view. The cost-competitiveness is in part due to a decline in RE technology prices as well as significant price fluctuations in fossil fuels. Due to its modularity, off-grid RE can be flexibly adapted to local needs and additional generators can be integrated along with growth in demand. Off-grid RE also plays a key role in electrification to further other critical sectors. Improvements include access to clean water via water pumping and purification systems, expansion of telecommunication and healthcare, as well as availability of electricity for productive uses like small-scale businesses as shown in the table below. (IOREC 2012 - - 2013, 1–13, 17, 30).

[4] Estimates vary from 11 billion USD to 120 billion USD annually, with a mid-range of 50–60 billion USD.

Table 1 Example uses and costs of different system types on different market levels (adapted from Levai, Rippey, Rhyne & Allderdice 2011, 8)

Market level	System type	Use	Cost
Basic domestic (0,3-5 watts)	Portable solar lanterns	- Lighting & cell phone charging - Improved stoves	10-60 USD
Convenience & Home improvement (5-100 watts)	Fixed panel solar home systems	- Lighting, radio, TV - Solar water heaters - Biogas digesters	100-1 000 USD
Productive energy (100 watts-5 kilowatts)	Large solar home systems	- Longer working hours - More efficient production with machinery - Refrigerators, water pumps	1 000-10 000 USD
Community energy (over 5 kilowatts)	Communal minigrids on village level	- Water pumping / street lighting - Microhydro, solar/wind farm	Larger, longer term project finance

Table 1 above demonstrates a sample of uses and costs of different off-grid RE systems at different market levels: naturally, the simpler and smaller the use, the lower the price. The cheapest and most basic domestic solar lanterns can be purchased for as little as 10 USD, whereas large solar home systems of up to five kilowatts for productive energy cost from 1 000 USD upwards. As an illustration of the size of the market, in Africa alone, over 4 million solar lighting products were sold between 2009 and 2012 (Lighting Africa Market Trends Report 2012, 8).

The International Off-Grid Renewable Energy Conference of 2012 listed some of the most critical challenges for the mobilisation of off-grid RE as being access to affordable finance, policy and regulatory frameworks, education and training, general awareness and technology. Communication and cooperation between stakeholders and political commitment are crucial to further an enabling environment for rural electrification, like effective policy alongside clear regulatory and institutional frameworks to incentivise private sector investments, including local enterprise. The playing field should be levelled by phasing out kerosene subsidies and other market distortions. Product costs for the consumers can be reduced by fiscal incentives like import duty or VAT exemptions. Additionally, financing should always be context-specific, because high capital costs for the enterprises translate into high product costs for the consumers. Affecting long-term sustainability of projects were also mentioned challenges in the implementation phase, including high costs of collecting fees, delivering of after-sale services, as well as possibility of vandalism and theft. Sub-standard products and a lack of quality control go a long way in destroying the reputation of off-grid RE, and therefore stringent technical standards should be implemented. (IOREC 2012 - - 2013, 10–13, 31, 41).

The African continent houses extremely varying operating environments for off-grid RE implementation. This is exemplified by the case of solar lighting: mature markets like Kenya and Tanzania have better rural connectivity and supporting policy environments, whereas conditions are worse in countries of lower consumer awareness and challenging regulations, like Nigeria, Cameroon and Ethiopia (Lighting Africa Market Trends Report 2012, 30). Bhattacharyya (2013, 471) laments that multilateral funding agencies have paid more attention to large projects and countries than to funding energy access. He concludes that there is a global lack of funds going into addressing access to clean energy for all. Attention needs to be paid to the proportion of investments in energy going to off-grid versus on-grid, because the significant portion of people lacking access to energy remain in off-grid areas. (Bhattacharyya 2013, 463, 471). Also according to the UNEP Finance Initiative (Financing renewable energy – – 2012, 9) in order to bridge the financing gap in the African power sector, private investment has a crucial role despite, traditionally, the bulk of infrastructure investments having been made by governments. The following factors speak for renewable energy in electrification in Sub-Saharan Africa, especially off-grid: RE technologies can be deployed in a decentralised and modular way; the region has considerable RE resources; the RE resources are a domestic alternative to increasingly expensive and volatile fossil imports; the costs of RE technologies are falling steadily and nearly comparable with traditional generation; and RE technologies open up export opportunities due to eligibility for international carbon credits. (Financing renewable energy – – 2012, 10–11).

1.4 The purpose of this study

A decade ago the idea that philanthropy could be utilised to catalyse investments was non-existent, as well as it being uncommon to think that grants to for-profit firms could be the way to solve societal problems (Dichter et al. 2013, 43). However, as discussed in the sections above, new ways of addressing social challenges and new forms of organising enterprise are gaining momentum and are, as such, a current and relevant topic of study both scientifically and for society in practice. Due to their combination of social orientation and business approach, social enterprises also make for an extremely interesting topic of study. Additionally, energy and climate change are core societal issues both now and in the future, which makes also the sector choice of off-grid renewable energy topical.

The combination of financing and capacity gaps met by social enterprises in their early stages, defined as the pioneer gap above, leads to the purpose of this study. As of yet, the existing research on the financing gap is very limited **(**Exploring Energy SME Financing – – 2013, 9) and the term pioneer gap itself has only been used by Dichter

(2013). Kickul and Lyons (2012, 152) also mention the *"very little focus on the risk-taking expansion capital needed by social enterprises"*. Addressing the pioneer gap could be approached from the perspectives of several different stakeholders, like national government, multinational organisations or investors; however, the point-of-view chosen for this thesis is that of the social enterprise and how it can, through its own actions, bridge the pioneer gap.

A World Bank initiative, Development Marketplace (DM) is a competition-based initiative for promising new ideas of meeting the needs of underserved communities and a platform for finding potential business models. Rutherford and von Glahn (2014, 61–62) studied 30 DM prize-winning organisations, which were all found to request help with funding after the award funds ran out. This came in part as a surprise, because it was award-winning and recognised organisations in question, not any early-stage organisation. It prompted the question of if even the prominent early-stage enterprises cannot find sufficient funding, what is the situation with the less well-known ones? Another surprise was that the majority of the enterprises in question had *"at best indifferent"* promotional material. They concluded that even though *receptivity of investors* was a challenge on the supply side of funding, *preparedness of social enterprises* was definitely one on the demand side. (Rutherford & von Glahn 2014, 61–62). This leads to marketing lens chosen for this thesis.

Marketing corporate debt has been studied by Teinilä (2012), encompassing how large corporations market themselves to raise debt. Social enterprises, due to their very nature, have funding structures that include specific complexity and therefore frequently face a more challenging funding environment than much larger corporations. This implies the need for more flexibility and creativity in mobilising funding for the enterprise, which also perked the author's interest in the marketing perspective of fundraising, i.e. marketing to an investor to "buy" an investment or social impact. Adapting from marketing practices in corporate debt activities, this thesis will seek to understand the possible uses of marketing activities in fundraising of social enterprises operating in off-grid renewable energy in Africa[5].

The purpose of this thesis is to study *how social enterprises operating in off-grid renewable energy in Africa utilise marketing activities in their investor relations in bridging the pioneer gap.* This main research question can be divided into the following sub-questions:

- *How does the pioneer gap affect fundraising for these enterprises?*
- *How are the funding needs for these enterprises characterised?*
- *How do these enterprises build trust in their investor relations?*

[5] Africa in this thesis is taken to comprise Sub-Saharan Africa, if not otherwise specified.

The first sub-question aims at describing the fundraising *situation* in the pioneer gap context, i.e. fundraising ease or difficulty and factors contributing to this. The second sub-questions attempts to describe *what is needed* to bridge this, and the third *how to get it*, all coming together to answer the main research question. The terms *funding/financing/investment* as well as *funder/financier/investor* are used interchangeably in this thesis to mean all parties providing any type of funding to the enterprise, where not otherwise specified or obvious from context (e.g. regarding equity, an investor is concerned; regarding philanthropy, a funder is concerned). This thesis is aimed at practitioners with any business background.

The aim of the following chapter, for the main part a literature review of industry reports and practitioner literature, is to give the reader sufficient background knowledge to understand the specific characteristics and other factors affecting financing of social enterprise. These include the effect on fundraising of business models typical to off-grid renewable energy, characteristics of social enterprise, relevant asset classes and types of financiers. The topics are discussed with the overarching theme of how the pioneer gap can be addressed, revolving around the first and second research sub-questions. The third chapter, a theory chapter, discusses marketing practices in investor relations and builds towards a framework of relevant marketing practices for social enterprises to bridge the pioneer gap. This includes for example creating trust in social enterprise, in connection to the third research sub-question. Connections between the theory and literature and the research questions are illustrated in the operationalisation table in Appendix 1.

The fourth chapter illustrates the research design of this thesis. The case study method is chosen for data collection and analysis, to collect multiple cases of data to illustrate not differences between individual cases but more the actual phenomenon – the fundraising issues social enterprises in off-grid renewable energy face in the context of the pioneer gap. Chapter four also demonstrates the interview design and steps followed in data collection and analysis. Actual data analysis will follow in chapter five, divided into sections following the research sub-questions: the first theme is about fundraising difficulties, the second about the suitability of investors and the final about investor communication. The sub-chapters in chapter five will therefore answer the research sub-questions, which will be tied together to answer the main research question in chapter six: discussion and conclusions, comprising theoretical and managerial implications, evaluation of the study and limitations and suggestions for further research.

2 FINANCING SOCIAL ENTERPRISE

Berger and Udell (1998, 660) state that small business finance can be viewed through its growth cycle, meaning that different capital structures are optimal in different developmental stages. They continue that in general small businesses receive external funding as private equity and debt, rather than being involved in public markets. Beck, Demirguc-Kunt and Maksimovic (2008, 485) agree that firm size is significant in financing patterns and that smaller firms utilise external finance like banks less than larger ones.

This chapter will provide a literature review of mainly industry reports and practitioner literature on financing social enterprise. Some financial articles on SMEs applicable to social enterprise are also utilised. Relevant topics for financing social enterprise will be discussed and a background for the reader provided, of the specifics of financing social enterprise versus financing other kinds of SMEs. The first sub-chapter explains why the business models utilised in off-grid renewable energy increase the need for working capital especially in the early stages of the enterprise, and how the early stage of the industry translates into the pioneer gap and aggravates the challenges faced by single enterprises. The second sub-chapter introduces the different types of funding utilised in social enterprise, from philanthropic to commercial capital. The varying motivations, characteristics and roles of different financiers investing in social enterprise are introduced in the third sub-chapter, whereas the fourth sub-chapter more clearly returns to the pioneer gap context of fundraising and what can be done to address the funding and capacity gaps it consists of. Therefore chapter two gives the necessary background to start the first two research sub-questions on the effects of the pioneer gap on fundraising and the funding needs of these enterprises.

2.1 Business models in social enterprises in off-grid renewable energy

Devising a resource-smart business model entails determining which capabilities will be produced in-house, which by suppliers and which by partners. Having an efficient structure enables maximising impact with limited resources. In formulating the appropriate business model, the aspects that need to be taken into consideration are for example strengths within the enterprise, core capabilities concerning both impact achievement and team motivation, and non-central capabilities which can be bought cheaper than the enterprise itself could produce. (Dees 2001, 65–68).

Funding gaps are present along the whole supply chain, which leads to the fact that supply chain parties (manufacturers, distributors, retailers) cannot grant sufficient credit to the next player in the supply chain (Lighting Africa Market Trends Report 2012, 56).

Levai et al. (2011, 21) also stress that the funding gap needs to be addressed not only at the end user point, but across the whole value chain and especially in the parts doing the producing and distribution. According to Dichter et al. (2013, 38) the pioneer gap can lead to companies having to build their business model as completely vertically integrated, to manage every stage along the way. Pioneering firms often have no other choice but to take on the initial costs of building up infrastructure and supply chains, with other enterprises thereafter being able to benefit from these initial investments.

Ideas, to begin with, are not actionable business models, but they must be developed into attractive opportunities marketable to a range of stakeholders, like the targeted beneficiaries and investors. This requires making the case for the opportunity being viable as both a feasible business model and effective strategy for social impact. The business model illustrates the systematic model of necessary activities and resource allocation. (Kickul & Lyons 2012, 31–32). Business models in social enterprises often divert from what are considered traditional business models, like a “low-cost provider” or a “fast follower”. This shorthand allows traditional business managers and investors to easily confer and understand each other. (Landes Foster, Kim & Christiansen 2009, 32). Landes Foster et al. (2009, 33) imply that the lack of definition of funding types in non-profits represents a lack of understanding and clarity. This can be applied in the case of for-profit social enterprises as well, especially in the case of off-grid renewable energy, which as a sector also suffers from lack of knowledge both on the side of investors and businesses themselves, i.e. capacity gaps.

This subchapter introduces some characteristics of social enterprises in off-grid renewable energy, namely vertical integration of the models, which enhances working capital needs especially when scaling up operations as well as pay-as-you-go models, which illustrate how products and services can be priced to make them affordable to BoP customers. The final part of this subchapter looks at the traditional life cycle of a social enterprise and success factors for scaling up.

2.1.1 Characteristics of vertically integrated models

Provision of off-grid renewable energy (RE) naturally requires access to finance. This can be divided in two: the *“upstream” component* and the *“downstream” component*. Upstream finance refers to funding of the social enterprises themselves, while downstream refers to end-users, to consumer finance, which has already been discussed in the previous sub-chapter. (IOREC 2012 - - 2013, 12). Vertical integration of this downstream component into the business model increases need for working capital for the social enterprise. Critical aspects of off-grid RE business models include tailoring technology to consumer needs, adapting marketing to rural environments, and handling local human resources and capabilities as well as building capacity of management. An example of an integrated approach to rural areas is training loan officers to also market, install and repair systems as well as train consumers. (IOREC 2012 - - 2013, 21, 23). The nature of social enterprises operating in off-grid renewable energy (RE) requires that business models often integrate parts of the value chain into the enterprise, as illustrated below in Figure 3.

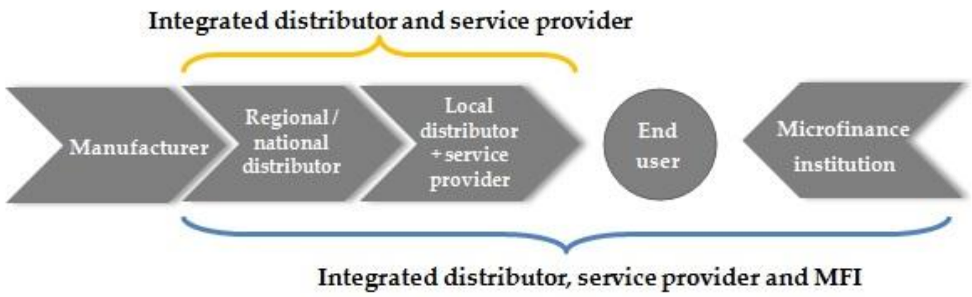

Figure 3 Value chain in the solar BoP markets (adapted from Exploring Energy SME Financing – – 2013, 16)

The figure above illustrates a typical example situation of the value chain of a solar company operating in the BoP markets. The international *manufacturer* of the product parts is commonly situated in China or Europe. The *regional or national distributor* is usually a SME situated in an urban area or transport hub and it storages the products before selling and shipping them semi-assembled to local distributors. It is typically funded by local banks or international funds. The *local distributor* on the other hand may be funded by *microfinance institutions (MFIs*), and is usually a micro-entrepreneur with less than five employees. The local distributor is the central link between the technology and the *end user*, taking care of the installations as well as after-sales maintenance and repairs of the products. The end user may be provided a loan for the purchase of the product by a local MFI, which can be the only formal financial institution willing and able to lend to local distributors and customers of energy SMEs. Integrating parts of the value chain into the business model of the enterprise may mean integrating for example the local distributor and service provider, or by going a step further by also including end-user finance in the business model. This approach may include a franchising model, discussed below, to spread the network of distributors that sell and service. Another alternative is for distributors to form partnerships with MFIs and even for MFIs to start selling the products as well. Integrating end-user finance as well as after-sales service is especially crucial. (Exploring Energy SME Financing – – 2013, 6, 16–

17). Added to after-sales service, strong quality control helps counter negative perceptions of reliability (IOREC 2012 - - 2013, 26).

Franchising may provide a less risky way to scale out a tested and proved business model, providing franchisee entrepreneurs with the support of a large organisation as well as a supply network (Sireau 2011, 4). Some additional challenges coming with franchising models however is the substantial amount of time it takes to develop and test the business model and also to recruit suitable (micro)franchisees, who need to most probably be assisted with financing as well (Lehr & Jones Christensen 2011, 69). An example of franchising is SolarNow with its network of local distributors. An additional challenge coming with the franchising network is ensuring quality standards along it: dealers installing cheaper, low-quality parts from other than the SolarNow brand has led to expulsion from using the brand. Franchisees are required to initially train all customers in system use and care, in return for SolarNow providing the credit facility for and credit assessment of end-users. (Exploring Energy SME Financing – – 2013, 39–40).

Referring back to the integrated value chain above, incorporating distribution and end-user financing “under one roof” can increase alignment of interests along the value chain via increasing the enterprise’s interest to not only grow sales but to provide quality products to minimise after-sales costs and maximise repayment of loans (Exploring Energy SME Financing – – 2013, 39). Decentralised distribution channels focusing on local capacities have been found to be more sustainable in the long term because of being able to lower operating costs, for example bulk ordering components. In addition to affordable finance at various stages of the value chain, another factor contributing to the sustainability of the business model is supplying electricity for productive uses, which serves a dual purpose by facilitating opportunities for income generation as well as ability of the communities to pay for the energy they use themselves (IOREC 2012 - - 2013, 18, 20, 22, 43).

2.1.2 Characteristics of pay-as-you-go models

To ensure efficient management of the systems once installed, innovative approaches to electricity distribution, load management, metering and billing of customers are being introduced. Effective load management, via for example automation to a high degree, can sufficiently lower operations and maintenance costs and increase lifespan. Operational costs can be reduced by utilising technology platforms like the Global System for Mobile Communications (GSM) network and existing deep dispersion of the mobile infrastructure to remotely monitor usage and collect fees. Mobile payment can be combined with remote monitoring of technical performance, which cuts down maintenance costs and improves system lifetimes. (IOREC 2012 - - 2013, 13, 26, 34). An example of this is the *“pay-as-you-go”(PAYG)* model to overcome end-user financing hurdles, where light is delivered according to micro-payments (Lighting Africa Market Trends Report 2012, 15).

Winiecki and Kumar (2014) have researched PAYG models and noted that a truly exciting feature is the payment flexibility that it enables by allowing customers to choose frequencies and amounts of topping up accounts, depending on cash availability and to fit customers’ economic realities. The down payment is usually 10–30 percent of the full price. Some models include the consumer leasing or ultimately owning the device through a rent-to-own system *(asset ownership)*, and in other models prepaid energy is delivered as an ongoing service *(energy-as-a-service)*. A multitude of manufacturers offer a three-year full warranty and technology like GSM/GPRS modules and machine-to-machine (M2M) chips ease remote monitoring of the devices. Additionally, the wide availability of mobile money services eases digitising and processing micropayments. The remotest areas however do not have connectivity and therefore the PAYG devices can be divided into *on-network* and *off-network* depending on whether they are directly connected to the mobile network or not. In the case that they are not, customers may be required to bring their products to agents to prepay and unlock the devices. Most solar enterprises with PAYG systems have until now developed their own software and hardware for payment enforcement from nothing, taking up significant amounts of start-up capital. (Winiecki & Kumar 2014, 2–4, 12–17, 27).

Providing leasing or credit options for end-users naturally requires constructing an in-house credit or finance function as well as staff appointed towards risk assessment and portfolio management. It is so far unclear whether or not customers lacking energy value models based on ownership over ones based on service. The distribution network employs commission-based agents, for example in supermarkets, retail stores, cafés and mobile phone shops. Partnerships with for- or non-profit organisations like mobile network operators (MNOs) may be established to ease distribution. (Winiecki & Kumar 2014, 17–18, 20–24). PAYG businesses collect and analyse thousands of data points per customer, for example on energy use, needs and preferences, which could potentially also be sold companies operating in consumer electronics. Insofar most PAYG businesses have funded initial stages through grants and impact-oriented equity. Debt as well as local sources of finance have been scarce, although some enterprises succeeding at raising funding demonstrate that the business models are becoming bankable. In the future there is a possibility for innovation in using upcoming cash flows from mobile payments as collateral. (Winiecki & Kumar 2014, 28–29).

2.1.3 Growth and scaling up

Bornstein and Davis (2012, 48) point out that although getting initial funding is never easy, *"social entrepreneurs have less trouble in getting started than taking off"*, meaning that the major challenge lies in getting access to growth capital, which illustrates the pioneer gap especially in this stage of the enterprise development. Nevertheless, there is considerable pressure for growth both in traditional and social enterprise. However, the very beginnings of social enterprise came out of the response to the distortions of overly blind focus on growth. Lynch and Walls (2009, 141–143) propose that it is crucial to *"grow only for the right reasons"*: growing to cover overheads is sensible to gain a certain critical mass, but in the long run, social impact should be the only right reason for growth. They also suggest for the enterprise to become excellent at their core business and scale that, i.e. *"do more of the thing you do, not more things"*. Therefore it is integral to maintain the discipline common to traditional business, set mission criteria to maintain a direction and avoid doing things that unproductively suck energy from more productive uses, while not losing the flexibility to incorporate learnings. Naturally it is also important to honestly and objectively determine the scalability of the business model, to be certain that the market is there. (Lynch & Walls 2009, 145–146, 150–151).

The social enterprise lifecycle begins with business model development and leads through proof of concept and scaling up to maturity. This is illustrated in the figure below.

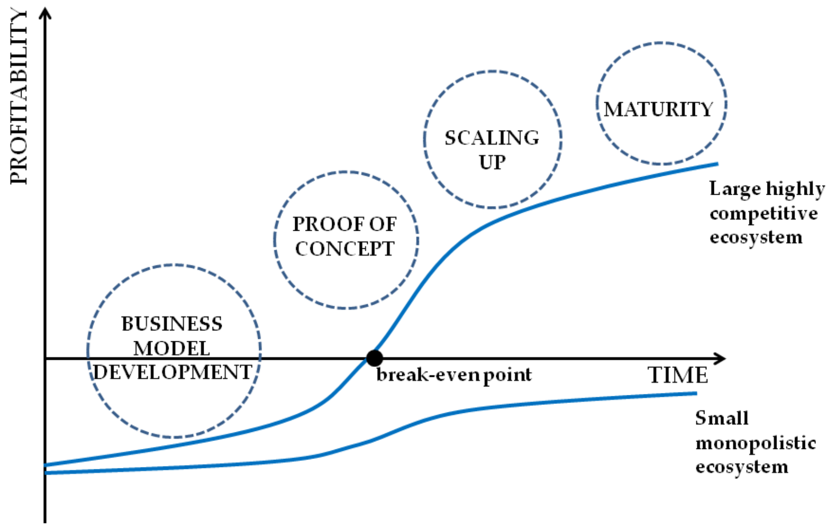

Figure 4 Social enterprise lifecycle (adapted from Bannick & Goldman 2012, 24; From Gap to Opportunity – – 2012, 70; Koh, Karamchandani & Katz 2012, 11; Peterschmidt 2012)

As is visible in the figure above, the social enterprise lifecycle begins with the *business model development* phase. The *proof of concept stage* includes regular operation, maintenance, monitoring and due diligence as the enterprise moves towards *scale-up* and replication of its business model and the *maturity stage* (From Gap to Opportunity – – 2012, 70 & Peterschmidt 2012). According to Bannick and Goldman (2012, 23–24), the adoption of new innovation has for years been illustrated in the commercial markets with the *"S-curve":* therefore advancing the point of rapid acceleration even slightly can yield huge leverage in terms of amount of lives impacted. Another alternative is the *"lazy S-curve",* the lower one in the figure, where the ecosystem is monopolistic, with little capital and little innovation. The solar sector is a good contender for beating this lazy alternative with a number of competitors having entered the field, driving down prices for simple products as well as expanding the product diversity (Bannick & Goldman 2012, 25).

According to Bardouille and Muench (2014, 12–14, 18), characteristics for the likelihood of a business model successfully scaling up include achieving profitability in less than three years to cater to the needs of investors as well as utilising a technological solution that is as easily scalable as possible and mobile phone technology for remote control and monetisation. Because there is no "one-size-fits-all" solution, an enterprise should not adhere to any particular technology or provider. Keeping operational costs low, building robust distribution networks and incentivising sales agents are also important factors. Finally, ensuring that the model does not require subsidies when scaled is crucial to illustrate sustainability and catalyse commercial capital to the sector, even though grants etcetera in early stages will possibly be required.

A business model that has been suggested as part of the solution to the energy access challenge is the *distributed energy service company* or DESCO model. Bardouille and Muench (2014, 3) vision for DESCOs to be able to grow as fast as telecom companies have, with a *"combination of commercial and concessional financing".* The key characteristics of DESCOs are that they are designed to scale, they provide a commercial return on investment, build customer relationships due to the service nature of the business and therefore receive ongoing payment from customers, for a lower fee than they currently use on kerosene or other energy. Most importantly, DESCOs focus on the part of the population that does not necessitate subsidies, freeing up these finite resources for the poorest who do need them. DESCOs can charge for services in multiple ways: by services consumed (*pay-per-use*), by access to the asset (*periodic rental fee)* or by customers eventually owning their own equipment (*lease finance model*). DESCOs can recover payments directly as cash or by providing end-user financing. (Bardouille & Muench 2014, 3–8).

Friebe, von Flotow and Täube (2013) found that the key elements for successful market deployment are a minimum of one year of maintenance and end-user financing, in the case of cash, credit, leasing and fee-for-service based models of solar home systems (SHSs). It is relevant to link products to services also in low-income markets, for example in the case of comparatively expensive products like SHSs, which should be combined with advisory, maintenance or finance services (Friebe et al. 2013, 767). Business planning is of course highly important. However, equally important is to remain *"nimble, quick, and fast on your feet"*, to not be bound down by the plans made. This is essential to be able to scale a social enterprise. It is advisable to have a grand vision and small plans which are not limiting in heading for the horizon. There is a crucial difference between *drifting* and *departing* from your plan: drifting is doing something different than planned, and departing is consciously deciding that the plan no longer fits the situation and therefore doing something that does. (Lynch & Walls 2009, 59–62).

Lacking resources may set the enterprise into a poverty mindset of using materials of inferior quality to cut costs (Lynch & Walls 2009, 152). Lynch and Walls (2009, 152) also suggest to not try and scale with inadequate resources if it means you cannot do it well, because the market is unrelenting and therefore it would be better to first get the resources up to date. Also, it is important to not ease your discipline even if the business is going well currently: reserves should be built for when it isn't. The entrepreneur's discipline as a leader will especially be tested in scaling up. This includes for example that the entrepreneur has to ensure staff are taking care of themselves but also that he/she is taking care of his/herself to be able to contribute. The enterprise culture, including the relationships and the atmosphere, has been built since the beginning and will be put to the test during expansion. (Lynch & Walls 2009, 153–155).

According to the impact investment management firm Invested Development, getting seed-stage funding for a social enterprise entails proving the concept, i.e. showing how you are planning to scale via your business plan, carrying out a small successful pilot, having a team with buying experience and showing a possibility for selling the product, not giving it away for free. Investments can be acquired from large organisation grants, foundation investments, high-net-worth individuals or seed or angel funds. Scaling the enterprise means having proven revenue, illustrating a vast market and having measured impact to show. Exits for equity investors remain one of the most difficult things for social enterprises. (Funding Options for Social Entrepreneurs 2012).

2.2 Funding types of social enterprise

Dees (2001, 72) has listed available capital sources for *non-profit* social enterprises as grants and donations, recoverable grants or zero-interest loans, below market-rate loans, tax-exempt market-rate loans or bonds, full market-rate loans and above market-rate loans from loan sharks. *For-profit* social enterprises have also equity funding as an available option, in which case the legal structure of the enterprise affects how the equity is raised (Dees 2001, 72). Alter (2007, 54) notes that when founding a social enterprise, a legal structure may be chosen in line with the main source of funding that will be sought: for-profits may be barred from receiving philanthropy, and non-profits find it hard to obtain commercial funds, e.g. debt. Non-profits, depending on local legislation, are publicly owned so raising equity is not an option. This can even lead to non-profits converting to for-profits to be able to capitalise with private funds. Nevertheless, early-stage social enterprises are commonly incubated within a non-profit parent. (Alter 2007, 54). Common types of funding in social enterprise, ranging from philanthropy to commercially-oriented capital, are described in the sub-sections below. After this, the next sub-chapter will move towards how these funding types are mobilised by different financiers of social enterprise.

2.2.1 Revenue

For example fee-for-service and repayment plans involve users of the product or service paying at least a fraction of the costs incurred, and in the case of loans, repaying at least a portion over a period of time. The advantages of these plans include reducing beneficiaries' dependency on charity and committing beneficiaries to the product or service. They also encourage people to take responsibility of their finances instead of being dependent on philanthropy, as well as giving them a right to complain about possible defects. Finally, charging fees exposes the product or service to the market and enables the enterprise to receive feedback. (Dees 2001, 14, 69–70). In addition to the primary beneficiaries, potential revenue sources are third parties with a vested interest and other parties who indirectly benefit. Third parties benefiting are likely to be other business owners and the government, from whom social enterprises may be able to get contracts to provide services. This may be the case concerning people receiving government benefits or access to social services to boost their work productivity. Third party payment lacks advantages of abovementioned user fees, which can be corrected by hybrid models where the primary beneficiaries make small co-payments. Other parties that indirectly benefit from the success of the social enterprise can be paying customers whose interests are aligned with the mission of the enterprise, i.e. an ecotourism enterprise using profits to support conservation. All in all, the funding model is likely to evolve as the enterprise develops over time. (Dees 2001, 69–72). Especially in for-profit social enterprises in off-grid renewable energy however, revenue is a key source of income, and the starting point is for all customers to pay the full amount of the product.

2.2.2 Grants, donations and subsidies

If the social enterprise does not plan to generate revenue, it would not be recommendable to approach investors who are looking for a return on their investment. In this case grants and donations are a better option. An important aspect to remember, however, is that grants are not free. Even though they do not need to be paid back, they incur costs: applying for them requires time and other resources, as does maintaining relationships and adhering to reporting requirements. Another aspect is the opportunity cost of being dependent on a funding source that may be a one-off windfall. Other sources of capital may prove more cost-effective, more in line regarding timing as well as renewability and also less restrictive. Additionally, being able to reduce dependency on philanthropy can have significant symbolic meaning to both the enterprise itself as well as to stakeholders, signalling success. (Dees 2001, 73). Therefore it can be said that philanthropy can have an important role in kick-starting the enterprise, but involves the risk of distorting markets by artificially subsidising also enterprises that should be allowed to fail (From the Margins – – 2013, 28). If utilized, subsidies should be phased out as soon as possible after the fulfilment of their tasks, so that they do not end up distorting the market mechanism (Financing Mechanisms for Solar Home Systems – – 2002, viii, ix).

Grants can play a vital role in attracting additional commercial funding and possibly subsidising risk premiums, whether this is to the liking of the grant makers themselves or not (Morduch 2011, 80–81). Subsidies may also be required to start off firms at the very base of the pyramid, but can even be potentially harmful when provided to enterprises serving customers with disposable income. Risks with subsidies include preventing a level competitive playing field if only some businesses receive subsidy, which in the end also harms end-users instead of benefiting them. Also, subsidising a business with no scaling prospects is below optimal use of capital. Finally, using subsidies may compromise the promise of impact investing, which is to provide acceptable rates of return while generating social impact. (Bannick & Goldman 2012, 17).

When benefitting more than one company, philanthropic capital can, however, create valuable public goods, like infrastructure, business models, skills for working life or customer awareness. It can also be in a valuable role developing the whole industry by ensuring that more enterprises are funded to be able to scale and test out their viability on the market. In these situations philanthropy can multiply impact and act as a catalyst which is not possible for investor capital. An example of this is microfinance, where the unprofitable business model was subsidised by philanthropy for years before becoming commercially viable and attractive to investors. Therefore the potential role of philanthropy in developing pioneering business models aiming for commercial viability should not be overlooked. (Koh, Karamchandani & Katz 2012, 8–9, 49). As Bannick and Goldman (2012, 17), put it: *"It is all fine and well to complain that subsidies may distort markets, but what if there is no market to distort?"* Subsidies may also catalyse models that indirectly provide learning opportunities for other players in the industry, and also work towards creating a pipeline for the impact investors to invest in. Therefore Bannick and Goldman (2012, 18) conclude that the conditions for different investment types complementing development of an industry depend on the context. Koh, Karamchandani and Katz (2012, 30–33) suggest that in order for enterprise philanthropy to work, "4Ps" have to be met: First of all, it is crucial that management and investors have aligned thoughts on the goals and *purpose* of the enterprise. Secondly, the customer proposition has to be *profitable* in the long-term and at a price that the customer is willing to pay. Third, when validating the model, there has to be a clear *progression* towards viability. Finally, *persistence* is required: as in the case of microfinance, it took decades to make the model viable and investable.

2.2.3 Impact investments

Impact investments range from community development and microfinance to investing in health, education, renewable energy and international development (Toniic E-Guide to Early-Stage – –2013). The Global Impact Investing Network, a non-profit promoting the scale and effectiveness of the sector, defines impact investments as *"... made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances."* (About Impact Investing).

The World Economic Forum (From the Margins – – 2013) shares the Global Impact Investing Network's criteria for impact investments, which are illustrated in Figure 5 below. These core characteristics of intentionality, range of return expectations and asset classes as well as active measurement will also be used also in this study for a definition of impact investment.

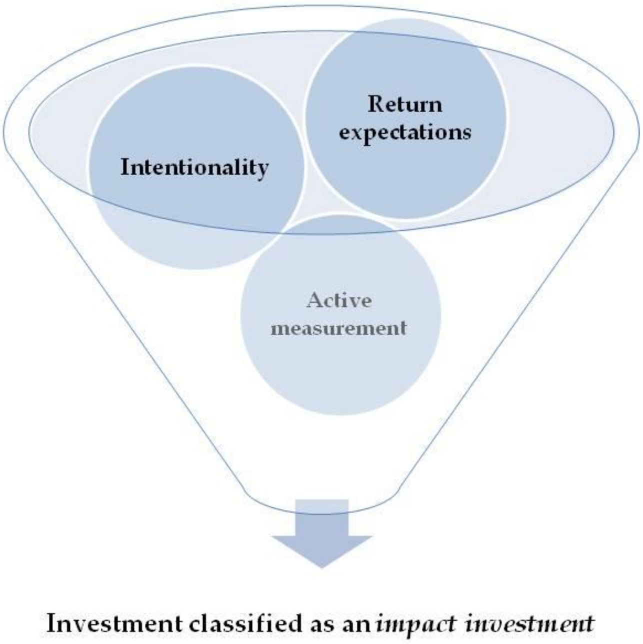

Figure 5 Criteria for an investment to be classified as an impact investment

Intentionality is defined as an investor's intent to create social and/or environmental impact. In order to create this impact, the investor invests either via funds or directly into individual enterprises that generate impact increasing accessibility of critical goods or services. (About Impact Investing). The aspect of intentionality separates impact investment from for example financially oriented pharmaceutical companies developing life-saving drugs (From the Margins – – 2013, 7). Impact investors *actively measure* not only the financial impact their investments create, but also the social and environmental impact, aiming at accountability and transparency (About Impact Investing). The *return* *expectations* in impact investment can be translated into expectations of financial return (at the very least return of capital invested) alongside social or environmental impact, separating it from philanthropy. Return expectations range from below market rates to risk-adjusted market rates. The Global Impact Investing Network and the World Economic Forum stress the importance of noting that *impact investments are not a separate asset class, but an investment approach* or criterion, based on which investments across different asset classes are made, for example venture capital, private equity or debt. Bugg-Levine and Emerson (2011, 9) state that the shortest route from investment decisions to their social impact is investing direct capital in enterprises. According to some views, impact investing is most catalytic in the early-stage risk capital it provides, to help reduce the risk in order to make the business models attractive to mainstream investment, which can then be used to scale up in the future. (From the Margins – – 2013, 4–9).

2.2.4 Debt and equity

An aspect not often thought of is that being able to repay investors is resource-smart in a global sense, because it frees up the invested funds to be recycled into other projects, possibly also the enterprise's future projects. Debt or equity may be a viable option in the case of having major capital expenditures but also predictable future revenues. A loan may fit a situation where working capital needs are great, meaning that expenses need to be paid before revenue is received. Equity investments come into question when looking to start a for-profit enterprise, because in these cases it would only make sense to take out a loan when having certainty over ability to repay. However, for social enterprises it may be difficult to attain capital that needs to be repaid, due to lack of a track record. The options in these situations are to find investors that are more mission- than profit-driven or to otherwise demonstrate potential. (Dees 2001, 73–74).

For small businesses, evaluating the creditworthiness of the entrepreneur may often be more informative than attempting to evaluate the creditworthiness of the enterprise, because individuals have longer credit histories and assets to pledge. This means that personal and business finances are often intertwined. (Berger & Udell 1998, 626). Techniques to lend to smaller and more informationally opaque firms with little collateral have been developed around the world. *Relationship lending*, based on soft information and long-term relationships between the borrower and lender, has traditionally been viewed as suitable for SME lending. *Transaction lending,* based on hard information has, however, had its technologies developed in the previous decades to also better circumnavigate constraints of SME lending. Examples of these are asset-based lending and leasing, i.e. techniques for having assets as primary sources of repayment. (Berger & Udell 2006, 2946, 2949, 2951).

Debt should preferably be denominated in the local currency, meaning the currency that enterprises for the most part also operate in. This serves as protection against exchange risk[6], i.e. exchange rate fluctuations (From Gap to Opportunity – – 2012, 71). Another issue with social enterprises operating in off-grid renewable energy can be that lenders may be inflexible considering extending loan periods to correspond to longer payback periods of customers via end-user financing **(**Exploring Energy SME Financing – – 2013, 13). *Quasi-equity*, i.e. *mezzanine financing* may also be a viable option in the early stages of social enterprises. It is subordinated debt, involving a mix of debt and equity, which allows for investors to gain through appreciation of capital and interest payments on debt. A subcategory of quasi-equity, *revenue share* is utilised where debt financing is too demanding. It is reliant on the financial performance of the enterprise and is calculated as a percentage of future revenue. Less risky for enterprises is *profit share*, similar to revenue share but calculated out of bottom-line profits instead of top-line revenue. (Toniic E-Guide to Early-Stage – –2013, 19–20).

Equity investments are very different from debt, as there is no fixed repayment schedule and the investments are more risky for the investors, due to them getting paid last after debt obligations are fulfilled. However, whereas debt investors profit no more than the relatively small risk premium they receive, equity investors profit from dividends and selling their share if the value of the company has gone up, i.e. the profit is in theory limitless. An exit strategy is therefore required for equity investors. (Dees 2001, 72). Conversely, developing countries' capital markets are often underdeveloped to offer secure exits, making private equity less attractive for investors (Barreiro et al. 2009, 5). Public equity is investment into a publicly traded impact enterprise, which can be listed on for example London's Social Stock Exchange (SSE) or Singapore's IIX. Few enterprises of this magnitude exist however, due to the early stage of development of the whole market. (From the Margins – – 2013, 20).

2.2.5 Bonds

Bonds are issued by financial institutions, corporations or governments and can be short term (less than one year) or long term (five years and up). An example of a bond fol-

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[6]The further study of exchange risk is beyond the scope of this thesis. However, in developing countries, for example loans are often in either USD or EUR and also need to be paid back in these currencies, even though the business itself operates in local currency, posing an exchange risk.

lowing a traditional structure is the International Finance Corporation's (IFC) *green bond*. Following an untraditional structure is the *social impact bond (SIB)*, where a private investor provides the capital to fund an intervention on a social challenge like recidivism, and is then paid for the success of the intervention. The success is determined by the savings achieved by the intervention to for example the government. A common structure includes that a foundation guarantees part of the principal invested, allowing philanthropists to create more impact by leveraging their contributions. Due to their highly structured nature, SIBs have high transaction costs and require a stable legal framework. Therefore, they may not be suitable for use in frontier markets. (From the Margins – – 2013, 19).

2.2.6 Carbon finance

Carbon finance, like the Kyoto Protocol *Clean Development Mechanism (CDM,)* is a key mechanism in involving developing countries in climate change mitigation. However, CDM still operates on a small scale as high transaction costs hinder utilisation in small projects and therefore barriers continue to outweigh benefits. (Bhattacharyya 2013, 466). For some cook stove manufacturers, carbon finance is already proving a relevant source of revenue. However the up-front registering costs can be anywhere up to 200 000 USD and the time lag in receiving the carbon revenue around two years, so the opportunity remains out of the question for small companies. (From Gap to Opportunity – – 2012, 72–73). Introducing Programmes of Activities (PoA) which combine multiple small projects under one programme umbrella could reduce transaction costs for individual energy initiatives to realise CDM opportunities (Glemarec 2012, 92).

2.3 Financiers of social enterprise

The Sustainable Business Institute and Micro Energy International have grouped players providing finance into local financial institutions, funders and investors, starting with the ones closest to the enterprise. *Local financial institutions* are domestic financial institutions, mostly commercial banks. Impact investors and venture capital funds are grouped as *funders*, who mostly have headquarters overseas and have varying emphasis on financial, social and environmental impact. Funders invest through direct equity and debt as well as credit guarantees or funding MFIs, and also often provide technical assistance for enterprises to become more investment ready for mainstream capital. Institutions that refinance funders are classified as *investors*, which can mean a combination of traditional and more philanthropically inclined investors that are further away from the enterprise, including development banks or institutions, philanthropic foundations and other large international organisations. Investors are players that have traditionally been associated with large energy projects, but have become increasingly aware of the significance of smaller enterprises in enhancing energy access. (Exploring Energy SME Financing – – 2013, 18). The categorisation above illustrates how different investors play different roles in funding, however, as specified in the introduction, in this thesis the terms *funder*, *financier* and *investor* are used interchangeably were not otherwise specified. Different types of investors prefer using different types of funding, but all in all, there is a need for coordinated efforts by both national and international actors in financing off-grid RE. A more holistic approach is required to be able to move away from the individual grant-funded project approach. (IOREC 2012 - - 2013, 11). Many investor groups investing in social enterprise often term these investments impact investments. This sub-chapter discusses the roles and characteristics of different financier types in social enterprise. Financiers range from socially-oriented foundations to commercial investors, making up the social enterprise spectrum, discussed below. Variations of investor expectations regarding risk, return and impact of the deals are also discussed before moving on to the different financier types.

2.3.1 The social enterprise spectrum

Freireich and Fulton (2009) have classified impact investors into two groups: *impact-first* and *financial-first*. This means that certain investors are more philanthropic in their outlook, prioritising social and/or environmental impact, whereas others are more traditionally focused on the economic value that the investments create. The International Finance Corporation report (From Gap to Opportunity – – 2012) discusses a division of *commercial and impact investors*. Barreiro, Hussels and Richards (2009, 1–2) have likewise divided their investment fund manager interviewees into two categories: *blended capital intermediaries* and *venture capital (VC) funds*. Blended capital intermediaries can be characterised as impact-first investors and VC funds as financial-first aiming at market returns.

On the other hand more recently there have been more propositions that investor objectives are far more multi-faceted than a simple dichotomy can allow for, or that can be narrowed down to social or financial motivations. In the past, in a binary world, social enterprises operated on pure grants (negative 100 percent returns for the grant-makers) or pure markets (starting from 5 percent and up returns for their investors). This excluded the possibility of tapping into the larger range of investment opportunities of everything that is left in between. (Bornstein & Davis 2012, 54). According to Dees and Economy (2001, 14), a whole continuum of options exists on the spectrum of structuring social enterprise, between the purely philanthropic and purely commercial outlook. This is illustrated below in Table 2Table 1.

Table 2 The social enterprise spectrum (adapted from Dees & Economy 2001, 15)

	PURELY PHILANTHROPIC	***HYBRID***	***PURELY COMMERCIAL***
	CONTINUUM OF OPTIONS		
MOTIVE OF STAKEHOLDER	Mission-driven	Mix of mission & profit	Profit-driven
GOAL OF STAKEHOLDER	Social value creation	Both social & economic value creation	Economic value creation
METHOD OF MARKETING	Appeal to goodwill	Appeal to both goodwill & self-interest	Appeal to self-interest
KEY STAKEHOLDERS:			
BENEFICIARIES	Pay nothing	Pay subsidised rates / mix of full payers & those who pay nothing	Pay full market rates
CAPITAL PROVIDERS	Donations & grants	Below market-rate capital & some revenue	Market-rate capital
WORKFORCE	Volunteers	Below market-rate wages / mix of volunteers & fully compensated employees	Employees with market-rate compensation
SUPPLIERS	Make in-kind donations	Offer discounts / mix of in-kind & market prices	Charge market prices

The table above illustrates the two extremes and possible hybrids between them. Motives of stakeholders, like investors, can for example range from mission-driven to profit-driven. Therefore marketing to these stakeholders should also take this into account, for example, whether to appeal to goodwill or self-interest. Purely philanthropic capital providers utilise donations and grants, whereas purely commercial ones provide market-rates along with their deals. Due to the nature of off-grid RE business models for social enterprises, a hybrid is most often necessary: where one does not exist it can be created by combining different types of capital and capital providers into an appropriate funding mix.

2.3.2 Risk, return and impact expectations

Barreiro et al. (2009, 21) point out that investing in SMEs and emerging markets are deemed high risk, something that investors shy away from also due to the recent financial crisis. However, the failing of complex financial instruments has made simpler investments in real enterprises and real entrepreneurs with tangible value propositions more lucrative. All in all, and especially in the case of equity investors, it is crucial to be aware of what kind of returns investors are expecting and the timeframe that they expect it by (Dees 2001, 72).

In the early developmental phase of the firm, the *risk-return profile* is often inadequate for traditional investors. Therefore a large amount of the funding received by social enterprises is impact investment by nature. (From the Margins – – 2013, 18). Commercial capital is extremely important in impact investments, but it tends to come in at stages when investments have been considerably de-risked and is therefore unlikely to fill the funding gap for enterprises being first pioneers innovating or developing infrastructure (Bannick & Goldman 2012, 14–15). Therefore, often bypassed is the fact that the most difficult and risky investments are avoided by most investors, even though they, when successful, would also have the greatest potential in benefiting those most in need. Investors often claim that financial returns are not sufficient, without really considering that of late the entire global venture capital market has failed to provide its investors with much profit at all. It is therefore ironic that impact investments, created to broaden the focus from only financial returns being important, are put under pressure to create the same market rate financial returns as fully commercial investments. (Dichter, Katz, Koh & Karamchandani 2013, 38–39). However, according to respondents of the J.P.Morgan's annual impact investor survey, investment portfolios were generally found to be performing in line with both impact and financial expectations, with some even financially outperforming expectations (Saltuk 2013, 2–4, 14). Therefore it is likely that once more experience is gained regarding financial performance, more funds will also be directed to impact investing. (From the Margins – – 2013, 8, 21–22).

Measurement and performance metrics in socially-driven investments remain an unresolved issue (e.g. Emerson 2003, Kickul & Lyons 2012, From the Margins – – 2013), as naturally non-financial value is abstract and subjective to measure. The topic's relevance to financing social enterprise lies in the motivation of investors, some of which are more socially than financially oriented as discussed in the previous section. A lack of effective and common tools for measurement and reporting still exists, as well as a lack of agreement over what exactly should be measured and reported. According to the Global Impact Investing Network, best practices for measuring social or environmental impact include clearly stating the social and environmental objectives of the relevant stakeholders and setting targets in standardised metrics related to the said objectives. The investees are monitored and managed against the targets and performance is reported to stakeholders. (About Impact Investing). Also, as stated by Brandenburg (2012), *"metrics play a critical role in distinguishing good companies from good marketing"*. *GIIRS*, the Global Impact Investing Rating System and the GIIN's *IRIS*, the Impact Reporting and Investment Standards are widely utilised by the impact investing community and constantly developed (How GIIRS Works & About IRIS). However, according to the Social Impact Investment Taskforce, no single system or data infrastructure has grown to the necessary critical mass to ensure widespread adoption, although many are coordinated or aligned (Measuring Impact 2014, 23).

Bornstein and Davis (2012, 49) lament the lack of standardisation concerning reporting standards required by different investors, because different investors requiring different information for due diligence makes fundraising expensive and time-consuming for the enterprises. Barreiro et al. (2009, 18) also point out that entrepreneurs are possibly required to comply with various reporting requirements used by different investors. Therefore, they see the key aim being construction of a system for monitoring and evaluation that is cost-effective and generates valid information to different sectors and funding models. Also, due to the ability of an enterprise to raise funding not necessarily being linked with its results, strongly branded but mediocre organisations may end up dominating the market (Bornstein & Davis 2012, 49). A fundamental problem is also that it is difficult for investors on the other side of the world to determine the impact that their investments actually have in reality (Dichter et al. 2013, 42).

Additionally, social and environmental impact (e.g. benefits of increased school enrolment for girls) may be visible only after long time periods, requiring measurement consistently over a long period. This may not suit the investment horizon of especially institutional investors. Due to this and its costliness and complexity, it has been suggested that measurement needs to be invested in by the main beneficiary in the long-term, the government, to form public-private partnerships. Some funds invest in only the impact enterprises whose business models are connected to their performance also in social and environmental terms, for example solar lamps, so that financial success also implies social success. (From the Margins – – 2013, 26).

2.3.3 Individuals

Primary asset owners in impact investments are often *family offices* and *high-net-worth individuals (HNWIs).* One reason for HNWIs and family offices to be prominent in the field is that they have more flexibility and autonomy over their investment decisions and need to cater to fewer stakeholders' needs. (From the Margins – – 2013, 4, 12–13). High-net-worth individuals are also seen as possibly catalytic to the impact investing sector, because a multitude of them have strong entrepreneurial backgrounds, embrace innovation and experimenting in the market and additionally have a high tolerance for risk (Bannick & Goldman 2012, 15).

HNWIs often come in the form of *venture capitalists (VCs)* or *angel investors*, whom social enterprises can also seek investments from (Kickul & Lyons 2012, 156). They usually opt for financial returns, but are willing to wait longer than traditional venture capitalists or commercial capital for these returns. VCs work closely with the enterprise and may opt for management positions or board seats. Lehr and Jones Christensen (2011, 77) describe angel investors as a subset of venture capital investors – private people investing their private funds. They tend to provide smaller amounts than venture capital, but often invest for other than purely financial reasons and fill the funding gap after seed funding. Barreiro et al. (2009, 22) echo the close working relationship that angel investors have with enterprises and add that they have the possibility to also assist in creating major recognition for new business models.

2.3.4 Foundations

Foundations tend to invest in relatively low-risk debt, and so in order for them to increase their investments in innovating enterprises, they would have to undergo a change in their mindset regarding the role of philanthropy: from previously addressing market failures to increasingly realising philanthropy's potential as a market catalyst (Bannick & Goldman 2012, 14–15). Foundations are key in building capacity among social enterprises and impact investments. In order for the business model to be scaled, early-stage risk capital is required. This also prepares the organisations for larger investments in the future. In that sense, philanthropists and foundations play a major role in bridging the pioneer gap. Foundations, with their purpose of addressing social challenges, are also significant impact investors. (From the Margins – – 2013, 12–13, 28). Especially US-based foundations commonly make programme-related investments (PRIs) which further the foundation's charitable goals, supplementing existing grant programmes. PRIs can be a variety of commercial vehicles, most typically below-market-rate loans or equity investments (Lehr & Jones Christensen 2011, 74–75). An important point is made by Bardouille and Muench (2014, 21) about the importance of strategic investors who do not directly operate in the same industry but would largely benefit from the electrification of off-grid regions: an example is companies selling consumer electronics and household appliances. Especially large corporations in these sectors may have foundations or research departments that may prove potential investors.

2.3.5 Institutional investors

Institutional investors are here seen to include *banks, finance companies, pension funds and insurance companies.* Their common characteristic is that they are liability-constrained investors bound by their fiduciary responsibilities, which makes them much more cautious in socially-oriented investing (From the Margins – – 2013, 12–13). They often invest through impact investing funds, i.e. the intermediaries discussed further in this chapter.

The World Economic Forum (From the Margins – – 2013, 23–26) has listed four overarching challenges that hinder institutional investors in impact investing. The gravity of these challenges naturally varies based on investor, investment strategy and investing environment. The first challenge for institutional investors is the *early-stage of the ecosystem*. The track record of impact investment funds is relatively short and there is a lack of mainstream intermediaries to ease the distribution of investment products. There also exists a demand for more creative and scalable impact investment products, as well as for an index to benchmark performance against. The second challenge consists of the *small average deal size* because of inability of small enterprises to put large amounts of funds to use in their current stage, and will of institutional investors to invest large amounts. Because of this, costs of due diligence are also relatively higher than with traditional investments, and finding the right deals is costlier. Therefore for institutional investors it might be more beneficial to invest in other asset classes than private equity, like infrastructure or real estate deals, which tend to be larger. (From the Margins – – 2013, 23–24).

Another challenge that institutional investors have to manage is how to fit impact investments into their previously existing *asset allocation framework* with its rules and norms. Institutional investors typically measure a number of criteria from their investments, for example volatility and liquidity, for which data may not yet be available in the case of impact investments. On the other hand, the metrics for social and environmental impact may be difficult to fit into the existing framework. These issues may be resolved by framing impact investments as diversifying the portfolio or by high commitment to the cause from the management. Institutional investors also commonly organise by asset class, which makes it difficult to find the correct decision-maker for impact investing, an investing approach spanning different asset classes. Also, *fiduciary duty* is something that will continue to drive institutional investors, along with formal decision-making processes and governance. Based on these challenges, the unconventional impact investments may be deemed too uncertain. (From the Margins – – 2013, 25–26).

SME banking, however, is in transition: from having been considered too demanding for banks, to becoming strategically important and growing fastest in emerging markets, where also the financing gap has been the broadest. Banks are required to understand the market and how it is differentiated from more commercial segments, but that more products than just lending are desired. (The SME Banking Knowledge Guide 2010, 5–6).

2.3.6 Microfinance institutions

The existence of *microfinance institutions (MFIs)* rests largely on the social contract with its lenders to repay their loans and keeping repayment rates high, which also allows for relatively low interest rates compared to local moneylenders. Main reasons for repayment are peer pressure, which may be increased by joint liability of a group borrowing together, and trusting that the MFI will stay in business to provide new loans in the future. Therefore defaults weaken both of these aspects, and lead to even more defaults. This necessarily stringent attitude towards defaults implies that microfinance is not an optimal alternative for high-risk projects, including enterprises that wish to scale beyond micro-enterprises. (Banerjee & Duflo 2011, 175–176). In the future, microfinance might increasingly provide a financing option for microfranchisees of enterprises operating through a franchising model (Lehr & Jones Christensen 2011, 75).

2.3.7 Governments and development institutions

Governments can play a role in catalysing investments that create public benefit by de-risking the ecosystem, by taking a subordinate position in a layered-structure fund and pooling capital for anchor funding, which will be discussed in more detail in the next sub-chapter. (From the Margins – – 2013, 29–30).

Policy instruments supporting the utilisation of off-grid renewable energy (RE) include both financial and fiscal incentives as well as eliminating market distortions like fossil fuel subsidies. Financial incentives may include grants, softer loan terms or guarantees while fiscal incentives include favourable value added tax or import duty terms. Policy can also aid in using awareness campaigns to dispel myths about RE technology that is “unreliable and expensive”, a major prejudice hindering full utilisation of the possibilities provided by off-grid RE. Consumer education on proper use is crucial, and a requirement especially as the market grows is the development of local technical skills. The development of the regulatory framework can also aid moving towards a sustainable off-grid RE market by removing barriers and increasingly taking into account the local socio-economic environment. Therefore efficient standards and quality control need to be in place. (IOREC 2012 - - 2013, 11–13). Imposing minimum quality standards for off-grid products moves competition away from being price-based to being quality-based. It is crucial for governments to ensure that existing regulation is not a patchwork of red tape hindering the development of the sector. **(**Exploring Energy SME Financing – – 2013, 7, 41–43).

A hindrance is that according to Bornstein and Davis (2012, 48), governments commonly prefer to pay for services rather than invest in institution building, even if they would have the resources for this. Also, government funding is often unpredictable due to political cycles, and nevertheless social enterprises may encounter difficulties in complying with heavy reporting requirements that governments implement. However, Bannick and Goldman (2012, 21–25) imply that enlightened politicians and other policymakers have the capability to substantially speed up scaling an industry, if the right frameworks are in place. They give the example of Bangladesh, where the government has hugely accelerated the deployment of solar home systems (SHSs) with encouraging terms for finance, which has led to the installation of over 30 000 SHSs per month. On the other hand, it is crucial that public support continue past pilot projects, into scaling up the sector **(**Exploring Energy SME Financing – – 2013, 4).

Development (finance) institutions are among major primary asset owners and prefer to be providers of catalytic funding, therefore funding first-time investments in certain sectors or geographical areas (From the Margins – – 2013, 12–13). However, the African Development Bank (AfDB) as well as the World Bank (WB) have been criticised for skewed preferences for large projects and large markets at the expense of poorer economies, therefore leading to a lack of attention for energy access (Bhattacharyya 2013, 466). Development institutions deploy billions annually towards combating poverty and would therefore be good sources of funding for innovating companies and infrastructure developers. The problem may nevertheless be the often used incentive structure which rewards based on volume of deployed capital. This is incompatible with the small deals enterprises in early stages require. Development institutions may often also be required to report on their profits, so they are not encouraged to invest in high-risk equity. However there are a number of examples bringing hope, for example the World Bank's Development Marketplace and USAID's ventures for development innovation. (Bannick & Goldman 2012, 14–15).

2.3.8 Investment funds

Investment funds are a common route for mainstream investors to get involved in impact investing. These funds differ depending on for example target sector, geographical area, institutional area, subsidy use and return expectations. Funds prefer to invest into companies in the growth stage. Even *fund-of-fund* structures have emerged to suit the needs of larger institutional investors. Private equity and venture capital investments are often made via third-party managed investment funds that invest in social enterprises. Private equity is the most common form of impact investment made by impact investment funds. Funds are used because direct deal sizes with social enterprises are often too small for institutional investors like investment banks. Around 250 impact investment funds are listed in ImpactBase. Funds especially need to ensure that generated financial returns are clear and transparent for investors to be able to compare and classify different investments, and also because misrepresentations hinder the development of the whole sector by incurring reputational harm. (From the Margins – – 2013, 13–14, 20, 27). An option for impact investment funds is also creating a working capital *revolving fund* (250 000–2 million USD) for manufacturers so that they would be able to extend credit to the distributors down the supply chain (Lighting Africa Market Trends Report 2012, 66). Funds specialised in energy SMEs face less information asymmetry compared with other financial institutions due to having more knowledge on the sector and related business models and technologies **(**Exploring Energy SME Financing – – 2013, 30–32).

Clark, Emerson and Thornley (2013, 10, 13) convey important characteristics for well-performing impact investing funds: applying the discipline that do traditional investment firms, but also creating *policy symbiosis* in partnerships across sectors, providing *catalytic capital*, *multilingual leadership* i.e. experience across sectors and fluency with different investor types and, finally, thinking *social mission first and last*. This signifies that financial and social objectives are equally important, and the strategy for achieving social mission is clearly expressed before investing, enabling a financial focus throughout the term of the investment without having to worry about mission drift.

2.3.9 Other intermediaries

Intermediaries can perform *due diligence,* i.e. collecting information about the enterprise, its team, prospects and possible collateral (Berger & Udell 1998, 614) as well as tracking realised returns to decrease the cost of due diligence for small investors (From the Margins – – 2013, 30). The benefit of intermediaries can materialise by them gathering investments and dispersing liquidity, reducing risk and transaction costs as well as facilitating payments and creating investment products that fit the needs of mainstream investors. *Exchanges* can facilitate transactions and aid in identifying investable opportunities. Examples include the Social Stock Exchange in London and the Impact Investment Exchange (IIX) in Mauritius. The *crowdfunding* scene is also growing globally and extending into the impact investment market. Examples in Africa include VC4Africa, through which investors can invest equity and MYC4, through which debt investments can be made (Toniic E-Guide to Early-Stage – –2013, 13). *Depository institutions* like Triodos Bank are similar to banks and specialise in receiving retail deposits and providing loans to enterprises aiming for impact. (From the Margins – – 2013, 16–17).

Intermediaries can also prove valuable in providing platforms for aligning investor preferences and capital with deal flow, necessitating better classification of available deals by expected return, risk and exit timeline. *Platforms and databases*, like ImpactBase by the Global Impact Investing Network (GIIN), assist by aggregating information for investors. In addition to providing resources and promoting best practices like GIIN and ANDE, the Aspen Network of Development Entrepreneurs, *networks* may pool capital from members to spread risk, for example like Toniic. *Rating and certification organisations* provide objective verification on social and environmental indicators, of enterprises or funds, therefore reducing risk for investors. Cases in point include the certification by B Lab in the United States and the evaluation by GIIRS. However, many organisations prefer to use internal performance measurement. (From the Margins – – 2013, 16–17, 30). An example of a *consultant* specialising in identifying and assessing energy SMEs as well as helping them become investment-grade, i.e. attractive to mainstream investors is Open Capital Advisors, a “financing bridge” operating in East Africa. They offer due diligence services for investors along with determining financing needs of SMEs and building their business up according to funder requirements. (Exploring Energy SME Financing – – 2013, 33–34).

Traditionally in business, *incubators and accelerators* focus on different developmental stages of the enterprises: incubators on earlier stages, before customers and revenue, and accelerators on enterprises in slightly later stages with customers and revenue. According to Baird, Bowles and Lall (2013, 2), however, in impact investing these distinctions have not been so black-and-white. Accelerators assist mainly early-stage enterprises by fellowships, mentoring, incubation and technical assistance as well as often also providing seed capital to help the organisation grow to become self-sustaining. They can therefore play a key role in bridging not only the funding but also the capacity gap for early-stage social enterprises by providing support in business development and mentoring as well as in accessing investors and partners (Baird, Bowles & Lall 2013, 1).

2.4 Bridging the pioneer gap in social enterprises

As discussed in the introduction, one listing of factors contributing to the financing gap has been dealing with liquidity traps because suppliers need to be paid upfront whereas end-user financing is required, information asymmetries caused by requirements of technical and sector specific understanding also on funders’ part, setting up a distribution and after-sales servicing network as well as running into international trade issues through international sourcing. All of the above lead to *working capital gaps*. Financial institutions have limited capability to assess investment opportunities and conduct due diligence in the sector, which is still relatively small in size and not highly developed leading to challenges in financial institutions building up sector expertise. Therefore this *information asymmetry* regarding the technology, products and required after-sales services enlarges the working capital gap. Understanding quality standards is crucial, because lacking product quality is often a key factor leading to higher default rates on end-user credit. Lack of liquidity hinders enterprises from growing and therefore also from absorbing larger amounts of capital. Sourcing internationally means high ordering costs especially in small orders. (Exploring Energy SME Financing – – 2013, 15, 24–26, 29).

This sub-chapter builds on the information of the previous ones to go deeper in the context of the pioneer gap: The first sub-section builds on funding types discussed earlier, and how they can be applied as *catalytic capital* to bridge the funding gap. The second sub-section continues from the different possible financiers introduced above and looks at who the possible *catalysts* are. After focusing on the funding gap, the other part of the pioneer gap, *the capacity gap*, is then discussed. Finally, the importance of investors taking *a sector approach* to assist the whole industry in developing, instead of focusing on individual enterprises, is explained.

2.4.1 Catalytic capital

Anchor investments, *de-risking*, *catalytic capital*, etcetera – all terms aiming at the same goal of bridging the pioneer gap. Anchor investments can be a form of de-risking impact investments, and can be provided for early-stage enterprises, first-time funds or market builders. *Guarantees* or *layered structures* lower investment risks for investors that may otherwise not be willing to invest and therefore work towards additionality, i.e. attracting additional capital instead of investing into something that existing investors would have invested in on their own as well. Guarantees can be used to underwrite below-market-rate financial performance, whereas layered structures allow for traditional investors to increase investments in impact investing by multiple-party involvement. (From the Margins – – 2013, 28–29). *Public-private partnerships (PPP)* can be a form to leverage private capital through risk-mitigating public grants, which can be used for due diligence or guarantees, like credit or currency guarantees as an example **(**Exploring Energy SME Financing – – 2013, 7). *Credit enhancement* is used to improve the creditworthiness of an investment. Problems in attracting financing for organisations or projects in early stages may arise specifically from lack of a track record. Credit enhancement tools can be letters of credit, reserve accounts and catalytic first-loss capital. (Catalytic First-Loss Capital 2013, 3)

The most relevant mode of credit enhancement in regards to impact investments is *catalytic first-loss capital (CFLC)*. CFLC can be defined as identifying the party to bear the first losses if an investment is unsuccessful and identifying what the amount of those losses is. Secondly, CFLC is defined catalytic by its ability to improve the risk-return profiles of the recipients. Third, CFLC is purpose-driven: it strives to attract commercial capital towards social or environmental solutions and possibly also demonstrate commercial viability of a previously underserved market. CFLC can also improve terms for social enterprises to attain financing, like lowering the cost of capital, and bringing additional expertise to the receiving organisation which can further reduce risk. Concerns have been voiced regarding distortion of markets and moral hazard by possibly encouraging undesired risk-taking. CFLC instruments include grants, guarantees, equity and subordinated debt. (Catalytic First-Loss Capital 2013, 3–5, 9). Catalytic capital can be *sustaining* as concessionary investments or subsidies, but may function also through *signalling* via the reputation of a certain investor attracting other investors to the deal. Other functions include *seeding*, i.e. making a first investment in a fund to help develop a track record to attract other capital, as well as *reducing risk.* (Clark, Emerson & Thornley 2013, 19–20).

Jacqueline Novogratz, founder and CEO of Acumen Fund, a non-profit venture capital fund, discusses *patient capital* as a solution to pioneer gap-like problems. According to Novogratz (2011, 62), a funding gap for emerging social enterprises arises when traditional venture capital firms are reluctant to wait decades to see a financial return for their investment, and on the other hand when charities are unwilling to support for-profit business. Therefore Acumen invests patient capital, debt or equity, for a time period of up to 15 years to allow the enterprise time to develop. The investments are made in early-stage enterprises targeting low-income consumers, and are also combined with management support services, aiming towards scaling the enterprise. (Patient Capital). Also Barreiro et al. (2009, 13) state that for SME finance, the optimal cycle is roughly ten years, which is a far longer time than the common cycle for institutions making grants.

All in all, receiving sufficient funding entails coming up with creative ways to interest financiers at different stages and balancing the needs and wants of multiple stakeholders. *Enterprise philanthropy* has been suggested as a way to bridge the pioneer gap. It aims at getting the enterprise profitable, not to be used to subsidise the price of products to the end consumers. It supports progression via operating milestones and persists through the cycles of refining the business model. This naturally requires a high level of engagement from its providers, and failures often result from not succeeding in aligning the purposes of different stakeholders. Enterprise philanthropy can also be seen as an opposite of traditional philanthropy: in the latter grants would normally be made only to directly impact disadvantaged people's lives, instead of investing in potential catalysts of development. Combining philanthropy and investment capital could be done via *blended investment funds*, which have investors provide both a grant and an investment.

This makes the alignment of stakeholder aims easier, but poses other challenges: philanthropist investors are not willing to subsidise traditional investors' returns, and traditional investors are not proficient at raising funds for philanthropy. However, investors are slow at adapting their investment strategies and stance on tolerating risk. (Dichter et al. 2013, 41–42).

2.4.2 Catalysts

Providers of catalytic first-loss capital are typically aligned with the recipient's social or environmental agenda or mission and willing to accept higher risk to attain these non-financial goals. Providers of CFLC may also have a strong knowledge of the targeted sector or geographic area and, therefore, a more complete understanding of the inherent risks than other investors. CFLC providers include high-net-worth individuals, foundations, development finance institutions (DFIs) and governments. Once the commercial viability of an organisation or market is proven and mainstream investment attracted to continue funding with less credit enhancement or none at all, providers of CFLC may opt to pull out to optimise their resource use and direct their efforts towards other uncharted areas or undeveloped markets to create the highest impact. A worthwhile aspect of CFLC may be the multi-level investment opportunities it provides to a family of organisations, for example JPMorgan Chase, which contains both foundation and for-profit entities. Therefore it is feasible to construct deals where each entity uses instruments available, i.e. grants from the foundation as CFLC lower the risk and allow for the investment bank to invest in debt. (Catalytic First-Loss Capital 2013, 6–7, 9, 26)

Some key points are crucial to keep in mind when considering contributing catalytic first-loss capital to a deal. Firstly, the provider's intentions, expectations and time horizon should be clarified upfront, as well as which criteria need to be fulfilled in the future for investors to continue investments without credit enhancement, i.e. plan the exit. Secondly, it is clear that in order for funds to be optimally allocated, the CFLC component of the deal should be no greater than necessary to achieve its purpose, also in order to minimise potential inappropriate risk-taking. Therefore the opportunity cost must be calculated upfront. Thirdly, it is an advantage if the provider of CFLC and the gainers from this protection, the investors in the deal, are aligned regarding the social mission of the investment. Additionally, enhancing the visibility of this mission and impact is key in order to demonstrate the viability of the approach and the investment itself, to also attract new investors. Creativity should be used to structure deals between parties that would typically not invest together, like non-profits and for-profits. These deals can prove very fruitful in bringing different financial and human assets to the table and meanwhile increasing the leverage of impact. (Catalytic First-Loss Capital 2013, 23–

28). Also the IOREC (IOREC 2012 - - 2013, 12) report stresses a need for the open-minded combination of different sources of finance – whether domestic, bilateral or multilateral.

2.4.3 The capacity gap

In studying award-winning organisations requesting assistance with funding, Rutherford and von Glahn (2014, 61–62) suggested solutions to the lacking preparedness of social enterprises as strengthening their operational capacity by assessing their requirements for sustainability and scale as well as better defining and articulating their business model (Rutherford & von Glahn 2014, 61–62). Businesses at early stages are still in the midst of laying the groundwork for their whole business model: both how revenue and impact are created. Therefore they commonly need more than just capital, which provides investors with the chance to have a major say in how impact is created. Despite the added complexity of investing in such a stage, investors who have aligned values with the entrepreneurs are attracted to early-stage investments. A challenge with early-stage investing on the investor side is the lack of sufficient high-quality deals to invest in. The reality is that at this stage businesses still need assistance in actually developing to be high-quality deals to invest in, i.e. having products or services that customers are willing to pay for and talented personnel to scale the business. (Toniic E-Guide to Early-Stage – – 2013, 2–3).

The combination of support needed by early-stage social enterprises includes debt or equity *investments*, *grants*, and *coaching* or *mentoring*. Due to the unique needs of each individual social enterprise, flexibility is needed in finding the right mix to complement the resources already available to the enterprise. As well as the already-mentioned business development, some of the practical issues where help is generally needed include policy support and introductions to the right people, like suppliers and market players. A successful early stage can develop the enterprise and its risk-reward ratio to where it is attractive to more commercially-oriented investors, which can then aid the enterprise in growing and scaling operations. (Toniic E-Guide to Early-Stage – – 2013, 3).

Capacity-building activities can include also different modes of management or technology training, institutional or business plan development as well as services in legal or accounting issues (Exploring Energy SME Financing – – 2013, 31, 34). Barreiro et al. (2009, 14) affirm that some intermediaries offer pre-investment technical assistance, for example with due diligence, allowing investors to examine both the entrepreneurs and the viability of the business, whereas other intermediaries focus on strengthening operations and supply chains. All in all, creating clusters and enhancing the accessibility of business support services locally is crucial. Some investors focusing strongly on development may be willing and able to incur costs for technical assistance, but at the same time these costs cut into the returns of their investments and reduce the possibilities of attracting commercial capital from the market, which on the other hand is crucial for the whole industry to be able to scale. To maintain acceptable returns, intermediaries invest heavily on raising separate funding to cover technical assistance, typically in the form of grants. (Barreiro et al. 2009, 14–15).

Coaching and mentoring can be important also from the point-of-view of planning, which forces members of the organisation together to prioritise, agree on methods of implementation and set time-bound goals, boosting individual motivation and the effectiveness of the organisation. This is often neglected due to lack of experience on forming business plans and also difficulties in adapting profit-oriented business planning to social impact seeking organisations. (Bornstein & Davis 2012, 49–50). Therefore devoting effort to formal management skills and strategy formation is crucial for developing a scalable business model (From Gap to Opportunity – – 2012, 93). This is also brought up by Barreiro et al. (2009, 14) who state that, commonly, SMEs may lack general business skills and for example do not have necessary documentation for investments, specifically equity. Different modes of assistance naturally involve different levels of funder commitment, for instance legal and technical assistance are more effortless to provide due to their unambiguous nature. Assistance involving social interaction and behavioural changes is more demanding because of possible change resistance on the part of individuals. (Exploring Energy SME Financing – – 2013, 31, 34). Furthermore, sector champions, i.e. successful enterprises in the sector, can play a major role in helping other enterprises leapfrog the learning curve of the off-grid RE sector by providing access to best practices, lessons learned and mentoring, in addition to technology cooperation. Governments can act as facilitators of the right kind of ecosystem for incubation and scale-up. (IOREC 2012 - - 2013, 20, 43).

2.4.4 A sector approach

According to Bannick and Goldman (2012, 3–4), focus should be shifted from stimulating growth in individual firms to assisting entire industry sectors. By directing attention from searching for investable enterprises, impact investors could substantially broaden their reach and increase their impact by taking on the long project of assisting whole industry sectors in specific geographies. This shift in focus towards entire sectors addresses the problem stated by many impact investors that not enough investable enterprises are to be found: as expressed by Bannick and Goldman (2012, 5, 23), someone needs to also be *"priming the pump"* in order for the investable deals to emerge and the whole industry to develop, instead of a few *"cherry-picked"* individual enterprises prospering. Developing the whole sector is also critical to take pressure off individual enterprises of having to do this to create a functioning operation environment for themselves.

Bannick and Goldman (2012, 8–9) describe three types of organisations which together work towards social change: *innovators*, *industry-specific infrastructure firms* and *scalers*. However, capital seems to be available first and foremost for scalers working in areas where risk-return profiles have already been substantially improved, whereas innovators and infrastructure firms find it considerably harder to raise sufficient funds. They also find the most considerable gap in funding to be for early-stage innovators who do the pioneering work of de-risking an innovative model. It can be said that investors' human capital efforts easily exceed financial capital commitments in early stages, because superior business judgment is required, as well as deep understanding of the market. This is necessary to be able to find suitable entrepreneurs and teams as well as assisting them in developing their skills and scaling up their business. Also, early stage investments are small in absolute amounts: at the angel and seed stage, tens or hundreds of thousands, not millions of dollars. They are limited also by the absorption capacity of the social enterprise in question. This entails that even if a decent percentage of financial return is earned, the absolute amount is so small as to go into covering human capital and transaction costs. Regarding investing in enterprises developing infrastructure, the problem often lies in investors preferring financial returns or measurable success on the individual firm level rather than investing in developing the sector as a whole. (Bannick & Goldman 2012, 13).

2.5 Synthesis of the chapter

This chapter has taken a look at the organisation and funding of social enterprises, from business models and other aspects of social enterprise influencing the pioneer gap, to the types of financing and financiers available. Bridging the pioneer gap from the funding perspective has been the main theme throughout the chapter where different funding options have been discussed, especially in the case of less traditional investing options like impact investing and different types of catalytic capital and anchor investments. The final sub-chapter drew together the addressing of the funding and capacity gaps, as well as the need to take a sector approach to develop the entire industry. This will enable a multitude of enterprises to scale up rather than having a monopoly industry with few successful individual enterprises. The chapter has therefore synthesised the main industry literature relevant to the pioneer gap and forms the basis of the analysis of the empirical part of this thesis. A more theoretical approach will be taken in the following chapter, which will examine the marketing practices in investor relations.

3 MARKETING PRACTICES IN INVESTOR RELATIONS

After discussing the organisation and financing of social enterprise in the previous chapter, this chapter builds a theoretical marketing framework to the study of investor relations in this thesis. The objective of this marketing framework is to illustrate how social enterprises themselves can act towards bridging the pioneer gap, which has been in the introduction posed as the main research question.

As defined by the American Marketing Association, marketing is *"the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large"* (Definition of Marketing 2013). Already in the 1970s Kotler (1972, 48–49, 53) determined that a transaction, the core concept of marketing, is the exchange of values between two social units, and that these objects of transaction were not limited to goods and services but could also be money and other resources like time, energy, feelings, ideas as well as organisations, persons or places. The generic concept of marketing is *"concerned with how transactions are created, stimulated, facilitated, and valued."* (Kotler 1972, 50). As aptly put by Carter (2006, 114), *"to the extent that entrepreneurs are concerned with organizing market exchange they are carrying out marketing activities"*, which can be taken as broadening the marketing concept from traditional marketing of products to being applicable in social entrepreneurs marketing their enterprises to potential investors.

Coviello, Brodie and Munro (2000, 524) show that apart from small firms being more informal in market planning and measurement of market performance, marketing practices of small firms are similar to those of larger firms, making the theory presented here relevant also for the social enterprises in question in this thesis. This chapter examines marketing practices present in investor relations in the context of social enterprises. To start off with, positioning within marketing schools of thought is made, after which the traditional concept of the marketing mix is examined from the perspective of relevance for this thesis. Subsequently, relationship marketing and investor relations are discussed, as well as inspecting the crucial component of trust creation more closely. The chapter concludes by combining the different attributes into a framework that is relevant for social enterprises aiming to bridge the pioneer gap.

3.1 Positioning within marketing schools of thought

This study is positioned within the *marketing management school of thought*, ruling out neither the relationship nor transactional marketing approach. According to Kotler (1972, 52), marketing management is normative and about *"efficient creation and offer-*

ing of values to stimulate desired transactions" and is a set of questions rather than answers to help the marketer determine proper course of action in each situation. As framed by Webster (1992, 2), the managerial approach has made the study of marketing more relevant and realistic. However Gummesson (1994, 6) prefers the term *marketing-oriented management* to marketing management to recognise the embeddedness of marketing in the whole management process.

Coviello, Brodie, Danaher and Johnston (2002, 42–43) have recognised that multiple marketing practices, ranging from transactional to relational to a hybrid approach, can be applied in the same marketer, and is also crucial for managerial thinking to broaden beyond the traditional marketing mix. Brodie, Coviello and Winklhofer (2008) have made use of a multi-method research approach to integrate traditional views of marketing with modern ones in their *Contemporary Marketing Practices (CMP)* research program. They have developed the simplistic theoretical dichotomy of the early 1990s, from seeing marketing as *"transactions versus relationships"* –focused to moving the focus to *management processes*. This has included viewing marketing as an integrative activity of personnel across the organisation to facilitate, build and maintain relationships over time. (Brodie et al. 2008, 85). Brodie et al. (2008, 90) state that successful firms are flexible to adapt to different opportunities of approaches. Table 3 below illustrates the main focus for the purposes of this thesis.

Table 3 Positioning within marketing theories (adapted from Coviello et al. (1997, 2000) & Coviello et al. (2002))

	TRANSACTIONAL PERSPECTIVE	RELATIONAL PERSPECTIVE		
	transactional marketing	**database marketing**	**interaction marketing**	**network marketing**
purpose of exchange	economic transaction	information, economic transaction	interactive relationships	connected relationships between firms
nature of communi-cation	firm to mass market	firm to targeted segment / individuals	individuals with individuals (across organisations)	firms with firms (involving individuals)
type of contact	arm's length, impersonal	personalised, yet distant	interpersonal face-to-face (close: based on commitment, trust, cooperation)	impersonal to interpersonal (ranging from distant to close)
managerial intent	customer attraction	customer retention	interaction for mutual benefit	coordination across multiple firms of sellers, buyers, etc.
managerial focus	product / brand	product / brand & customers	relationships between individuals	connected relationships between firms

The table above shows the classifications of transactional and relational perspectives to marketing. Coviello et al. (1997 & 2000) have further divided relational marketing into *database marketing, interaction marketing* and *network marketing*. Out of these the most relevant for this thesis is interaction marketing, which can be characterised for example by interactive relationships as the purpose of exchange, contact as interpersonal and based on commitment and trust and the managerial focus being on relationships between individuals. The importance of interaction marketing, i.e. interactive relationships, can be attributed to the small size of the early-stage social enterprises in question, because single individuals have more influence in shaping the operations of the enterprise than would be the case in large corporations. Additionally, the social or environmental mission of the enterprise is one that appeals to the personal or organisational investor's motivation of investing in the enterprise. Therefore, interpersonal communication is beneficial in understanding these motivations of the investor and communicating the motivations of the enterprise. Thirdly, trust is a key component in interaction marketing, which it is also when investing in early-stage social enterprises in early-stage markets that have a tendency to be informationally opaque to the investor. Finally, interaction marketing views interaction as mutually beneficial. This is also the case with social enterprises and their investors, in the case of which ideally missions are aligned and therefore, social and financial returns are for the benefit of both.

The *marketing mix* is a traditional marketing concept more on the transactional side of marketing. Kotler and Armstrong (2006, 50) define the marketing mix as a *"set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market."* Originally developed by Neil Borden[7], the marketing mix has most frequently come to be known as the *4Ps* of *product*, *place*, *price* and *promotion* (McCarthy 1981, 42), reduced down from those originally listed.

Van Waterschoot and Van den Bulte (1992) have in the 4Ps replaced the narrow term of promotion with *communication*, and divided this into mass communication, personal communication and publicity mixes. Similarly, the term *value* can be used to complement the term price (Teinilä 2012, 54). The 4Ps have been expanded by many researchers in order to make up for some of the deficiencies that the 4Ps have been criticised for (Gummesson 1994, 8). However according to Grönroos (1997, 324), *"the usefulness of the Four Ps as a general marketing theory for practical purposes is, to say the least, highly questionable".* He discusses the origins, development and criticism of the 4Ps and marketing mix as the marketing paradigm. Gummesson (1994, 9) feels that the 4Ps and their extensions will continue to be necessary, but their role will shift to being *"contributing parameters to relationships, networks and interactions"*. Also, Teinilä

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[7] Primary source: Borden, Neil H. (1964) The Concept of the Marketing Mix.

(2012, 60) concludes that they remain a flexible tool in categorising marketing activities, which is also how it will be viewed in this thesis with the utilisation of the terms product, place, value and communication in the framework presented in the synthesis of this chapter as a basis for categorisation of relationship marketing activities.

3.2 Relationship marketing

This subchapter examines the development of relationship marketing and how it is defined for the purposes of this thesis, as well as the relevant phenomena of part-time marketing, reverse marketing and storytelling as a marketing activity. This basis of relationship marketing is then developed into its financial application of investor relations in the following sub-chapter.

3.2.1 Development and definition of RM

Leonard L. Berry came up with the term *relationship marketing (RM)* in 1983 (fully represented and discussed in his paper Berry (2000)). Nowadays it has innumerable definitions (26 listed only by Harker (1999)). For example, Grönroos (2000, 98) uses the Nordic school definition of relationship marketing as: *"the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, where this is done by a mutual giving and fulfilment of promises."* However, for the sake of simplicity the definition by Morgan and Hunt (1994, 22) is used in this thesis, according to which relationship marketing encompasses *"all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges".* Commenting on his original 1983 article, Berry (2000, 73) stated that he would nowadays emphasise the integrative nature of RM, and that it is not just a set of tools but a holistic strategy to think about customers, marketing and creating value.

Gummesson (1994, 6, 9) mentions that relationship marketing emphasises a long-term interactive relationship and that RM and the marketing mix both are at least in theory based on focusing on the customer and their needs. Grönroos (1997, 328) states that RM must not become the straightjacket that the 4Ps have turned into as the only acceptable marketing paradigm. He suggests that marketing be thought of as a continuum with transaction marketing at one end and relationship marketing at the other. In RM, interactive marketing becomes dominating, but elements of the marketing mix as supporting aspect are still important as well. Due to the wider customer interface, also a larger number of part-time marketers, discussed in the following sub-chapter, are involved in customer contact. (Grönroos 1997, 330–331). In the case of this thesis and investor relations, the investor can be viewed as the customer whom marketing efforts are aimed at.

3.2.2 Part-time marketing

According to Gummesson (1994, 6) it is particularly obvious in RM that *"marketing is embedded in the whole management process"* and therefore RM acknowledges that *"everyone is a marketer"*. All members of the organization who have influence over customer relations, perceived quality and revenue are *part-time marketers (PTMs)* by carrying out marketing activities, but not belonging to the marketing or sales departments, unlike the *full-time marketers (FTMs)* (Gummesson 1991, 60–64). Gummesson (1991, 65) also stresses the difference between the *marketing (and sales) department* and the *marketing function*, which on top of FTMs includes PTMs. External PTMs, for example customers, are relevant in influencing the reputation of the company or its product through word-of-mouth. Marketing should be a holistic perspective and fully integrated with different functions of the organisation, to lead to marketing-oriented company management. (Gummesson 1991, 67, 74). Especially in social enterprises in their early stages, due to the challenges discussed in the preceding chapters, even though the general manager (or equivalent) is commonly the main marketer of the enterprise, it is crucial for all members of the enterprise to understand and realise their part in marketing. This can be achieved by having marketing incorporated into all activities dealing with stakeholders to ensure a consistent message is being sent out.

3.2.3 Reverse marketing

According to Blenkhorn and Leenders (1988, 85–86), reverse marketing at its simplest means reversing the traditional buyer–supplier roles into a scenario where the buyer takes the initiative in persuading the supplier to provide exactly what the buyer needs. It allows for procurement to contribute to achieving organisational objectives and having a strategic role. It is *"an aggressive and imaginative approach"* where the objective is to satisfy both short- and long-term objectives for the supply function (Leenders & Blenkhorn1988, 2). Teinilä (2012, 156) shows that corporate borrowers behave as marketers and sellers in trying to affect the decision-making of selected lenders to influence the supply of funding from their banks. All in all, in fundraising, contributing to strategy is already naturally present, so in IR it does not represent the similar kind of shift in mindsets as it does in the regular supplier-purchaser case. Also, as a starting point it can be seen that smaller and early-stage social enterprises have much less influence over capital providers than do corporations, so for reverse marketing is a natural starting point and background assumption for them in raising funds.

3.2.4 Storytelling as marketing

Storytelling as marketing takes marketing terms mentioned above, like interaction marketing and reverse marketing. It then applies them to the context of bridging the pioneer gap, i.e. how the enterprise can through interactive relationships tell its story and "sell" itself to investors to get them to supply adequate funding. Morgan and Dennehy (1997, 495) state that storytelling is a powerful tool for communication of values, ideas and norms as it makes information easier to believe and remember. The storytelling approach requires for the enterprise to fundamentally shift the way they view strategy. The strategy formation process often ends with having a list of goals as well as steps and things to do to get there, often packaged as bullet points on a presentation. However this kind of planning fails to be deeply reflective or to inspire commitment. (Shaw, Brown & Bromiley, 1998, 42). According to Marzec (2007, 28), this can be overcome with storytelling enabling the combining of strategic thinking into planning, which is necessary for good leadership and for example forming an inspiring vision and tapping into people's motivations. The end result is a clear path of action as well as engaging others in the journey. As storytelling involves an interchange between narrator and listener, a corporate story should continuously evolve as the interpretations and perceptions of listeners, i.e. anyone involved in business planning, change. (Marzec 2007, 28–29).

Morgan and Dennehy (1997, 500) have presented a five-step framework[8] for storytelling: *setting, build-up, crisis or climax, learning and new behaviour or awareness* and suggest that even though storytelling is naturally familiar to everyone, the framework should be practiced to improve storytelling skills. Marzec (2007, 29) is along the same lines but stresses that the development of the story starts with knowing your audience: multiple stakeholders like management, employees, investors, customers etcetera – anyone who needs to be part of the storyline to make it as rich as possible. In this way already the process of developing the story is a managerial tool and can facilitate alignment within the organisation (Marzec 2007, 32).

Marzec (2007, 31) also states that a good story balances between aspirations of where the organisation wants to go and practicalities limiting the possibilities. This is achieved by basing the story on individual experiences and challenges in the market,

[8] Original source Davis, D. (1993) *Telling Your Own Stories.* August House Publishers, Little Rock, AR.

painting a picture of an achievable alternative reality, outlining a clear path for action and inviting the audience to participate on this path. The enterprise's resources, processes and metrics should be aligned with the corporate story to ensure that actions and words are in sync (Marzec 2007, 35). Martin, Feldman, Hatch and Sitkin (1983, 438–439) report that according to researchers, organisational cultures and particularly stories tend to claim uniqueness; that they are like no other organisation. This is rarely the case and has therefore been termed the *uniqueness paradox*. However, the corporate story can be compared with personality: it is quite consistent over the duration of a lifetime, even though people respond dynamically to everyday challenges. These responses and decision-making are shaped by personal character, as is the case with organisations, which should *"act in character"* and live their corporate stories. (Marzec 2007, 35).

The importance of storytelling, in the context of investor relations, is underlined by Virtanen (2010, 106): as a company presents itself to potential investors, it should highlight unique attributes in its vision, mission or strategy to stand out from competition. The topic of investor relations is further discussed in the following sub-chapter.

3.3 Investor relations

Due to the complexity of the operational environment, both investors and entrepreneurs make decisions based on less than full rationality and are therefore subject to behavioural biases that may cause irrational decisions, as has been stated by behavioural finance (Kickul & Lyons 2012, 153). This however opens the door for being able to influence investor decision-making with for example investor relations. Tuominen (1995, 37) concludes that relationship marketing provides the right basis for managing corporate investor relations, so this is taken to hold also for social enterprises which operate on a much smaller scale than corporations. This sub-chapter, therefore, explores investor relations (IR), an application of relationship marketing, in social enterprises. First, the purpose of IR is discussed. Subsequently, the targeting and approaching of investors as well as communication with them are examined.

3.3.1 Definition and purpose of IR

The *investor relations (IR)* function combines the disciplines of finance, communications and marketing, and can be defined as a type of marketing communications. The goal of IR has traditionally been *"to enhance a company's credibility while positively impacting its valuation to that of the overall market, resulting in a lower cost of capital."* Increased sharing of information via for example websites, webinars, YouTube and podcasts can go so far as to even compromise competitiveness. This necessitates tight-roping how much information is sufficient but not too much. (Dilenschneider 2010, 144, 151–154).

As stated by Tuominen (1995, 38), the purpose of managing corporate investor relations is to *create trust and increase long-term interaction* between enterprises and their audience groups in the investor community. These groups include both direct and indirect audiences, i.e. potential and current investors as well as investment experts, who can be for example intermediaries like investment funds. Tuominen's (1995, 30–36) study discusses the trust-creating duty of disclosure from the perspective of listed Finnish companies. Regardless of type of enterprise, it is crucial that the information provided to the investor community is timely and not misleading or false.

3.3.2 Targeting and approaching investors

An enterprise should be clear on what kind of investors it does not want to attract, either because of management styles opposing company interests or because of maintenance costs (Guimard 2008, 83). Also Virtanen (2010, 106) stresses the need to be clear on an investor strategy, even if it means proactively taking care of investor relations and communication and proactively targeting those investors that the enterprise wants to get onboard. Kickul and Lyons (2012, 145) state that before approaching potential investors, it is important to be clear on the enterprise's financial drivers to be able to determine appropriate investors and understand the reasons a certain type of capital fits best in the current situation. As a broad customer base, also a broad and diversified investor base has benefits. Part of successful IR, although complex and time-consuming, is to maintain a pool of potential investors in case old investors opt out or new financing needs come up. Both individual and institutional investors have their pros and cons. Individuals as investors may have a strong sense of ownership and be very good at creating popularity, especially for smaller companies. However, commonly they are costly to maintain and invest in small amounts. Institutional investors on the other hand are less expensive to maintain and can add prestige to the company with their name, but may also want to influence the company strategy. There may also be discrepancy between the time horizon of management and the short-term orientation of certain fund managers. (Guimard 2008, 83, 85).

In approaching especially equity investors, it is relevant to be able to know how to present the business model, track record and growth strategy of the enterprise as well as justify the need for capital and clearly state what can be achieved with it. The CEO will likely have their vision challenged by potential investors and therefore rehearsing is required for these meetings. (Guimard 2008, 19). Also Lynch and Walls (2009, 58) stress the importance of defining what type of capital (e.g. grant, debt or equity) the enterprise is seeking and what it will be used for, i.e. state the *sources* and *uses*. This should be accompanied by historical information as well as projected financial statements, including profit and loss statements, balance sheets and cash flows. A multitude of investors are previous successful entrepreneurs, so it is important to think like an executive when building a business plan or pitch: the product must be viable, there must be an identified and segmented market for it and the financial projections must be realistic (Get Funded! By Proving Your Value – – 2012).

According to Bloom (2012, 131–132), a benefit of face-to-face selling is that it allows for the entrepreneur to investigate the true motives and desires of investors, to actually figure out what it is that they find compelling about the enterprise, how it is perceived or misperceived and how that matches with their preferred investee. It has been portrayed that entrepreneurs often lack the know-how in actively approaching financial institutions and pitching to them (Exploring Energy SME Financing – – 2013, 28). Also research done by the Omidyar Network (Accelerating Entrepreneurship in Africa – – 2013, 12) states that the majority of enterprises does not possess necessary expertise or networks for all functional needs of the business, especially regarding raising funds and presenting convincing applications for funding. Particularly for necessity-driven entrepreneurs, i.e. entrepreneurship as a means of survival, the situation is quite dismal because most services available are targeted at enterprises established past the start-up phase. However, incubators and accelerators can offer crucial support in preparing for and approaching investors during the start-up phase. To ensure effectiveness, these incubators should, however, focus on a limited amount of companies to provide the intensive support needed all the way between launching to scaling. (Accelerating Entrepreneurship in Africa – – 2013, 14).

3.3.3 Communication with investors

Virtanen (2010, 142–144) lists the following topics as important to include in investor presentations: operational environment and market situation, enterprise strategy, risks, current developments, future outlook and a very brief summary of the enterprise as an investment. Anderson and Narus (1984, 66) define *communication* as the formal and informal sharing of timely and significant information, focusing on *"the efficacy of information exchange rather than the quantity or amount"* (Anderson & Narus 1990, 44). In a larger firm investor relations (IR) management is a large logistical feat where the information presented to investors over the financial year may change very little if at all, in case no major events occur. On the other hand, in the marketing process of similar companies, material is highly diversified and segmented depending on customer group, all done in obvious managerial discipline and *"a level of "science" to the process"* to ensure messages are consistent. Consistency and accountability are far more lacking with IR than with marketing, even though it entails communication with perhaps the most important "customer group". Communication with investors includes lots of ad hoc and impromptu meetings and encounters, additional to daily e-mail or phone call responses and press releases or interviews. The types of communication can be either direct, one-to-one, or mass communication. (Scott 2005, 188–189).

Scott (2005, 191) states that investor communications should in mimic the marketing process. He continues that the IR process is often intensely tactical and responds to events rather than follows a strategy proactively. It is also intensely personalised and based, rather than on analysis, on intuition and feel, vested with the Chief Executive Officer and the Chief Financial Officer. Therefore little professionalised communications frameworks exist, and neither does measuring effectiveness of time and resources spent on investor relations. (Scott 2005, 190–191). According to Virtanen (2010, 191), both quantitative and qualitative indicators should be used to measure the effectiveness of IR. Fulfilling promises made in investor presentations has a great impact on trust-creation, and therefore, it can be stated that the most key qualitative indicator is trust, which either exists or it does not, and can be sensed. Trust-creation is discussed in more detail in the following sub-chapter. Quantitative measures, like the number of analysts following the company and their forecasts, are more applicable for large, publicly listed companies. Others quantitative measures include ones dealing with investor meetings or even industry gatherings, like their amount and time consumed, which should be noted in detail. (Virtanen 2010, 191–196).

In order to communicate effectively with diverse investors, having experience of and being able to *"speak the language"* of different sectors like commercial institutions, philanthropic organisations and government entities is important for entrepreneurs (Clark, Emerson & Thornley 2013, 24–25). Gummesson (1994, 17) advises to make relationship marketing operational by firstly establishing which relationship portfolio is important to your business and making sure that it is well handled, and secondly calculating costs and revenue from these relationships and their contribution to profits. Applying this to investor relations, Scott (2005, 193–194) concurs that an effective communications process to alter perceptions and condition behaviour requires first of all identifying how much investors bring value to the enterprise and prioritising them and secondly understanding their patterns of behaviour (Scott 2005, 193). Determining key relationships necessitates detective work, which may end up in the empty conclusion that no channels or particular actions seem relevant to influence key fund managers. One reason suggested for this is that active fund managers do not allow management narratives, like a marketing effort, to sway them. Therefore, it may turn out that an enterprise's *indirect signals of value* have more power over an investor than direct communication, meaning that events or sayings include indications of future performance. These indirect signals can be divided into three areas: signals that affect capital structure, signals that affect management structure and incentives, and signals that affect strategy. Using more than one signalling tool together is likely to have a greater impact on investors, which calls for research, strategy and in general being proactive. (Scott 2005, 195–198).

Investors should be kept informed of industry and company issues in real time and meetings should be scheduled at regular intervals. Advantages of this tedious seeming process are getting used to high standards in communication, becoming familiar with valuation and understanding how to compile an efficient board of directors. (Guimard 2008, 19). Because the business plan can be very limiting in this, indicators of quality of the investment can encompass founder and opportunity attributes. Examples of founder attributes are the education as well as industry, management or start-up experience of the entrepreneur. On the other hand opportunity attributes can encompass a large market or competitive advantage. (Shane 2003, 188–191). Therefore these indicators should be clearly communicated to the potential investors to be able to influence their decision-making. As pointed out by the World Economic Forum, (From the Margins – – 2013, 28), social enterprises should attempt to clarify their competitive differentiation and strong financial management. Naturally this must also clearly be communicated to the investor in order for it to be of use in acquiring funding for the company. Also business models must be effectively communicated in order for financiers to understand the enterprise (Exploring Energy SME Financing – – 2013, 43). Entry of multinational corporations (MNCs) into the market will likely lead to an increase in importance of marketing and advertising to brand and product differentiation (Lighting Africa Market Trends Report 2012, 77–78).

Nevertheless, opportunities for improvement of the basic message exist: management messages should be as *simplified* as possible and *condensed* into a handful of key points or core messages to avoid inconsistencies. This naturally requires willingness to commit resources to the investor relations process to understand investors and be able to target communication. (Scott 2005, 198–199). Along the same lines is Guimard (2008, 91–92): key aspects of communication content are *clarity*, *accessibility* and *consistency* over time and via different channels. The data should also be *comparable, objective* and *informative*, and it should be kept in mind that every bit of communication is an opportunity to spread awareness of the enterprise and raise interest for it. For example the press is still a great way to build the company reputation. Communication should also reflect overall company strategy, as was discussed also in the case of storytelling as marketing. Additionally, people give greatly much more emphasis on visual information compared to vocal and textual information. Visual presentations, however, require skill and practice to be concise, clear and insightful. They are a tool by which investors can evaluate executives and therefore highly valuable to investor perceptions of the company. (Guimard 2008, 121). Scott (2005, 200) concludes that although investor communications cannot be identical to a classic marketing process, it may have something to learn from basic marketing tools like discipline of focus and accountability.

3.4 Creating trust in social enterprises

Short-term investor episodes are necessary for the establishment of investor relations, and comprise the *exchange of commodities*, the *exchange of information*, *financial exchange* as well as *social exchange*. Crucial in terms of this thesis is especially social exchange, which reduces uncertainty between parties, fosters idea exchange and trust-building. (Håkansson 1982, 16–17). Building trust amidst the informationally opaque operational environments of social enterprises has been deemed such an important topic as part of relationship marketing and investor relations to merit it a separate sub-chapter. The role of trust is further examined next, after which the key concepts for trust creation in social enterprises, namely mission alignment, risk perception and information asymmetry will be discussed. A synthesis of chapter 3, in the form of a relationship marketing / investor relations framework, is presented thereafter.

3.4.1 The role of trust

Teinilä (2012, 60) argues that trust-building activities are clearly marketing activities in the context of corporate debt. In the context of this thesis, the same can be concurred about social enterprises building trust with their investors. Tuominen (1995, 19) points out that relationship marketing is about the twin concerns of identifying and establishing new stakeholder relationships but also maintaining and enhancing current stakeholder relationships, for which mutual trust is naturally important. As also concluded by Tuominen (1995, 29, 35), information, for example annual reports provided to investors, is a vital tool for trust creation in investor relations (see also e.g. Dilenschneider & Forrestal 1989, 136–138). For this, highly standardised information is key, which is more scarcely available regarding social enterprises in off-grid renewable energy, because they commonly have very short track records if ones at all. Also Virtanen (2010, 25) stresses the importance of consistent and open communication in trust-building and states that the more proactive an enterprise is, the most likely it is to succeed in creating trust.

According to Morgan and Hunt (1994, 31), commitment and trust are key in successful relationship marketing. They list reasons for this, including for example encouraging enterprises to work at preserving relationship investments through cooperation and resisting short-term gains in favour of long-term benefits. *Commitment* is defined as believing that the relationship is worth the work to ensure its indefinite endurance. *Trust* on the other hand is conceptualised as one party having confidence in the other party's integrity and reliability. The combination of trust and commitment promotes efficiency and productivity and therefore leads to cooperation, which is instrumental to success in RM. (Morgan & Hunt 1994, 22–23).

Morgan and Hunt (1994, 32) find *shared ethical values* to significantly contribute to the development of both commitment and trust. These shared values may include commonalities about which behaviours, policies and goals are either important or not, or right or wrong. *Opportunistic behaviour*, i.e. when one party believes that another is being opportunistic, decreases trust. Additionally, *communication* was found to be a major antecedent of trust. Anderson and Narus (1990, 45) state that although the link between communication and trust has been studied, researchers have not agreed on the direction of the relationship. They interpret building and sustaining partnerships as an iterative process and further posit that past communication causes present trust and that the accumulation of trust leads to better communication in the future.

Neu (1991, 243) states that trust is necessary for economic exchange and must exist prior to contracting. He summarises that most definitions of trust seem to be based on *common expectations* as a necessary starting point for interaction, because contracts themselves can never be perfect in imperfect markets (Neu 1991, 244–246). Morgan and Hunt (1994, 32) show that trust influences how disagreements are perceived, i.e. when trust is present conflict is viewed as functional and productive. Cooperation is effected by both trust and commitment, but by trust especially. Results also supported the notion that acquiescence in healthy relationships does not happen because of exerted power but because partners want to commit.

Neu (1991, 247–251) discusses three types of trust-creating mechanisms identified by Zucker (1986)[9]: process-based, character-based and institutional-based. *Process-based trust* relies on records of past exchanges and expected future exchanges. In the absence of this information, parties rely on social expectations. *Character-based trust* is based on ascribed characteristics like ethnicity, gender and age which indicate of having shared background expectations as part of a common cultural system. *Institutional-based trust* generalises beyond certain transactions and partners into social practices within which trust is embedded and accepted as for granted. An example of creating process- and character-based trust is management biographies presented to potential

[9] Original source: Zucker, L. (1986) Production of Trust: Institutional Sources of Economic Structure, 1840–1920. In: Research in Organizational Behavior, pp. 53–111.

investors. Biographies can also build institutional trust in the sense of providing information on potential membership in networks and organisational associations, which allows the company to benefit from the legitimacy of possibly better known organisations. Also well known board members may create institutional trust.

The topics of mission alignment, risk perception and information asymmetry which will next be taken a closer look at to explore creating trust and commitment in social enterprises. This can be loosely parallelled to Morgan and Hunt's (1994, 22) model on what builds commitment and trust in relationships: their aspect of *shared values* can be parallelled with *mission alignment* here, their *opportunism* with *risk perceptions* and their *communication* attribute with *information asymmetry* in the case of social enterprises.

3.4.2 Mission alignment

Mission alignment has already been discussed, for example in the case of catalytic first-loss capital in chapter 2, including its importance especially when trying to fit together multiple investors into a deal. A crucial factor for the sustainability of a social enterprise is a compelling mission, because this makes attracting investors more straightforward. A clearly articulated mission draws not only investors but also customers, suppliers, other partners and supporters within the community. Having a mission statement in general is vital, as it should also be used as a compass by the entrepreneur. Due to the nature of social enterprises, their mission equals the mission of their customers. (Kickul & Lyons 2012, 7, 63–65). This is increased by the fact that in contrast to larger companies and MNCs, SMEs typically rely on their surrounding communities for employees and customers among other things, which increases their vested interest in the communities' wellbeing, as pointed out by Barreiro et al. (2009, 4).

The threat of *mission drift* is inherent to social enterprises, due to them constantly balancing between their dual (triple) objectives of social (and/or environmental) and financial impact, because creating social and economic value often call for decisions pulling in the opposite direction and necessitate trade-offs. This becomes a problem if the pendulum swings too far in one direction, and therefore having clearly stated and understood priorities is crucial. (Alter 2007, 69). As stated by Dees (1998, 5), it is crucial for social entrepreneurs to be able to create a fit between the values of investors and the needs of communities. Kickul and Lyons (2012, 147–148) articulate that the values and mission of the enterprise should both be aligned with the intentions of possible investors. Also, a significant determinant of fit is where the investment is on the continuum of grants to commercial investment. Another determinant is the involvement level of the investor: a high level of involvement commonly leads funders to have a profound relationship with their investees, extending beyond providing funding and therefore also requiring enhanced trust and better alignment of interests (Exploring Energy SME Financing – – 2013, 32).

Measurement of impact and comparable metrics, discussed already in chapter 2, are key in facilitating decision-making regarding investment processes, because they allow for investors to compare which intermediaries, for example investment funds, are best aligned with the priorities of the investors themselves. A system objectively quantifying impact also allows for funds and other investors to ensure their activities are aligned with their mission, which is critical for strategic planning and credibility in attracting capital. (Barreiro et al. 2009, 2, 16). It has also been stated that a lack of alignment in values between the entrepreneur and the investor is one of the most frequent reasons for derailing investments. While making investment decisions is often done by personal and subjective reasoning of the investor, successful investors are often seen as viewing their investments through clearly defined objectives and deal-breakers. (Toniic E-Guide to Early-Stage – –2013, 4, 8, 13).

A key factor for all entrepreneurs is networking. In social enterprise, a shared mission is what networks and trust are built on (Kickul & Lyons 2012, 6). Therefore social entrepreneurs welcome the concept of "*co-opetition*"[10], a combination of competition and cooperation, about creating a bigger pie to compete over, something that a single company cannot achieve alone (Nalebuff & Brandenburger 1997, 28). This involves the development of the whole industry, which is crucial to improve operating environments for individual companies. Collaboration often makes sense because it enhances effectiveness and competitiveness in the end. This is true in particular regarding the off-grid renewable energy sector, where market-building still needs to take place to assist scaling up.

3.4.3 Perceptions of risk

A Bridges Ventures report (Shifting the Lens – – 2014, 6–7) states that as risk is always relative to an investor's expectations, it is subjective and therefore adjusting risk is not a one-size-fits-all ordeal but requires understanding the particular investor in question, what their expectations are and what types of risk they are concerned about. For example a Hope Consulting survey (Money for Good – – 2010) shows six segments of differently motivated impact investors: The first group prefers *safety* of their investment with financial returns therefore overriding social ones. The second group is *socially focused*

[10] Term originally coined by Ray Noorda, founder of Novell.

and invests by cause. A *high-quality business model and track record* are what the third group bases their decisions on. The fourth group prefers to *minimize hassle*. The fifth group invests in enterprises of *personal acquaintances* and the final group is sceptical and would rather keep *investments and charity separate*. This can also be compared with the social enterprise spectrum presented in Table 2.

Financial institutions often perceive a high risk in energy products, because of a capacity gap – they cannot clearly differentiate between high and low quality in the products due to lack of technical know-how, and naturally are hesitant to invest in something they do not understand. This leads to adverse selection (further discussed in the following sub-chapter) and choosing low quality products due to their lower price. However, product quality is a crucial component effecting the repayment by end-users. If quality issues come up, the consumer becomes either unwilling or unable to repay. **(**Exploring Energy SME Financing – – 2013, 27).

According to Scott (2005, 201), *"quality of management"* has constantly topped the lists of factors influencing fund managers' decisions to invest. This may seem a peculiarity for large companies comprised of far more individuals, but in the case of small firms like social enterprises, where a few individuals may even make up the whole enterprise, is understandable. However, contestability has existed over how this quality can be defined, for example via past track record, which itself can be very ambiguous. The role of the individual CEO can be played down by emphasising the whole management team or the board and management processes, i.e. governance in general. (Scott 2005, 202, 205). Tightly linked to risk perception is information asymmetry, discussed below.

3.4.4 Information asymmetry

Easley and O'Hara (2004) among others have studied the effects of information on cost of capital, focusing on firms with traded securities, and determined that a link can be found. According to them, both public and private information influence asset returns, however, the share of private information increases risk for investors due to limiting ability to adapt their portfolio to new information. Therefore, firms can affect their cost of capital by making precise and comprehensive information available for investors. (Easley & O'Hara 2004, 1578). The challenge is nevertheless harder to address in smaller firms, with less public information to begin with. Investment information about energy SMEs is not readily publicly available. Promising enterprises may be low-profile and their unprofessional nature hinders due diligence (Exploring Energy SME Financing – – 2013, 32).

According to Shane (2003, 161), two main characteristics influence the resource acquisition of enterprises, namely *information asymmetry* and *uncertainty*. Components affecting information asymmetry encompass *disclosure difficulties* due to the entrepreneur's superior access to information and will to not let others exploit the opportunity they have discovered. Secondly, information asymmetry may enable *opportunism*. Thirdly, information asymmetry may encourage entrepreneurs into *excessive risk-taking* with investors' resources. Finally, information asymmetry leads to *adverse selection* in investors attempting to distinguish between investable and not-investable enterprises. Uncertainty, on the other hand, may result from investors being *unable to evaluate* the potential or value of enterprises, meaning that *bargaining problems* may ensue. Thirdly, uncertainty may lead to investors requiring *collateral or other assurance* as conditions for their investments. These difficulties can be mitigated by for example *self-financing* from the entrepreneur, because it signals commitment to and belief in the enterprise, or *contractual solutions.* Also pre-investment tools like *due diligence* may be utilized. Additionally, *social ties* are an important tool and both direct and indirect ties can facilitate resource acquisition under uncertainty and information asymmetry. (Shane 2003, 167–174, 182–183). Granovetter (1985) spoke for the inclusion of social attributes in economic decision-making at a time when this factor was still largely absent from economic studies.

Binks, Ennew and Reed (1990, 25) have discussed the effects of the *market-based system* in the UK, based on the absence of regular and close communication between companies and their banks. Therefore, in the midst of the lack of information about the prospects and management of the company, banks have resorted to utilising asset-backed collateral. Contrary to this, in the *bank-based system,* for example in Germany, relationships have been less distant. Therefore they account the traditional banking practice to creating finance gaps, the bridging of which could be achieved by closer relationships, like the bank-based approaches, especially regarding long-term investments and funding for growth. Focus on capital gearing-based criteria in evaluation of potential borrowers has also contributed to the finance gap, and therefore Binks et al. (1990, 26) proposed for banks to lend based on income gearing. Edwards and Turnbull (1994, 3) explain this as a system taking into account future income flows, which poses the problem of availability of adequate information on forecasts. Hindered by information asymmetry, debt should therefore be supplied based on managerial and financial strengths, including the prospects of the project in the borrower's industry. (Binks et al. 1990, 25–26). Edwards and Turnbull (1994, 4–7) argue for alleviating information asymmetry with budgetary information and sensitivity analysis to illustrate possible changes in assumptions.

In general, reducing risks by increasing both the quantity and quality of information provided to investors, as well as to also other stakeholders, is difficult but worthwhile.

However, several financial institutions tend to perceive that the energy SME sector is too small to make up for the high cost of building sector expertise and, therefore, reducing information asymmetry. **(**Exploring Energy SME Financing – – 2013, 6–7, 27). Nevertheless, Barreiro et al. (2009, 2) state that reducing information asymmetry by educating both commercial and philanthropic funders about the business models, growing track record and financial viability could potentially attract more capital to the sector.

3.5 Synthesis of the chapter

This chapter has discussed themes in relationship marketing and investor relations, which are relevant for social enterprise fundraising. Creation of trust is one of the most central aspects in regards to developing long-term functional relationships. The figure below brings the key themes and terms together.

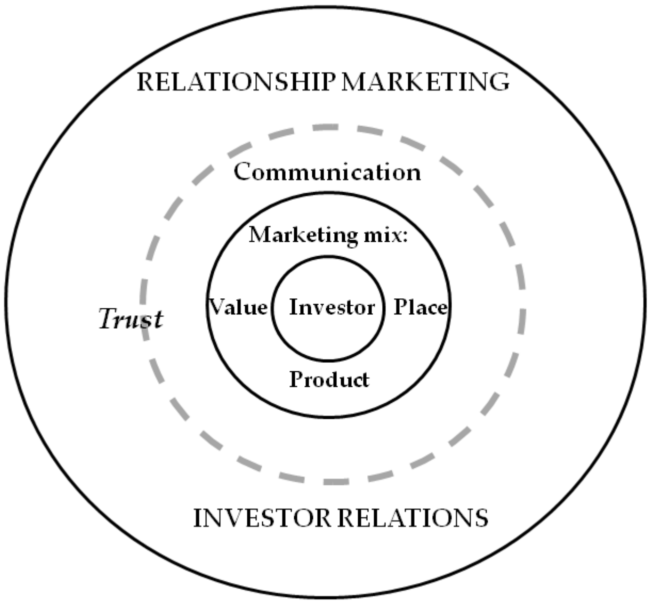

Figure 6 RM/IR framework

The *relationship marketing / investor relations framework* in Figure 6 above combines concepts from both themes. The focus and centre of the figure is naturally the investor, here taken to mean any party providing funding to the enterprise, whether commercial or philanthropic. The next layer or ring in the figure represents what could be seen as the marketing mix, the most concrete point of contact with the investor: The social enterprise itself, including its products and services, business model and team can be seen as the *product* component of the marketing mix. The terms of investment can be interpreted to be the *price* or *value*, and the industry and market where the social enterprise operates as the *place* component of the mix. The fourth component of the mix, *communication*, encompasses the other three, which all comprise topics of communication between the investor and the enterprise. Communication blends into and makes up relationship marketing and investor relations. RM and IR, at least for the purposes of this thesis, can be considered one and the same, where relationship marketing is done to manage investor relations. The key aspect of *trust* can be seen as a measure for the success of RM/IR in the long term and therefore needs to be omnipresent in the communication with investors.

Chapters two and three have lain the groundwork and theory for this study. The following chapter will exhibit the research design of the thesis, including the chosen case study research, how data was collected and what were its sources. A sub-chapter also illustrates the steps taken to ensure for a rigorous data analysis, which follows in chapter five. Chapter six presents discussion and conclusions in the form of theoretical and managerial implications as well as evaluation of the study, limitations and suggestions for further research.

4 RESEARCH DESIGN

This chapter discusses the research method chosen for this study, and clarifies other research design-related choices made. The reasoning behind a qualitative method is first discussed, then narrowing down on the applicability of case study research in this thesis. After that data collection and analysis methods are explicated.

It has long been thought that qualitative research is valuable only in the phases of a study when a new phenomenon is being explored (Silverman 2001, 32). However, Eriksson and Kovalainen (2008, 5) consider qualitative research valuable also on its own and without being connected to quantitative research. Qualitative research in business enables focusing on the complexity of phenomena in real-life contexts and how these phenomena could be made sense out of (Eriksson & Kovalainen 2008, 3–5). Silverman (2000, 43) also states that the value of qualitative research comes from it not sufficing with merely coding data, but from the deep analysis. Social enterprises operating in off-grid renewable energy is still a relatively new phenomenon. The research questions ("*how?*", not "*how much?*") are formulated rather to understand and explain the phenomenon than to quantify it. Additionally, the subjective matter of how enterprises experience the pioneer gap and how they can bridge it are as complex issues not quite suitable to be quantified. Therefore, a qualitative method is chosen as suitable for this study.

Qualitative research can also be used to gain a reflexive and critical view of processes and the effect of the researcher's decisions during research on the end results. Like in quantitative methods, also several qualitative data collection and analysis methods are available, which also stem from different philosophical backgrounds. One of the advantages of qualitative analysis is that unlike quantitative analysis, it deals with understanding a reality that is socially constructed. As opposed to the more standardised and structured quantitative methods, qualitative ones strive for a more holistic understanding, which is also the case in this thesis. The choice of research approach must in any case be justified based on its appropriateness to the research at hand. (Eriksson & Kovalainen 2008, 3–5).

Tesch (1990, 72–73) categorises qualitative approaches according to their research interests: interest in language characteristics (e.g. discourse analysis), interest in discovering regularities (e.g. critical research or ethnography), interest in discerning meanings (e.g. hermeneutics or case study research) and finally interest in reflection (e.g. reflective phenomenology). In this research the interest is specifically in discerning meanings of the phenomenon, and for this the case study methodology is chosen and is elaborated on below.

4.1 Case study research

Case study research can be defined as *"investigating a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident"* (Yin 2003, 13). This fits the situation of this thesis, where the phenomenon is the fundraising for early-stage social enterprises and the context is the pioneer gap, which hits the enterprises especially when they are scaling up in an early-stage industry: fundraising and the pioneer gap are difficult to separate from each other. Stake (1995, 18) specifies that often an *issue* is of more interest to the researcher than the individual *case*, defining an *instrumental case study*. This is fitting for the study at hand and means that case study research can also be used as a method instrumental to understanding something other than any particular case.

Case study research can also be divided into intensive and extensive (Stoecker 1991). An *intensive case study* focuses on a unique case with deep description and analysis, whereas an *extensive case study* aims at generating, elaborating or testing theoretical constructs by comparing several cases. Due to the nature of the subject at hand, studying subjective perceptions of themes like challenges, lessons, criteria of alignment and communication, the extensive case study is a natural choice. It can be utilised to find patterns or common properties across cases, instead of the detailed descriptions of the single cases being the focus of attention. Rather, in extensive case study the single cases are viewed as instruments to explore a specific phenomenon. (Eriksson & Kovalainen 2008, 118–119).

As described by Eisenhardt (1989, 532), the case study research process is *"highly iterative and tightly linked to data"*, and fruitful especially with less studied topics where it may provide novel and frame-breaking theory. The tight links to data can also lead to empirical validity (Eisenhardt 1989, 548–549). Case studies commonly utilise a mix of data collection methods: qualitative, quantitative or both (Eisenhardt 1989, 534–535). Daymon and Holloway (2011, 114) suggest that the flexibility of case study research often leads to incorporating other methodological approaches, as the case study can be seen as an umbrella for other approaches.

According to Eisenhardt (1989, 536–545), building theory in case study research is an 8-step process. The first phase of *getting started* involves defining the research question and possible theoretical constructs; even though a *"clean theoretical slate"* (Eisenhardt 1989, 536) should be aimed at. The next step is about *selecting theoretically useful cases*, but retaining theoretical flexibility. After this *instruments and protocols* for multiple data collection methods are crafted. The fourth step is about *entering the field* with data collection and analysis overlapping, jotting down initial impressions and adjusting data collection methods where useful. It is legitimate to alter data collection during theory-building to understand data in as much depth as possible. The fifth step of *data analysis* is about familiarisation with the data and crafting preliminary theory and looking past initial impressions. Sixth, *shaping hypotheses* involves iterative tabulation and verifying emerging patterns to build a theory that closely fits the data. The seventh step is about comparison with both similar and conflicting literature to raise the theoretical level of the research. Lastly, *closure and theoretical saturation* is reached when incremental learning has become minimal. This process was more or less followed in this study as well, although hypotheses were less explicitly shaped during the analysis. How and what data was collected is elaborated on in the next sub-chapter.

4.2 Interview design and data collection

Empirical data can be either *primary data*, i.e. data collected by researchers themselves, or *secondary data*, i.e. previously existing data, like textual documents or visual recordings (Eriksson & Kovalainen 2008, 77–78). According to Eriksson and Kovalainen (2008, 89) textual data is commonly seen as relevant and useful due to being transparent and clearly representing the object of research. For this research both primary and secondary data were utilised. Primary data was collected via interviews and secondary data via case company material, to either support or refute findings from primary data. All data sources are visible in Appendix 2. Gummesson (2003, 486) prefers the term *data generation* as opposed to *data collection*, to illustrate that data is created by the researcher in interaction with, in the case of this thesis, the interviewee, and that analysis is therefore included already in this early stages of research.

Yin (2003, 9) states that a literature review is often mistaken to determine known *answers* about a topic, but on the contrary it should be utilised to formulate sharper *questions* about the topic. This has also proven the primary use of the literature review conducted before interviewing in this thesis: formulating appropriate interview questions to be able to collect compelling data on the topic at hand. According to Yin (2003, 86), strengths of interviewing as data collection include being directly focused on the topic and providing insightful information where good questions are made. On the other hand, weaknesses include badly formulated questions, interviewer bias and reflexivity, where the interviewee tells the interviewer what they think they want to hear.

Eriksson and Kovalainen (2008, 80) categorise three types of qualitative interviews: *structured and standardised*, *guided and semi-structured* as well as *unstructured narrative interviews*. Structured interviews use the same standardised, mostly “*what*” questions for all interviewees whereas semi-structured interviews outline topics but use a variation of wording or sequence including both “*what*” and “*how*” questions. Unstructured narrative interviews are open and informal, but usually start with guiding questions or core concepts, moving freely in any direction afterwards. Semi-structured interviews have been chosen for this thesis, to ensure comparability in the information collected from all case companies, but leaving room to explore also slightly varying directions in the interview situation if they are to arise. Therefore, mainly"*what*" and "*how*" questions were used. In semi-structured interviews, question sequencing often differs between participants as it depends on responses received and the progression of the interview (Daymon & Holloway 2011, 225). This was also the case in this study. The draft of the interview questions (see Appendix 3) was sent to all interviewees beforehand for preparation. The operationalisation table in Appendix 1 illustrates tying the interview questions and theory to the research questions.

All in all, 15 people were contacted with a request for interviews. Out of those, eight interviews were successfully conducted. The interviews were done on Skype between May and September 2014, and lasted between 17 and 87 minutes. The average length was 41 minutes, and interview recordings in total were 5 h 25 min. At the beginning of each interview it was confirmed from the interviewee that they agree to the recording of the interviews. Also, the agreement to the publishing of their name in the list of interviewees (see Appendix 2) was confirmed. However, otherwise the interviews were done anonymously, so data is not directly attributed to the enterprise it came from. The interviews were transcribed (transcriptions 8–38 pages long, on an average of 18, altogether 145 pages of transcribed data) and a memo of the transcriptions made (each 1–3 pages long). During the transcription process the interviews were listened to twice or thrice. Due to varying internet connections at either end, some parts of some recordings were inaudible. Where these sections were substantial or part of an important passage, clarification from the interviewee was requested. Where less meaningful, what was unclear was marked with red in the transcripts. The interview memos were sent to the interviewees for their approval within roughly ten days of the interview (with the exception of one, which was sent nearly three weeks later**),** to make sure no misunderstandings had been made. Approvals were received in four cases, with minor or no corrections. Lack of a response was taken to signify approval of the memo.

There is no hard and fast rule for the ideal number of cases in a multiple case study, but between 4 and 10 is usual. The rule of thumb, however, is to stop adding cases when saturation is reached and incremental contribution of an extra case becomes marginal. This is in line with pragmatism regarding efficient resource use of the researcher. (Eisenhardt 1989, 545). Out of the eight interviews conducted, six were with actual *case companies* and two with *accelerators* that work with organisations like the case companies. *Data source triangulation* was used to compare data provided by actual companies and the accelerators, who have a more objective stance and wider perspective to the operations of similar companies. This was done to see if discrepancies exist or if there is something crucial brought to attention by the accelerators that has not been noticed or mentioned by the companies themselves. As already mentioned, *methodological trian-*

gulation was also utilised: secondary data was taken into account for validation and to back up assumptions more so than introduce completely new information, so it can still be said that primary data was given more importance (see Appendix 2).

A researcher can take either an *insider* or *outsider* role in their research: an insider has easier access to data about the organisation, but an outsider improves the opportunity of being increasingly analytical of the organisation and the issue at hand (secondary source Eriksson & Kovalainen 2008, 57–58[11]). In this study, the researcher has an outsider role. Eriksson and Kovalainen (2008, 57) describe manifold reasons for aiming to diminish the distance between the researcher and participants. Firstly, participants can be assumed to be *"the best experts"* on the subject. Secondly, especially if the aim is to include the participant's perspective as is the case in this study, proximity allows assuming that material is socially more representative. Finally, the researcher is the *"primary instrument of the study"* and *"active agent"*, mediating the research process through their writing. In this study the interviews between the student-researcher and expert-interviewees were rather free-flowing, which can be said to have diminished the distance. All interviewees are deemed *experts* based on being in a managerial or decision-making position (e.g. Managing Director) in the case companies or in an advisory role in the accelerators. Therefore, they are the main people responsible for fundraising in their enterprises, or have had meaningful roles in the fundraising and investor relations processes. Due to the open-ended nature of the questions, the interviewees can also be considered *informants* (Yin 2003, 90), as providing own insights and propositions was encouraged and, also, interviewees gave suggestions as to where to find additional information.

4.3 Case organisations

A case study often necessitates *purposive sampling*, which takes relevant criteria into consideration when choosing cases. This allows to identify cases that are more likely to be relevant to the research. Nevertheless, these criteria should be made completely transparent and it should be kept in mind that these have been subjective choices made by the researcher. (Oliver 2006, 245–246). In this thesis a contact at the African Development Bank facilitated access to the first set of interviewees, while a contact at the Amani Institute later provided introductions to a second set.

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[11] Primary source: Glesne, Corrine (1999) Becoming Qualitative Researchers. 2nd ed. Allyn & Bacon.

The *sampling or selection criteria* for the case companies in this thesis were the following:

- enterprise fits definition of social enterprise
- enterprise operates in off-grid renewable energy
- enterprise operates in Sub-Saharan Africa
- enterprise is in the early stages of its business development (starting or scaling up).

Some common denominators for the six case companies interviewed turned out to be that all operate in off-grid *solar* energy and are founded by non-Africans. These commonalities were not included in the selection criteria at the beginning of the research project. More background information on the organisations interviewed can be found in the table below.

Table 4 Case organisation background information (sources: organisations' homepages and interviews)

	Founded	Operations in Africa	Operating model	Mode of customer payments
Companies				
Devergy	2010	Tanzania, licensed in Ghana	service based on village-sized energy micro-grids	pay-per-use approach: user tops up credit by cash at local agent / automatically via mobile money
Greenlight Planet	2007 (in Africa since 2010)	products available in 30 countries worldwide	2 distinct distribution models of **Sun King™** lanterns: Direct to Village (DTV) & distribution through partners e.g. One Acre Fund	credit from distribution partners
NOTS Blue Power	2011	Mali, Rwanda	local distribution networks of primarily **d.light** products via commercial wholesalers, cooperatives, women's associations & telecom companies	credit to consumers /payments collected via mobile payment systems
Off.Grid:Electric	2011	Tanzania	solar as a service, distribution networks built in-house from ground up	prepay for service each week
SolarNow	2011	Uganda (Tanzania & Kenya in 2015)	national distributor of SHSs, 33 franchisees	end-user financing: 1 yr payment plan, monthly collections
Sun-Connect	2014	Ethiopia, Kenya	foundation /cooperative delivers SHSs through local partners (STM Solar Technologies Manufacturing in Ethiopia, SunTransfer in Kenya)	credit, repaid in installments
Accelerators				
Embark Energy	in East Africa since 2013	Tanzania, online	for-profit benefit corporation: training & incubation (incl. online platform & producing business plan); access to finance; product supplies	
GVEP International	2006	Kenya, Tanzania, Uganda, Rwanda, Senegal	NGO: pro bono management consultancy services to renewable energy start-ups in East Africa; loan guarantee facilities; training for financial institutions.	

As can be seen from Table 4, all case companies or their operations in Africa are relatively young: they have been founded in 2010 or afterwards. The case companies have varying operating models, where some have solely an in-built distribution network and others also distribute products through partnerships. Some distribute other manufacturer's products, for example NOTS with d.light, while others distribute own brands, like Greenlight Planet with SunKing™. Greenlight Planet focuses on solar lanterns, whereas several other companies focus on larger solar home systems (SHSs), like SunConnect and SolarNow, and Devergy builds micro-grids in villages. All offer either end-user financing in some form (e.g. SolarNow), or offer energy as a service (e.g. Devergy and Off.Grid:Electric) through a prepaid model, both of which provide flexibility and accommodate for customers' need to pay for energy in instalments.

The term *accelerator* is here used for Embark Energy and GVEP (Global Village Energy Partnership) International, for simplicity. Embark Energy can be better described as a *social enterprise / incubator*, and GVEP as an *NGO providing pro bono management consulting services*. Both take an SME approach in their operations, i.e. aim at getting lots of SMEs investable and, therefore, growing the industry. However, Embark Energy works with solely African entrepreneurs, whereas the majority of companies GVEP works with have a non-African presence in management. Both provide training in business skills and technology, business development, access to financing and financial planning to prepare budding businesses to meet investors' requirements. Alongside advisory services, GVEP also offers energy sector training to financial institutions, as well as housing loan guarantee facilities. Embark Energy is developing a facility for early-stage catalytic investments and through it looking into providing links to finance, as well as hosting an online business plan development platform alongside one-on-one coaching. (Embark Energy & GVEP homepages 2014). The key themes discussed with the accelerators were access to funding and related challenges. Data collected from the interviews with these organisations was additional to that of the interviewed case companies, because their experiences were not based on working on fundraising with any of the interviewed case companies.

4.4 Data analysis

According to Gummesson (2003, 482), all research is *interpretive.* The scientific tradition concerned with interpretation is *hermeneutics*. Gummesson (2003) continues that in business research, interpretive methods translate into efforts to understand complexity and *"add meaning to strategies, actions and events."* Hermeneutic processes concern a *pre-understanding* of what is previously known of the topic of study, *understanding* to improve knowledge as a result of research, and finally, *explanation*. The dynamism of the process can be better illustrated with the hermeneutic spiral of interpretation and re-interpretation. (Gummesson 2003, 482–485). Eriksson and Kovalainen (2008, 20) state that according to hermeneutics, interpretation and understanding are necessary conditions for the research process. This is the case also in this study: the pre-understanding has been gathered via doing a literature review and studying existing theory and background of the phenomena in the previous chapters, understanding will be improved through data collection and analysis in chapter five and after this further explained and integrated into previously existing theory in the conclusions in chapter six.

According to Daymon and Holloway (2011, 303), the qualitative research process is both *inductive* and *deductive*. Commonly the beginning is inductive, implying that at least initially patterns and themes are found directly in the data. Further on the process turns deductive as the researcher develops working propositions and draws more on the literature to relate findings to. This makes the whole process very iterative as data collection and analysis alternate. (Daymon and Holloway 2011, 303). Gummesson (2003, 488) stresses that inductive research allows the reality to *"tell its story on its own terms"* instead of relying on previous concepts and theory. According to Eriksson and Kovalainen (2008, 23), a process moving iteratively between induction and deduction is better described as *abductive*: progressing from people's everyday descriptions to categories creating the basis for an understanding of the phenomenon (Eriksson & Kovalainen 2008, 23). This iteration is also visible in the data collection and analysis process of this thesis.

According to Swanborn (2010, 138), the researcher of a multiple case study faces the choice of whether to write an extensive report about each included case or whether to focus on an integrative text with individual cases serving as illustrations, as discussed above. The type of format for the reporting of this case study was chosen to be one where no single or within-case analysis is done. Instead, the analysis is done *thematically* and solely as *cross-case*. The individual cases present a base of evidence for the analysis. One way to start an analysis is by reducing the amount of the original text by categorising, summarising or paraphrasing, after which coding can be done with the aim of theory development (Flick 2002, 176). There are no rigid rules for the process of qualitative analysis, although coding is a central part. *Coding* is about making choices about which words to use to label ideas or topics seen in the data repeatedly. It is an intuitive and creative process of making choices of what to save and how to organise the data. In further stages, codes are combined into broader categories, patterns and concepts. When analysing multiple types of data, like is the case with interview transcripts and company presentations in this thesis, it is essential to cross-reference between the different sources to find if they back each other up or if discrepancies can be seen. (Daymon & Holloway 2011, 304–306, 310).

Daymon and Holloway (2011, 313–316) warn against imposing a strict predetermined theoretical framework on the data, to not limit analysis as it progresses. However, working propositions should be developed and the search through data continued to challenge or confirm these propositions and hypotheses. Deviant cases should also be taken into account. Miles and Huberman (1984) transfer the thinking of quantitative analyses to qualitative by illustrating the use of matrices and other graphic representations in reporting qualitative data. Constructing a matrix is creative but systematic in furthering understanding of the data already when forming the matrix. It is not about aiming for a "correct" matrix, but one that is functional and will assist in ordering the data to answer the questions posed. (Miles & Huberman 1984, 211). A simplified depiction of the data collection and analysis process followed in this study is illustrated in the figure below.

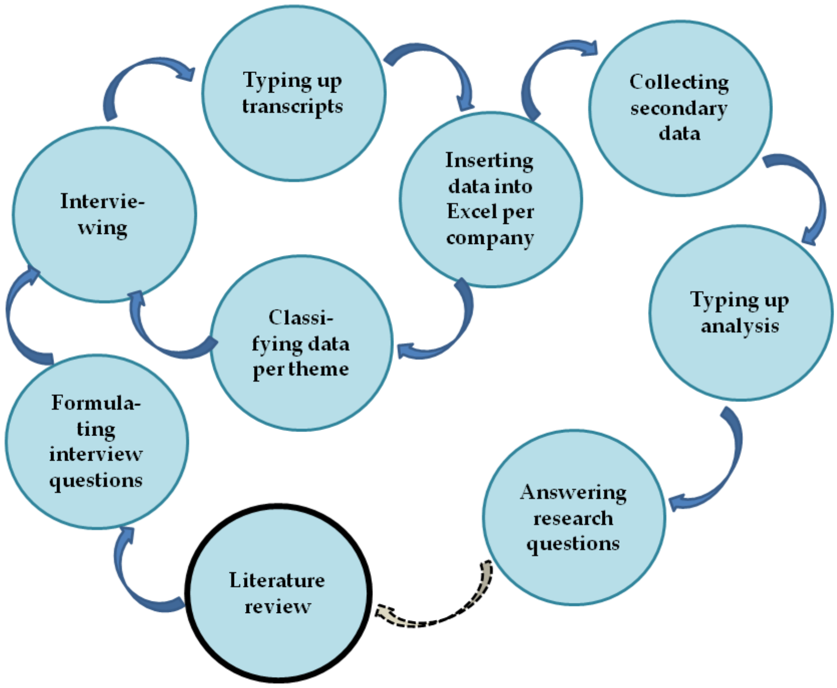

Figure 7 Data collection and analysis process

The iterative data collection and analysis process can be seen to actually have begun from the literature review, which was the basis for the researcher being able to formulate interview questions relevant to the topic. A "cycle within a cycle" was the process of interviewing, typing up transcripts, making an Excel data matrix and classifying data per theme. Analysis was constantly ongoing through the researcher's thoughts and unofficial research journal of jottings and sketches. However, the analysis was fully started midway through the interviews, in late August 2014. The first step was classifying data from the interview data into an Excel spreadsheet, either by paraphrasing or by direct quotes. Initial classifying was done based on the interview questions and a few additional emerging themes, like comments on financial sustainability of the social enterprise, growth and scaling up as well as end-user financing. Each column in the matrix represented an interviewed company. Interview memos with main points from the interviews, which had been sent to interviewees for approval after the interviews, were reviewed first to get the basic information into the Excel. After this the full interview transcripts were gone over meticulously, with all the information that was utilised in the analysis highlighted in yellow and labelled, both in the transcript and spreadsheet. The labelling was done with company initials (OE standing for Off.Grid:Electric, D for Devergy, etcetera) and number per Excel cell, so that each cell has its own label and everything that refers to a certain cell can be traced back to where it came from in the transcript, by that label. This enables tracing back to the raw data in the transcript as analysis progresses, to see which parts of the interviews were utilised where and vice versa which summaries in the analysis have been made of which passages in the transcripts.

After building the spreadsheet containing data per company, codes and categories were slightly readjusted into a different spreadsheet and data better organised by themes or codes only. Readjustment of codes was continuous based on suitability as more data was added. The full list of codes and categories can be viewed in Appendix 4. Additional interviews with the accelerators were conducted as well as secondary data collected for triangulation purposes – no discrepancies were found. Analysis had been partially typed up per code or theme by the completion of the interviews, and was then finalised. Themes were still readjusted to make suitable entities to form sub-chapters of the following: fundraising difficulties, suitability of investors and communication with investors. Each of these themes or sub-chapters answers one research sub-question. Finally, when the analysis was typed up and each research question was answered, a logic model was made to tie everything together to answer the main research question. In addition to analysis more or less having lasted throughout the process, also going back to the literature review was ongoing in the midst of the process to check back on compatibility. The following chapter presents the results of the analysis.

5 ANALYSIS: UTILISING MARKETING PRACTICES IN INVESTOR RELATIONSTO BRIDGE THE PIONEER GAP

The analysis presented here has been themed by a data-centric approach. Therefore, the researcher's judgment calls have directed the categorisation into themes. Due to the interrelatedness of a lot of the issues and themes described, no single correct way exists for the categorisation. Overlapping has not been entirely avoided, but the themes were naturally organised around the research sub-questions: The first sub-chapter on fundraising difficulties addresses the first research sub-question on *how the pioneer gap affects fundraising for social enterprises in off-grid renewable energy*. The second sub-chapter on suitability of investors looks at *how the funding needs for these enterprises are characterised* and the third on investor communication at *how these enterprises build trust in their investor relations*. The codes and categories listed in Appendix 4 have been the basis for this analysis, but have been slightly further modified to better fit the typed up data. The results of the analysis are presented anonymously, so whenever a direct quote is utilised to illustrate a point, interviewee's companies are referred to as company A, B, C, etcetera in order of appearance in the text.

5.1 Fundraising difficulties

Fundraising difficulties, for obvious reasons, constituted a large part of the primary data collected from the semi-structured interviews. The sub-chapter begins by discussing the level of difficulty in fundraising felt by the interviewees, followed by reasons for this: availability of funding, investor requirements and the length of the fundraising process, vertically integrated business models, the early stages of both the individual enterprises as well as the industry, and growth-related factors.

5.1.1 Level of difficulty in fundraising

To sum up, there was concurrence among the interviewees that raising funds for their enterprise is difficult. The interviewed enterprises had naturally experienced varying levels of difficulty in this process, but all had felt that it was difficult in general and probably was that for the whole sector. One interviewee stressed that even once the initial business model is proven and the enterprise is in the replication phase, raising funds is still very hard. The accelerator working with local enterprises estimated that 90 percent of the companies they work with get overlooked by investors and that fundraising is extremely difficult for most of their early-stage companies. Also the other accelerator expressed difficulty especially in matching the local businesses they work with Western-headquartered investors.

One interviewee in particular brought up how starting off as a foundation raising donations had been easy, so there had been confidence that also investments would have been easy if not easier to get, because a market clearly existed for the business. Therefore, it had been surprising and disappointing when this had turned out not to be the case, even though the cause and mission were the same as the foundation's was. Reasons turned out being that people treated investment as a completely different thing and were more willing to give 100 percent of their money away in the form of a donation than receive an, in their minds, inadequate return for the same money if it is treated as an investment. A varying operational structure including non-profit and for-profit entities had made it easier to find an entity that fits investor criteria, but even then fundraising was difficult. One interviewed enterprise felt that for them fundraising had probably been easier than for many others, and that they had ended up in the fortunate situation of the investors expressing interest in them also being those that they wanted to work with. Also, supportive friends and family had made things relatively easy in the beginning. They stressed the role that luck had played as well, for example regarding the timing of talking to investors.

5.1.2 Availability of funding

The question of availability of funding was addressed especially by two interviewees. An interviewee from company A stated that even though *"at first sight it might seem like half the world is investing in the high impact space"*, not that many suitable funds exist or take off, even if many start. Also, because of the variety of funds' foci, countries of operation, requirements, etcetera, it was mentioned that finding all suitable funds to begin with is difficult. An interviewee estimated 10–15 suitable foundations to exist worldwide for the off-grid renewable energy industry. Many investors themselves get their funding from the same large funds, from players like International Finance Corporation (IFC) or the German development bank KfW, meaning that in the end a large portion of the funding is coming from governments that fund these large players. Looking into funding available from governments directly or the European Union for development in certain countries was also mentioned by one interviewee. Yet another mentioned the question of matching timing to the scale of financing as something that needed to be taken into account.

A minor addition from the secondary data of one case company was that necessary financial instruments for SMEs in the off-grid industry are lacking, and that a creative solution by entrepreneurial investors is required. One of the accelerators presented that taking a large scale portfolio approach could be one solution: combining a number of SMEs into a portfolio and adapting to an investor's preferred amount of capital and what they want to see regarding impact, as well as creating a function to administer such a fund. The other accelerator mentioned that in the early stages of the enterprise there is a lack of either investment finance or grants for the proof of concept, which is generally required by many investors. They continued that in general debt seemed to be missing from the picture, especially concessional debt, which is important in early stages. Local institutions did not seem willing to lend to energy SMEs due to not understanding them, being overly conservative, or the cost of capital being too high. Also international finance for shorter-term working capital was not readily available.

5.1.3 Investor requirements and length of fundraising process

In general the case enterprises felt that fundraising is a long and tedious process, especially due to the amount of due diligence involved, and this was echoed by the accelerators. Even the ones happy with the investments that they had got stressed that the processes had been slower and required more effort than could be hoped for. Interviewees expressed their frustration with the process, and three of the companies mentioned having persistence or patience as an important asset or learned lesson in fundraising. Understanding the length of the process, one interviewee mentioned that as they had anticipated future growth and therefore an increased need for working capital, they had started raising a few quarters ago. Interviewees mentioned fundraising processes lasting from between 3–6 months to over a year, sometimes ending fruitlessly. Due diligence related requirements and standards of funds, including impact-oriented funds, were seen as extremely high for an early-stage enterprise.

One interviewee stated that part of the difficulty in raising funds is that investors are not able to assess the risk of an investment accurately, when an early-stage but high-growth company is in question, because growth cannot be predicted based on past performance. This was echoed by another interviewee stating that even when proof of concept and profitability is there, investors are still very risk adverse. However, this is something that should never be complained about to the investor; instead, focus should be on demonstrating good performance. Another interviewee expressed that although a large part of an entrepreneur's day is made up of details and complexity resulting from the early stage of the market and the integrated value chain, which are significant from their own perspective, the entrepreneur has to accept that investors do not have the time to digest that and that for them complexity should be simplified to make it understandable.

5.1.4 Early stage of the enterprise

One of the major reasons for fundraising difficulties is that enterprises in their early stages, ranked among small-and-medium-size enterprises (SMEs), are mainly *too small* for investors. The large players like the World Bank, International Finance Corporation etcetera are looking to invest large amounts, for example 10 million USD, to be profitable. Another aspect of the early stage of the enterprises is that they have a very *limited track record*, or none at all, and the *risk perception* related to this is a problem for investors. One of the accelerators pointed out that, commonly, the main problem was not having enough capital to do a pilot, which is required by investors for them to see a track record. Also, as was pointed out by the other accelerator, even if an entrepreneur has some track record, it is not indicative of future development because enterprises starting out change so much from one year to the next. It was also pointed out that some businesses had gone through so many various iterations of business models in the first years that there were no historical financials to show the investors of the current model, which hinders investor decision-making. They had also noted some cases of enterprises having some track record, but nearly completely lacking record-keeping or evidence of sales, end-user payments etcetera, which should be available with separate projects as separate business units and is very important considering being able to provide investors even short evidence of a viable idea. They continued that the biggest difficulties surrounding these issues are usually avoided when an MBA from a good university is part of the team.

One interviewee pointed out that once you show good performance raising funds becomes easier, but the problem with that is that you need funding to show good performance. This is the case for example when investing in the team and maintaining employees even though *"the current size of the operations cannot yet justify that team",* which is an investment for the future, as stated by the interviewee from company A. Also, being constrained on cash can make the business look like there is a problem and further stave off other investors. The interviewee continues that it is crucial to *"think small"*, i.e. have very conservative expectations and translate that into managing the business by being super disciplined and only spending money when it is in your bank account. This is because investors can back out at the last moment and it is necessary to have a buffer for at least the next six months. One of the accelerators pointed out that SMEs starting out selling small amounts leads to them needing to purchase small amounts and pay huge premiums for these small orders to the supplier.

5.1.5 Vertically integrated business models

High working capital needs are prevalent especially with companies selling more complex products, like solar home systems, which are larger and more expensive than solar lanterns. End-user financing is necessary for customers to be able to purchase the systems, which the distributors, on the other hand, need to pay at least partially in advance to manufacturers. This increases the need for working capital. Manufacturers are often located in China, and shipment to Africa, customs, quality check and other preparation, therefore, often takes several month altogether. The timeframe is extended by end-user financing, which is usually necessary for a period of 1–2 years for the larger systems, tying up a lot of capital which is recovered only after a significant time. One interviewee felt that difficulties in short-term financing and a pressure to show good financials even early on had led to the industry focusing on simple lanterns, which do not assess the problem of lack of energy access. Another stated that being vertically integrated translated into having different timing needs for funding, reflecting into needs for cash and how revenue is generated. They clarified that integration is necessary because the services required for the execution of the business model themselves need to be constructed, and as per the interviewee from company B,*"it's not quite as simple as writing some code and putting something online and all of a sudden you have a business"*. On the other hand, one interviewee described their model as a service-based business, because customers are thought of as an ongoing/lifetime revenue stream, against which it is ultimately possible to raise funding.

5.1.6 Early stage of the industry

The early stage of the off-grid renewable energy market came up in all interviews at one stage or the other. One interviewee stated that getting people to understand *the potential of the market on a large scale* was more difficult than getting people to understand the idea itself. The company believes in the potential of the 1–2 USD per day market segment in Africa. An interviewee from company C especially stressed the selected reputation of Africa, having been built by NGOs, of Africans as *"poor, killing each other, having HIV or other sickness – we have to donate to them"*. This had led to the desire to build a community and movement in Europe for people to believe in a market-based solution to energy poverty and that being poor cannot be equalled with having no money at all. A lot of Africa is completely different and a viable market exists.

Yet another interviewee noted that the industry was starting to realise that there is both a huge leap and huge opportunity for sustained growth and large market potential for commercial investors. According to them, they had in the past been turned down by investors who had already invested in a competitor and did not understand that the market was larger than a few players and that a whole industry needed to be developed. They believed that raising today with the same business model as back then would be considerably easier and faster, because the industry is actually recognised as an industry and it attracts lots of interest and curiosity. Perceived risk had been high and assessing actual risk of business models had been challenging because there had not been others to compare performance and growth plans against, especially in quality products. One interviewee expressed that the best their enterprise could do for the market was to *become very profitable and provide successful exits* in the future, because showing the potential of the sector would attract big companies, big institutional investors and big money to further scale the impact of the industry. Therefore, wanting successful exits for the sector was stated as their reason for wanting commercial investors involved. Secondary data from one company explicitly expressed that there is no sustainable basis for the building of an industry when it still exists largely off of donations, grants and subsidies.

All mentions toward *new entrants and additional competition* in the future indicated that they would have a positive effect on the development of the industry and awareness thereof, as long as product and service quality is maintained. Due to confronting low-quality products in the past, some consumers had had a weak image of solar energy. This was being addressed through investments into customer service, after-sales maintenance and warranties, which translate into on-time payments by the customer and referral sales. One of the accelerators supported this thought by calling for an end to *"cherry-picking"* – to let a large amount of companies get financed and let the market decide who succeeds and who fails.

Another aspect brought up by one of the accelerators was that an interesting dynamic or paradigm was forming, especially in solar energy, between local and foreign entrepreneurs. Non-African entrepreneurs in off-grid renewable energy had succeeded in fundraising much more so than African entrepreneurs. Non-Africans had more experience and with more funding they could compete better by for example making investments into marketing, logistics and end-user finance. African entrepreneurs had often been losing out because *"they're not as eloquent in addressing questions or in presenting their company in front of investors"*, as stated by the accelerator. There was also a differing take on innovation: for African entrepreneurs having a successful business may just be about feeding the family, whereas foreigners often want to create something innovative. *Innovativeness* was also what investors were after, which meant they didn't necessarily buy into just "plain energy access" without there being an edge to the enterprise. This was backed up by all secondary data available on the case enterprises, which stressed the innovativeness and uniqueness of their model in some way and which they saw as increasing their competitiveness.

5.1.7 Growth and scaling up

Growth is part of the mission of the enterprises in question to spread access to energy. Growth is also often desired by the initial investors, where later stage investors might only see lack of profitability. Despite the belief in the social mission demanding fast growth already early on, as well as pressure and ambition, *"the smaller you start the higher your chance of success is"*, as stated by the interviewee from company A. According to the same interviewee, over the coming ten years increased expansion and increased sales will translate into increased need for financing. A cash surplus can be achieved earliest when growth evens out.

Along the same lines, another interviewee listed finding debt funding for working capital as their main challenge, because as growth is fast, also need for cash grows fast, due to the fact that products need to be paid upfront and also investments into distribution and the team need to made. Yet another interviewee felt that high overhead costs due to high growth contribute to a *"catch-22"* in obtaining the necessary funding to grow. Yet another stated that as the scale and scope of the operations grow, with it capital needs will grow as well and a more traditional business model will become more probable for the company. At this point it was felt crucial to demonstrate that the model works on a much larger scale and that large amounts of capital can be put to use. For example, the growth targets of this enterprise were from currently 20 000 installed households to one million in five years. According to this interviewee from company B, these growth targets sounded *"moderately scary to most"* and would take up large amounts of money. However, they felt that through their replicable business model this could be done. The main challenge was expressed to be getting investors to think on the same scale as they do, i.e. where the company thinks it is going and what its potential to grow is even with a short operating history. This needed to be clarified to the investors to get them to invest amounts large enough to meet the needs for growth.

Three other case companies also highlighted the *scalability and replicability of their business model* either in primary or secondary data collected. Attributes of the scalable models were a high level of standardisation and a low-cost structure as well as modularity to allow clients to tailor the systems to their needs and build them up. Based on secondary data on two case companies, one had been hugely successful in part due to distribution through channel partners, and also the other planned to scale up partly by selling their products via agents in telecommunication and mobile banking. One of the accelerators felt that regarding growth in the industry, franchising of the foreign well-funded and rapidly growing enterprises was going to be big, which was deemed good from the renewable energy perspective as long as it would be done sustainably and delivering quality products. To sum up, distribution was largely discussed regarding the business model and scaling up, with another key issue being the quality of the products.

Regional expansion was mentioned by most interviewees, but based on secondary data one company also planned to expand in the future by broadening its product range to other life-enhancing items.

5.1.8 Synthesis: The effect of the pioneer gap on fundraising

This sub-chapter has discussed the difficulties in fundraising and this synthesis aims to answer the first research sub-question of *how the pioneer gap affects fundraising for these enterprises.* Although the concept of the pioneer gap was itself not discussed with the interviewees, most, if not all of the difficulties can be attributed to the pioneer gap: problems can be roughly divided into having their roots in the either the *early stage of the enterprise* or the *early stage of the entire industry.* At its simplest, the pioneer gap can be illustrated as follows:

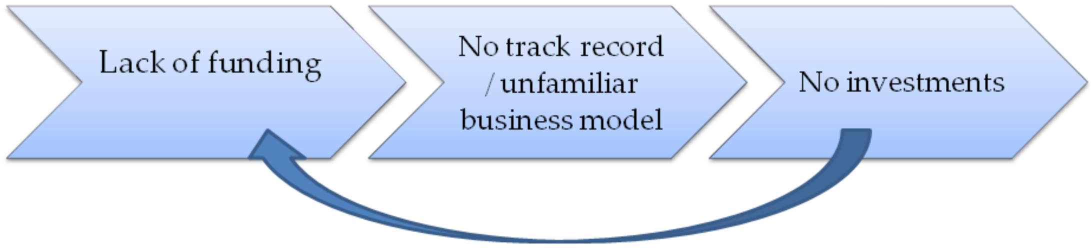

Figure 8 Simplified pioneer gap

Figure 8 illustrates the simplified vicious circle faced by the enterprises interviewed. This is comparable to very traditional challenges in starting nearly any business, i.e. the ones dealing with the early stage of the enterprise like the *lack of track record.* Even with track record documented, with very early-stage enterprises it could still not be held as a reliable predictor of future performance. However, the early stage of the industry complicates matters further and accentuates the difficulties in *coordinating timing with funding needs*. As one interviewee expressed, once the business model was proven, fundraising became easier, but on the other hand, funding is required to be able to prove the model – a “chicken and the egg” problem. Nevertheless, even when the business model itself had been proven, fundraising continued to be difficult. This can then be interpreted as some other attribute not gaining the trust of investors, perhaps the industry itself. Other possible reasons would be internal to the enterprise; however, the industry reason would be in line with comments about difficulty in *getting investors to see the potential of the market and to think at the same scale* as the entrepreneurs do. *Discipline regarding use of funds* was nevertheless also deemed important.

Lack of adequate financial instruments taking into account industry characteristics can be attributed to the early stage of the industry, and *financial innovations* would therefore be necessary to bridge the pioneer gap. Lack of adequate financial instruments is also highlighted by the fact that often lack of capital is due to not having a means to translate large investor requirements of investing substantial sums at once into the small needs of the early-stage enterprises. One of the accelerators was in the process of making an attempt at solving this via a portfolio approach, i.e. a fund. Investor requirements, tedious due diligence and lengthy fundraising processes may be attributed to either or both the early stage of enterprise and industry. These can be interpreted as the investors' attempt at alleviating *information asymmetry*, which is clearly felt to be quite substantial. This was seemingly the case also with impact investors. As was expressed in an interview, investors were seen to be grappling with the *difficulty of measuring risks* reliably. All in all, *complexity* arising from both the early stage of the enterprise and the industry, for example related to the *vertically integrated nature of the business model*, needed to be simplified to make it understandable for investors. Generally, challenges like lack of sufficient capital for proof-of-concept stages, either in the form of grants, investments or debt, can be seen to indicate that although there is interest for the industry, there is a lack of investors willing to take the very first pioneering role with these enterprises. Especially early-stage concessional debt would be required to bridge the pioneer gap, but informational asymmetry and lack of understanding for the differing business models as well as their scalability seem to remain in the way of this. This *lack of debt for working capital* arose as the biggest hindrance of growth and scaling up.

The pioneer gap includes the issue of *lack of developed market infrastructure*, which forces enterprises to *vertically integrate* parts of the supply chain into their business models. This accentuates the need of working capital especially when scaling the model. Especially the need to provide *end-user financing* to ensure consumers are able to purchase the products is a key factor in this. Mentions also came up referring to the *funding gap existing across the supply chain*, when interviewees spoke of needing to pay their suppliers upfront, i.e. the suppliers were not willing to provide (enough) credit to the distributor companies, which were then increasingly constrained for cash. Lack of understanding for these business models or industry characteristics is illustrated by entrepreneurs feeling *pressured to show good financial performance very early* on in their development. As additional proof of the early stage of the industry was the fact that *new entrants and increasing competition* were deemed to positively affect the industry, as long as quality is maintained. Also, both of the accelerators were working toward getting more companies out into the market. *Innovation* was also something clearly highlighted, as well as the accelerators implying that innovative non-African enterprises were leaving African counterparts behind in competition and insinuating that the market had not yet developed to the stage where even those simply replicating previous well-functioning business models could attract capital and sufficient funding. After focusing on the difficulties of fundraising and their reasons, as well as briefly touching upon funding needs to bridge the pioneer gap, the following sub-chapter shifts focus fully to meeting funding needs and how suitable investors can be characterised.

5.2 Suitability of investors

This sub-chapter explores the data surrounding the suitability of investors, i.e. commercially- versus socially-oriented investors, necessary characteristics of a suitable funding mix, how mission alignment and personal fit affect suitability and what investors can provide to social enterprises other than funding.

5.2.1 Commercial vs. social orientation

Opinions on usefulness of *impact investments* alternated completely between the interviewees. One saw impact investors as the best fit and said that their enterprise was focusing on them 100 percent, whereas another interviewee had given up on them altogether, due to harsh reporting and other requirements. Also one of the accelerators had given up on traditional matchmaking between SMEs and impact investors one-on-one, and had started looking into options for other financial instruments, because impact investors had been reluctant to deal with SMEs and were looking for ticket sizes of at least 250 000–300 000 USD and up, which an individual early-stage company cannot absorb.

One interviewee mentioned to look for “social” or “impact” in the name of the fund and that standard funds could usually be forgot, because of their dividend requirements, but even socially-oriented funds often had unsuitable requirements. Another interviewee said that socially-oriented investors are in a key role especially in the beginning, but that gradually the progression is towards a commercial investor base. *Socially-oriented social investors* were something to shy away from according to one interviewee. One had also become impatient with how much easier donations are to raise for foundations than investments for a company, even if the mission is the same, which had led to trying a different approach and forming a cooperative for individuals to invest in. Also another commented that they look for *commercially-oriented social investors*, but preferably actual commercial investors. One interviewee pondered that classical private equity would probably be looking for 15 percent returns, which the enterprise maybe could realise, but that this would have to be done at the expense of realised impact. This is due to the fact that prices of products would have to be increased and, therefore, the poorest customer segments would not be able to afford them anymore.

5.2.2 Suitable funding mix

Some key criteria for suitable investors are of course that they invest in renewable energy, in Africa and that the size of the investment fits enterprise's current need. One interviewee expressed that regarding social and commercial capital, they probably wouldn't go for 100 percent of either, but that their perspective on this had changed based on what they have seen in the industry and what stage their company has been at and needed funding for. Another also stated that if patient and progressive capital are viewed as different, a mix of them and grants would be suitable for their current stage. In this way different groups could be brought together and for example first-loss investors could encourage banks to loan larger amounts. Yet another interviewee listed an achievable ideal funding mix to be a commercial one, comprising commercial debt and regular non-impact investment funds, which they felt tend to be more qualified than impact investment funds. One case company condensed the notion that *different types of financing play different roles* and need to be combined due to the vertical integration of the business model.

The interviewees in general found *banks* unsuitable investors. One interviewee said that neither local, European nor African Development Bank type international banks were interested in the market – that especially normal banks avoid the risk of committing in developing countries. The interviewee also wondered why no governmental bank was replicating in Africa what the World Bank did with SHSs in Bangladesh. In Africa WB's operations seemed to include requirements for collateral and other difficult conditions, whereas in Bangladesh the World Bank provides the government credit on 1 % interest, which the government loans this forward to local companies, requiring no collateral. This has led to huge success in installing 80 000 SHSs per month. The German development bank DEG, part of KfW, has an Up-Scaling programme where an African company can apply for a loan of up to 500 000 EUR if the company invests the same amount. The terms are 0 % interest, five years and payback only if successful and otherwise considered a grant, but with a necessity of collaborating with a German company. In case the loan is successfully repaid, the company can apply for a larger loan. The IFC and Shell Foundation are preparing a working capital fund, which, however, according to the interviewee probably only operates loans suitable for solar lanterns due to timeframe and interest rates. Schneider Electric was also said to be preparing a new fund for equity into African companies, but it had not yet been established as of 2014.

Also another interviewee doubted that favourable conditions like reasonable interest rates could be received from large, banks like the East African Development Bank, and doubted European banks would provide loans at all. One of the accelerators lamented that they had tried approaching *development finance institutions,* but that they had had such high requirements for co-financing and the size of amounts they invest that no deals had been made. They also seconded the opinion of local banks' requirements being unsuitable for early-stage SMEs, by restraining possibility to set up the business and start generating revenue before having to start repaying. Another accelerator mentioned that training for financial institutions like local banks had been successful and that certain persons within banks were keen to mobilise this kind of funding, but that local bank funding had not yet taken off. Insofar it had seemed that local banks just do not do SME lending in the energy sector. They also found working with *international development agencies* difficult due to stretching timelines, although they felt that the ambition was there.

One interviewee mentioned not accepting *grants* because they come with lots of strings attached. Another also mentioned that grants are not sustainable and, therefore, cannot change lives, and that the goal from the beginning has been to sustainably initiate local business. Donations, therefore, limit operations because they cannot be used for business. However, this interviewee from company C had come to the conclusion that donations for a foundation are easier to raise, *"to show them poor people"* than to raise funding for a company that treats the poor as customers, not beneficiaries.

Crowdfunding institutions like Kiva and Sunfunder were discussed with two interviewees. One felt that they were not hugely helpful, because they often focus on a single project, which is far away from building a whole company. Along the same lines, the other felt that they were fine for small amounts. According to an accelerator, crowdfunding is, although not ideal, potentially very effective for building pilots as well as other projects, depending on the business model. However, it is not sustainable for scaling up a business due to the usual small deal sizes combined with the administrative burden. *Microfinance* did not come up in the interviews as a funding source for the enterprises, and there was one mention in the secondary data about it not having developed a concept for SME-sized companies. One interviewee mentioned that they would probably not accept an investment *too small* to fulfil current needs, because it would simply not be worth the time invested in the process. Another mentioned the criteria of not wanting to take an investment for *too short* a timeframe, because it is not helpful in reducing energy poverty and selling SHSs which require longer end-user financing than solar lanterns.

One accelerator also discussed the different takes on *equity*: In the West it is a good and regular thing, to give entrepreneurs time to run their business and generate a cash flow, versus having to directly repay a bank. On the other hand, in East Africa, investing equity is a newer thing and African entrepreneurs are seemingly quite wary of it and would prefer a loan from an impact investor or equivalent, with a longer time horizon and more favourable interest payments than banks provide.

Another accelerator stressed the importance of the *ecosystem approach*, i.e. different roles for different types of investors at different stages of development of the SME. According to this interviewee, companies that have been able to raise funding relatively easily have been able to access grant funding for their earliest stage to be able to do a strong pilot and build a robust and investable business model. This support in the beginning for proof-of-concept and feasibility studies may be in the form of not only grants, but also softer capital or concessional debt. After the early stage an equity investor can really add value, and concessional debt is increasingly necessary. The interviewee from the other accelerator sees a suitable investor as someone taking the SME approach to spreading energy access, wanting to bridge the pioneer gap by solving the issue of *"cherry-picking"* single companies instead of developing the whole industry through a *"venture capital approach":* this would involve building a geographically and per industry diversified portfolio of energy SMEs for large investors willing to invest amounts in the millions. They have also been considering the forming of a consortium with similar players to combine their portfolios.

5.2.3 Mission alignment and personal fit

Aligned interests with investors is an issue that all interviewees had taken into account. *Mission and values alignment* between the enterprise and the investor is usually quite inherent to the business: it is easy to understand that providing solar energy to Africa has transformative social effects. According to one interviewee, it is about being interested in the business itself, not just the potential financial returns, which are more easily attainable from different companies or industries. An interviewee from company D reflected that a lot of oil companies have good impact investment funds, but that they would not want an investor who usually *"invests in oil and weapons"* and therefore hint at importance of mission alignment. They also expressed that in order for the investor's and enterprise's expectations to be aligned, the investors must understand the market and be smart, which is not obvious. However, mission alignment is not the only crucial factor in assessing the suitability of a potential investor. As stated by one interviewee, increasingly anyone they work with should be *someone they would like to grow with*, i.e. where the company sees itself in the upcoming years versus what the investor envisions for the company. This also has to do with the capital that the investor can bring to the company, now and in the future, and how that fits company plans. *Long-term partnerships* with investors was additionally mentioned or hinted at in other interviews, as well as in the secondary data. Investors that are comfortable with the idea of building new or underdeveloped markets, and understand that this may take a while, are needed. According to one interviewee, it is, however, important to note that patient capital and tolerance for risk are not necessarily the same thing: technology investors are familiar with risk but are not necessarily patient, whereas impact investors may be patient but not familiar with the risks involved and are not necessarily innovative, because impact investing is often used as a new term for philanthropy.

Most important in the end is *who the particular investor is and what their motivation to be involved is*, because every investor is different regardless of how they categorise themselves on the commercial-social spectrum. The *personal relationship* and actually liking the investor was also mentioned as important, because an investor is someone likely to be worked with for years and the work is likely influenced by the personal relationship. Looking for like-minded people can mean looking for investors who themselves are entrepreneurs, who understand the challenges but share the excitement for the market. Company C stated that being an entrepreneur was the criteria for an equity investor: *"That's why we are looking for…people." Entrepreneurial expertise,* analytical business thinking and keeping the bigger picture in mind were also stated by another interviewee as the reasons for commercially-oriented investors being important. However, for the same reasons investment funds were deemed not very helpful, because they mainly *"inspect whether the investment is safe"*, as stated by the interviewee from company A. Another interviewee seconded the opinion by stating that unlike fund managers and banks, their investors are interested, not only in figures, but also the stories of how the business is doing. They stated that funds are alright for working capital, but for equity they are not accepted, and in general no-one who is talking about exit before they are even in. Also another interviewee felt that it is important that an investor brings value to the company and is excited about the unique and innovative thing that it is building. Impact investors are not necessarily able to add value to operations due to often not having a suitable background for the problem-solving related to doing business in East Africa, but since they seem to have access to lots of capital, partnering with them is necessary.

5.2.4 Other things investors provide

Investors can provide valuable assistance to enterprises in other than financial form also. An interviewee from company D indicated that an investor being *"of guidance without being intrusive"* was very difficult to find, but desired. Two interviewees were along the same lines, by hoping for investors to push the enterprise forward, as well as critique and question, so *not just be "yes-sayers",* as termed by the interviewee from company E. However, investors should not try to force their way on the business or change its direction significantly, but should trust that the business knows the market and customer best and will figure out the right way with guidance. Also, according to one of the accelerators, it might be an issue if an investor wants to completely change the business strategy or model. The entrepreneurs might be hesitant to do this, due to investing into the model heavily, whereas the investor tends to take a non-emotional approach. However, according to another statement from the interviewee at company A, investors can help in *"holding a mirror in front of yourselves"*: internal inspection and good governance are necessary, because in the day-to-day operational issues the bigger picture is easily lost. Another interviewee was on similar ground by commenting that investors' broader perspective can help to relate to the rest of the market, because they see a lot of similar things and the entrepreneur might focus solely on their own enterprise. Also one of the accelerators found that for example impact investors may be able to offer lots of outside perspective and learnings, especially if they have a portfolio that stretches several countries in the region.

One interviewee looked for value added from the investor, for example in how they complement the existing operations and team with *additional experience, technology or finance-related skills* or expertise in something valuable to the enterprise. Investors can also assist in developing the business model, and may also be helpful in creating a team with diverse experience. Investors can naturally be extremely useful in *broadening the networks* of their investees and in providing new introductions and connections to valuable parties like partners, suppliers, governments, etcetera. The interviewee from company C even commented that *"our investors are the best ambassadors for us to find other investors…our investors are our main marketing tool. That's why we have to prepare them with the best information we have."*Another interviewee, from company E, described an investor as *"a champion of yours"*.

5.2.5 Synthesis: The funding needs of enterprises

This chapter has taken a look at the part of the data focusing on the suitability of investors and, therefore, this synthesis answers the second research sub-question: *How are the funding needs for these enterprises characterised?*

The general notion amongst the interviewees was that *different types of investors and funding fit different developmental stages* of the enterprise, depending on how much and for what the funds are needed for. Nevertheless, a mix of funding or investors seems to render the best result. Also, a consensus existed about *all investors being different*, and therefor, interviewees found the *motivation of investors* wanting to invest to be significant, for example them having a personal interest in what the enterprise was developing.

A functioning *personal relationship* and *mission alignment* with investors were termed important. Understanding the market, having potential entrepreneurial experience and having a long-term orientation or being someone the enterprise could grow with were additionally mentioned as key. Other than funding, interviewees desired investors to be critiquing and giving an outsider and broader perspective of the industry, while trusting the enterprise and not being intrusive. Investors were seen to bring in additional skills complementary to that of the team, e.g. technical or financial, and also being helpful through broadening the enterprise's networks and setting up new connections. One interviewee even described investors as their "*ambassadors*" and "*main marketing tools*".

Classifications were not found either useful or possible beyond the simple *commercial versus social orientation*. However, even this only gives general direction but says nothing definite about an investor. For example, different interviewees had even completely opposite opinions regarding the fit of impact investors for their enterprises, which also reflects different needs in different phases. One interviewee was all for impact investors, whereas several others either wanted to avoid them altogether or work their way towards commercial investors as soon as possible. The simplification of the situation is illustrated below.

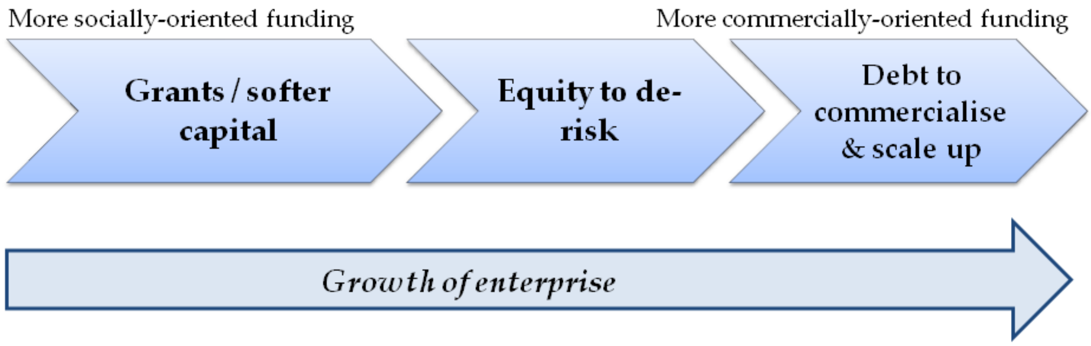

Figure 9 Suitable funding at different stages of enterprise development

Suitable funding at different stages of development and growth for the enterprise vary, as has been concluded. Despite wanting to develop towards having more comercially-oriented funding, the role of socially-oriented investors, especially in the earliest stages, was nevertheless deemed important by some. However, grants were often shied away from, due to coming with strings attached and not being sustainable. All in all, the aim to progress from socially to commercially-oriented investors as the enterprise develops and grows can be said to have been supported by all interviewees. An accelerator presented the usefulness of grants, softer capital or concessional debt, possibly also *crowdfunding*, in the beginning to build a pilot and the business plan. After the initial stages, equity and concessional debt are needed, however. Interviewees preferred *entrepreneurs, i.e. "real people", for equity,* and *for working capital funds* were deemed fine too. Both local and international banks were seen as uninterested, unwilling or unable to invest in the off-grid renewable energy SME sector. Some interesting initiatives were mentioned, aiming to develop more suitable financial instruments for the industry. After exploring both the funding difficulties of the pioneer gap and funding needs in these situations, the following sub-chapter presents the data directed more towards how to get needed investors onboard and how to meet their needs and requirements via communication.

5.3 Communication with investors

This sub-chapter analyses the actual communication with investors at different stages, from when they are sought out to how the communication is handled pre- and post-investment. Other aspects are the emerged themes of investing in the management team and storytelling as a means of communication. The synthesis then determines how these processes possibly affect building trust with investors, answering the third research sub-question.

5.3.1 Seeking out investors

Interviewees had differing viewpoints of whether or not seeking out investors was done in a *targeted manner or not*, whether by *shortlisting* or otherwise. In some cases shortlisted potential investors were approached directly, and in others *connections were utilised* to make an introduction for a more favourable dynamic, to accelerate getting a conversation or getting your foot in the door. Also introductions to players not initially shortlisted had turned out good fits in some cases. On the other hand, two interviewees mentioned that investors were the ones contacting them, not vice versa. One interviewee referred to pitching to lots of potential investors, to first map out those who would be interested and then figure out the best fit. Another interviewee cited looking at other companies' investors to find possible fits. Yet another expressed that regarding funding you take what you can get, as long as you avoid becoming opportunistic or changing your operations because of an investor, and that in the future it would be possible to be more selective.

One interviewee acknowledged that because the amount of possible investors is limited, seeking out investors mainly has to do with keeping an eye out for existing players' new programmes or for players that are completely new. This means that *word-of-*

mouth was seen to have a significant impact. In general *personal connections, circles, industry associations, gatherings and networks* like the Ashden Awards, Lighting Africa and Global Impact Investing Network were seen as helpful, even fundamental, in seeking out investors. Existing team composition was also mentioned as benefitting fundraising, because all the combined connections could not be disassociated from fundraising experience or successes. Also, either presenting at or attending *conferences* was mentioned by two interviewees. An accelerator pointed out the usefulness of *alumni networks* for many enterprises, specifically if entrepreneurs had gone to top universities. Established relationships were useful also in getting new introductions, and broadening networks was referred to as the company version of making friends. Even if networking was not done deliberately, it was deemed important to be familiar with *how different groups function, how they should be dealt with and what they look for.*

An essential attitude with seeking out investors was considered to be taking into account investors' needs and wants. Articulated by the interviewee from company D: *"think about what they want, rather than what you want from them".* Additionally stated by the interviewee from company B: *"If you want to know what someone thinks, you should ask them for their money. If you want to have their money, then you should ask them what they think."* The interviewee clarified that if you simply ask for financing and the conversation with the investor ends there, you are not likely to be very successful, and therefore, efforts should be made to understand what it is that investors want to support, what excites them and what they want to get out of their investment.

5.3.2 Pre-investment communication

As already touched upon in the previous subchapter, the common process between initial contact with a potential investor and securing the investment *varied depending on case enterprise and the phase of their operations*. On the whole, however, the process involved *discussion, explaining, providing information, deliberation and waiting*. A traditional path was seen as involving an introduction, investors looking over materials and asking questions, follow-up discussions and meetings, more detailed *due diligence* and finally discussing the terms of an investment. According to one interviewee, the enterprise had been engaged with some investors nearly a year without securing investment, nevertheless having good dialogue or other existing potential, and on the other hand, other investors had made the decision to invest on the spot. *Pitching* was referred to as slightly overstated, because much more was considered to be involved in the situation. One enterprise reported that they had a fairly standard process, but that after term sheets timelines tended to differ between investors. One interviewee simply stated that no common process existed; *some investors required more work* and over a longer period of time than others. An indirect benefit of rigorous due diligence was mentioned *as preparing for dealing with new investors* and having material ready if needed. Secondary data on two clear occasions illustrated how risks could be addressed, for example relating to political instability, foreign exchange risk or delivery failure, by monitoring, diversification of business into different countries and creation of reserves.

Regarding pre-investment communication, the accelerators made efforts at assisting enterprises in preparing main communication tools for investors: namely the business plan and the financial model, i.e. *"packaging the information in the right way"*. The *business plan* was seen as a de-risking tool in the absence of past financials, because it shows that different aspects of the business have been thought through, whereas the *financial model* shows calculations behind these thoughts. Providing at least some historicals for the investors to see was deemed sufficient to at least start the conversation with them. All in all, backing up your assumptions with figures and analytical data was highlighted. Preparing the presentation material well was stressed, as well as including a clearly defined business. *Cohesive pitching and confident presentation* was mentioned by the accelerators as a way of increasing credibility in the eyes of investors and something that should be taken very seriously and practised by entrepreneurs. This is where a lot of Africans were seen to fall behind their commonly Western counterparts and that *"they don't quite talk the talk"* which is detrimental to them because *"a lot of it is about marketing your story"*, as reckoned by one of the accelerators. The interviewee from company E also referred to the importance of being able to *"speak the investor talk"* and quantify what the enterprise needs and what can be achieved with it.

5.3.3 Post-investment communication

The prevailing opinion of the interviewees seemed to be that communication with the investor was most of all done *one-on-one* and depended on who the individual person was that was being dealt with. Classifications of investors were not really made, especially if there were only a few investors involved in the enterprise altogether. Nearly all interviewees commented that it was more about *varying reporting requirements.* For example, specific reporting formats were possibly more common with large international organisations or development finance groups, and impact investors naturally wanted to know more about impact. Therefore a *tailored solution* was often necessary regarding reporting. One interviewee mentioned that if categorisation were done, it would probably be according to the amount invested. A few discussed *varying investor motivations*, and also *how actively investors choose to be involved* in the company. One interviewee noted that usually it is easy to see relatively early on, how much an investor wants to be *"in the story"*, and for example overloaded fund managers preferred to hear less. Yet again, interviewees also mentioned *how entrepreneurial investors were* as a viewpoint, and whether or not the investors actually had insight of the market, because different languages were needed for those who understood and those who only thought they did.

Interviewees did not really differentiate between different stages of their relationship with the investors after initial investment. *Communication after the initial investment* depended more on the *needs and wants of the investor*. There was concordance across all interviews that investors should be *well informed* and that *regular communication* also beyond the necessary annual and quarterly reports was very important, also to *build trust* regardless of whether a donation or investment was in question. Investors should be kept involved and briefed also in the case that things were not going as planned, so that they would understand why and remain trustful. Some investors preferred a more *structured approach* to communication than others, but usually communication contained both official or structured and personal aspects, and especially with small investors the relationship often remained personal, as well as when there were only a few investors involved. Structured aspects were for example *monthly, quarterly or semi-annual or annual updates or reports* to all investors, *board meetings* or other structured discussions. One enterprise reflected that nowadays the company was more likely to be *proactive and reveal issues* or problems to their investors and board quicker and engage them in solving them or ask for thoughts. Asking investors provide input or advice when needed was also referred to by another interviewee.

5.3.4 Investing in the team and storytelling

In small enterprises, persons partaking in contact with investors usually include the CEO, Managing Director or equivalent, and in some cases the Financial Manager if that position separately exists in the organisation. Other members of the management team, e.g. ones responsible for business development, may also be in central roles. According to one of the accelerators, *"pretty much all the people will place heavy emphasis on the entrepreneur and team"* when investing, which is why entrepreneurs need to be prepared when meeting them, for example, to answer their questions. Especially when there is no track record, investors put heavy emphasis on the team and when investors see entrepreneurs prepared, they feel they can better manage the risk. This is the reason for investors spending time to get to know the entrepreneur and their thoughts, because *"they are the vehicle by which they make that business work"*, as illustrated by the accelerator. One interviewee affirmed that investors often believed that everything else would come together if the team worked well and the market was there. The importance of the core team was illustrated by all secondary data available containing clear presentations of the management teams and their experience and qualifications, even how long the management team had been working together to possibly refer to the functionality of the team. Also partnerships and connections were commonly advertised in the secondary data.

Three of the enterprise interviewees mentioned *learning how to put their story together* to get people to believe in the enterprise or entrepreneur and want to support it. An interviewee from company E reckoned that one raise in particular had probably taken longer than it needed to, because *"we changed our story or we figured out that we needed to be telling our story better"*, including what the business was like, how the enterprise saw itself growing in the future, why money was being raised and what could be achieved with it. They said that although there were a lot of conversations going on with investors and a lot of interest generated toward the company, the enterprise was not really successful in fundraising until the story was watertight. They also estimated this to be a common problem for lots of early-stage companies. Knowing how to tell the enterprise's story better, therefore, would lead to more fluent conversations with stakeholders. Another interviewee described telling your story as a crucial asset and biggest part in *conveying the enterprise's vision and finding the commonality* with the investor. Also one of the accelerators felt that storytelling was important especially when pitching, because it works in *illustrating the motivation* of the entrepreneur through their own experience. One interviewee that did not discuss storytelling in the interview, did however mention fulfilling a personal dream in the secondary data. The other accelerator, however, pointed out that in the end only the persons inside the enterprise actually have access to this information and stories and, therefore, have to choose what is relevant to present to the investors.

5.3.5 Synthesis: Building trust

This sub-chapter examined the communication social enterprises have with their potential and actual investors. To synthesise, the third research sub-question of *how these enterprises build trust in their investor relations* is answered.

Trust was explicitly mentioned in the interviews on several occasions. Regarding the seeking out of investors, potentially trust-building aspects were *networks and connections* of different kinds, i.e. utilising these for getting introductions to investors or directly knowing a potential investor themselves. Furthermore, thinking about *the needs and wants of investors* was deemed a crucial basis for the development of a relationship, and also at least understanding what different investor groups look for in a potential investment. It is therefore important to find out *what motivates investors* and what it is that they want to support. This drives back to some of the data from the previous sub-chapter that should be taken into consideration here, namely *mission alignment and personal fit* with the investor as well as their *expectations* for the investment. Once again, enterprises tend to look for investors to grow with, therefore implying pursuing long-term partnerships. This result also from the fact that the social mission of spreading energy access cannot be resolved in a short time period and mission alignment would infer that investors understand this too. Personal fit was referred as important because it is likely for an investor to be someone to work with for years ahead.

The common process described between initial contact with the investor and securing the investment is a phase of trust-building: investors get to know the investee through *due diligence*. Some investors require more work for trust to be built. An indirect benefit of rigorous due diligence was mentioned as preparing for dealing with new investors and having material ready if needed, therefore easing trust-creation in the future. The accelerators assist enterprises in packaging their information well, including the main communication and de-risking tools of *the business plan* and *the financial model*, which build trust especially in the absence of a track record by illustrating that various aspect of the business have been thought through. Similarly, backing up assumptions with figures to quantify what the enterprise needs illustrates to investors that planning is taken seriously. *Cohesive pitching and confident presentation* increases credibility in the eyes of investors. *Storytelling* was seen to illustrate the mission and vision of the enterprise and also the motivation of the entrepreneur, which also could assists in finding commonality with the investor.

Post-investment communication with investors included meeting varying investor expectations via varying *reporting standards*, which are usually met with tailored solutions depending on what the investor needs and wants, like is the case with all of the post-investment communication. This entails an adequate quantity and quality of information: regular communication to keep investors well informed, also in the case that things do not go as planned so that they would understand the reasons and remain trustful. Investors differed also based on how much they want to be involved in the enterprise, for example, overloaded fund managers preferred to hear less. Other more engaged investors were more proactively included in problem-solving etcetera, a factor also building trust. Some preferred a more structured approach, others more personal, but nearly always communication comprised both aspects.

Personal relationships were naturally easier to maintain when there were fewer investors involved in an enterprise. As the persons involved in IR were always members of the management teams, if not CEOs or equivalents, investors could trust to have direct access to those in charge. Personal connections are naturally valuable in building trust, but then again also *structured processes* may create trust in the professional management of the enterprise. According to the data investors put heavy emphasis on the *entrepreneur and their team*, especially in cases of limited or no track record, when making the investment decision, which is also why their preparation when meeting investors is so crucial. *Preparation* was seen to give investors a better feel of being able to manage at least some of the risk involved. Also relevant influential or well-known *partners or affiliations* may increase investor trust.

Chapter five reported the analysis of this thesis based on primary data from the interview and secondary data from information sent over by interviewees and brochures from company websites. The approach was data-centric and, therefore, the chapter was structured based on the three research sub-questions which were answered, each in their previous sub-chapter. The analysis is tied together with existing literature in the following discussion and conclusions to answer the main research question.

6 DISCUSSION AND CONCLUSIONS

The purpose of this thesis was to study *how social enterprises operating in off-grid renewable energy in Africa utilise marketing activities in their investor relations in bridging the pioneer gap.* This main research question was divided into the following sub-questions:

- *How does the pioneer gap affect fundraising for these enterprises?*
- *How are the funding needs for these enterprises characterised?*
- *How do these enterprises build trust in their investor relations?*

These three sub-questions were answered in the previous chapter that reported the data analysis, and are brought together here to answer the main research question and compare findings to previous literature. Theoretical and managerial implications are discussed separately, after which the evaluation of the study, limitations and suggestions for further research are presented.

6.1 Theoretical implications

This study was positioned within *marketing management*, which can according to Kotler (1972, 52) be defined as *"efficient creation and offering of values to stimulate desired transactions"*. Adapted from Coviello et al. (1997, 2000) and Coviello et al. (2002), *interaction marketing* was the further focus, characterised by interactive relationships between individuals which are based on commitment, trust cooperation and mutual benefit. The interaction perspective was strongly highlighted in the data in all the cases where investor relations were managed via personal relationships. *Investor relations* were defined as a type of marketing communications, to, as according to Kotler (1972) stimulate desired transactions, which for this thesis mean stimulating investment in the enterprises in question. As stated by Tuominen (1995, 38), the purpose of managing corporate investor relations is to *create trust and increase long-term interaction.* Teinilä (2012, 60) argued that trust-building activities are clearly marketing activities in the context of corporate debt. In the context of this thesis, the same was concurred about social enterprises building trust with their investors.

Trust was conceptualised as one party having confidence in the partner's integrity and reliability (Morgan & Hunt 1994, 22–23). The main existing theoretical framework utilised both in the thought process and in organising data during the analysis was Morgan and Hunt's (1994, 22) key mediating variable (KMV) model of relationship marketing, in which it was hypothesised that commitment and trust were the key constructs. However, the context of their study was buyer-suppliers in the automobile industry, which limits applicability here, although some portions of the model were reinforced in the data. The attributes of mission alignment, risk perception and information asymmetry were loosely parallelled to Morgan and Hunt's (1994, 22) model: their *shared values* aspect was matched with *mission alignment*, their *opportunism* with *risk perceptions* and their *communication* attribute with *information asymmetry* here. Additionally, Morgan and Hunt (1994, 32) showed that trust influences how disagreements are perceived, i.e. when trust is present *conflict is viewed as functional* and productive. This can be paralleled here to interviewees desiring for investors to question and criticise the enterprise's operations to give a broader perspective, but nevertheless to not impose their opinions on the enterprise. On the other hand, data illustrated the importance of open communication and involvement of investors also in times of difficulty, which can be interpreted to require trust in order for the issues to be functionally resolved instead of the investors pulling out at the first sign of trouble. Anderson and Narus (1990, 45) interpret building and sustaining partnerships as an iterative process and further posit that past communication causes present trust and that the accumulation of trust leads to better communication in the future, which is in line with the findings of this thesis also referring to times of difficulty as stated above. Commitment, the other key variable in Morgan and Hunt (1994) did not explicitly come up in the interviews. However, interviewees did report aiming for long-term partnerships with investors. As nearly everything reported in the analysis, including fundraising difficulties, suitability of investors and communication can be linked to building trust, it is retained as the key construct in the theoretical contribution of this thesis and naturally a key component in bridging the pioneer gap: trust is a prerequisite for investment, because if there is none, investors will not invest. One way of viewing its central role was the RM/IR framework constructed in Figure 6 of chapter three.

Shane (2003, 161) showed the two main characteristics of *information asymmetry* and *uncertainty* to influence resource acquisition of enterprises. Uncertainty was defined as inability to evaluate enterprise potential, which can here be interpreted as *risk perception*. Shane (2003) also found social ties important in facilitating resource acquisition under these two constraints, supporting the importance of investor relations as interaction marketing, i.e. stressing face-to-face interpersonal relationships based on trust. Looking back at the RM/IR framework (Figure 6) in the synthesis of chapter three, it can be stated that *communication* in general can be utilised to diminish information asymmetry, both regarding the early stage of the enterprise itself (the "*product*" in the figure) as well as the early stage of the industry (the "*place*"). Related to *value*, i.e. the terms of investment, a reference can be made to Binks et al. (1990, 25–26) who noted that information asymmetry hindered (bank) debt being supplied based on income gearing, i.e. managerial and financial strengths as well as the prospect of the borrower's industry. Edwards and Turnbull (1994, 4–7) discussed alleviating this information asymmetry with budgetary information. Also, in the data collected in this thesis, a form of income gearing was referred to, when an interviewee specified viewing customers as an ongoing revenue stream in an energy-as-a-service model, against which it was hoping to get funding in the future. All interviewees made reference towards having difficulty making potential investors understand the market potential and therefore the growth rates, which in turn complicated borrowing even against future revenue streams.

The findings from the data analysis regarding building trust between the investor and investee are here presented via a logic model. A *logic model* is often used in explaining an idea or resolving a challenge, planning and in this case supporting communication between the researcher and the readers. Logic models aim at untangling and clarifying complex relationships, as is the case here with the creation of trust, by providing a graphic way to display the process. The logic modelling process is an opportunity to critique connections between activities and outcomes. Logic models are commonly utilised in the non-profit sector, but are also increasing among the private sector. The formation of the logic model starts from the end goal, which is also part of its effectiveness. It makes the user clearly state where they are headed, which must be known to figure out how to get there. Therefore, logic models also assist in clarifying priorities. (Wyatt Knowlton & Phillips 2013, 4–5, 12). The logic model is presented in the table below.

Table 5 Logic model of trust creation

INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES	IMPACT
business plan	clarify & prepare business plan & financials	diminished complexity of business model	less information asymmetry	
financial model	prepare presentations to investors	cohesive pitching & confident presentation	less perceived risk	
		investable team / entrepreneur		
coaching / training	take investor needs & wants into account		mission alignment	
	find out what motivates investor			
	do rigorous due diligence			TRUST
	meet reporting standards			
entrepreneur & team	network	attractive networks & set of connections	personal fit / relationship	
		attractive partnerships		
	engage investor , also when something goes wrong	investor informed & engaged		
	build structured communication processes	other investors as ambassadors		
enterprise story	tell your story			

In the logic model above, the *impact*, i.e. end goal and broadest level of change, is *trust*. *Outcomes* can be defined as earlier indicators of progressing towards results (Wyatt Knowlton & Phillips 2013, 12). *Outputs* are usually countable and in the control of the organisation in question. They are also more short-term than the outcomes and impact. *Activities* are what need to be executed by the organisation to achieve the outputs, whereas *inputs* are all the resources necessary to execute the activities, here for example the entrepreneur and team as well as the business plan and coaching. As is generally the case with models, also the one above is a simplification of reality from the viewpoint of an individual organisation and therefore surely does not include all possible components. The model focuses on how trust creation can be influenced through the perspective of the early stage of the enterprise rather than the industry, in line with the overall focus of the thesis of what the social enterprise itself can do to bridge the pioneer gap. One example of the chain is the activity of engaging existing investors in problem-solving when things do not go as planned, which ideally leads to the investors acting as ambassadors of the company (output), less information asymmetry and less perceived risk, because investors know the company is open in its communication (outcome) and therefore increased trust as the impact. This illustrates how previously built trust with existing investors can with some activities be enhanced and leveraged as a catalyst to build trust in the eyes of new potential investors.

According to Gummesson (1994, 6) it is particularly obvious in relationship marketing that *"marketing is embedded in the whole management process"* and therefore according to RM *"everyone is a marketer"*. All members of the organisation that have influence over investor relations, are *part-time marketers (PTMs)* (Gummesson 1991, 60–64) and are relevant to influencing the reputation of the company or its product through word-of-mouth. This is supported by the data analysis especially since small-sized enterprises were in question, so all employees contribute to marketing the enterprise, whether to investors or to other stakeholders. Also Blenkhorn and Leenders' (1988, 85–86) term of reverse marketing, at its simplest reversing traditional buyer–supplier roles, applies in the case of social enterprises in the pioneer gap. In the context of the pioneer gap, the funding gaps are often present across the supply chain, and therefore social enterprises may try to market themselves to their suppliers to receive beneficial payment terms. Treating investors as suppliers of finance is reverse marketing as well, which can be said to come as a given due to the imbalance of supply and demand of funding. This was implied by an interviewee stating that at this stage they take what they can get regarding financing and investors.

The three types of trust-creating mechanisms discussed by Neu (1991, 247–251), *the process-based, character-based and institutional-based,* were discussed in the theory section. All three can be identified in the data: *Process-based trust* relies on records of past exchanges and expected future exchanges, which can therefore be increased by well-prepared materials like the business plan and financial model, as well as showing a well-documented track record, even a short one. *Character-based trust,* based on ascribed characteristics like ethnicity, gender and age which indicate of having shared background expectations as part of a common cultural system, can be built through demonstrating the attributes of the entrepreneur and team, which all of the case enterprises exemplified. *Institutional-based trust* generalises into social practices within which trust is embedded, for example through affiliations with certain institutions, being an alumnus of a top university, having notable networks or well-known individuals as board members, etcetera. This was also exemplified by all case enterprises clearly advertising their affiliations.

Storytelling being a useful marketing tool, strongly conveying for example mission, vision and motivation, was supported by the data. It could be concluded that storytelling takes communication further than just diminishing information asymmetry, to really engaging investors. Again referring back to the RM/IR framework, storytelling is about consciously packaging your *product*, *place* and *value*, so the *company*, *industry* and even *investment criteria*, i.e. on what terms the investor becomes part of the story. All of these components of the marketing mix need to be wrapped together as an entity to be promoted or marketed to the investor, as an entity that the investor wants to "buy".

6.2 Managerial implications

It has been suggested that SMEs should not be measured against the same criteria for success as larger corporations. This goes without saying for social enterprises deliberately shifting the focus from financial return to social and/or environmental benefits. Non-financial criteria are frequently more important than financial ones in determining the investability of any SME, not just a social enterprise. It would seem logical that the fact that an investor has a good gut feeling about a team they are contemplating investing in, therefore, would weigh more in making the final decision than technical requirements. This leads to the fact that although early-stage social enterprises may find it hard to officially prove their worth as an investment target, they themselves can do a considerable amount in *marketing their teams and enterprises as worthy investments*. This was supported by the findings of this thesis.

In the introduction some of the reasons listed for the existence of the funding gap were the following: information asymmetries, high upfront costs from building infrastructure for distribution and service, high working capital costs and offering end-user financing to customers. All of these were supported by the data, where difficulties were seen as arising either from the early stage of the enterprise or the early stage of the whole industry, or both combined. *Information asymmetry* has been categorised as being a product of both early stage of the enterprise and early stage of the industry. Investors found it difficult to assess the risk of an investment accurately, which must be a key factor contributing to tedious and lengthy due diligence for the enterprises. In interviewee companies it seemed that as soon as trust is created to get an investor on board, information asymmetry is not nearly as significant a problem as prior to investment. All interviewees stressed the importance of regular and open communication with their investors, also informal or unstructured relationships, because the number of investors is usually not very large. This itself facilitates trust creation. However, investors preferring more structured communication do still have very stringent reporting standards. *Diminishing information asymmetry is the main issue that the social enterprise itself can battle, especially with marketing activities in its investor relations*. Due to the complexity of the environment operated in, both investors and entrepreneurs make decisions based on less than full rationality and are, therefore, subject to behavioural biases that may cause irrational decisions. This, however, further supports the notion that investor decision-making can be influenced by for example marketing activities in investor relations.

Information asymmetry can be diminished in part by *simplifying complexity* for the investors, to take into account their limited time and make the business model etcetera as understandable as possible. Nevertheless, simplifying should not go as far as to adversely affect providing enough information to facilitate understanding, about for example reasons for a vertically integrated business model. Another aspect that arose as difficult to believably explain to investors was the massive potential for growth. An example of this is that if revenue streams are based on services, and customers can be seen as an ongoing revenue stream, it should be possible to raise funding against this revenue stream. At least a part of the reason local banks and other institutions will not lend to the sector is because they do not understand it. Some accelerators and other market players are making efforts at bridging this knowledge and capacity gap, which would be an unreasonable task to bestow upon any single enterprise.

A limited track record worsens the *risk perception* that the investor has. As risk is relative to an investor's expectations, it is subjective and, therefore, adjusting risk is not a one-size-fits-all ordeal but requires understanding the particular investor in question, what their expectations are and what types of risk they are concerned about (Shifting the Lens – – 2014, 6–7). The data supports the notion that a tailored solution is common in investor communications and in meeting reporting requirements. Also, as soon as the business model is proven and good performance can be shown, raising funds becomes easier. However, the enterprise needs at least some financing to be able to prove the business model, which is quite a vicious circle. Nevertheless, all efforts should be focused toward showing good performance.

Material presented to investors should include both historicals and projections (Lynch & Walls 2009, 58). Guimard (2008, 19) states that when approaching investors, it is relevant to be prepared to present the business model and growth strategy but also to have your vision challenged. Especially the accelerator interviewees supported this view by stressing the importance of preparation for investor meetings, both regarding material, actual presentation and preparation for answering questions. It has been portrayed that entrepreneurs often lack the know-how in actively approaching financial institutions and pitching to them (Exploring Energy SME Financing – – 2013, 28), however, this did not seem the case with the interviewees, reflecting educational level and professional experience. According to Clark, Emerson and Thornley (2013, 24–25) entrepreneurs should also prepare for effective communication with diverse investors, to be able to *"speak the language"* of different sectors like commercial institutions, philanthropic organisations and government entities. Also this was reflected in the data.

Storytelling is a powerful tool for communicating values, ideas and norms because it makes information easier to grasp and remember (Morgan & Dennehy 1997, 495) and taps into people's motivations as well as engaging them by forming an inspiring vision (Marzec 2007, 28). A good story also balances between aspirations of where the organisation wants to go and practicalities limiting the possibilities. This is achieved by basing the story on individual experiences and challenges in the market, painting a picture of an achievable alternative reality. (Marzec 2007, 31). As has already been concluded in the theoretical implications, data also supported the importance and value to convey of storytelling: to illustrate the entrepreneur's motivation, enterprise's vision and find commonality. Also one of the accelerators stressed that *"a lot of it is about marketing your story"*.

Because the business plan can be very limiting as a quality indicator, other indicators like *investing in the management team or the entrepreneur* may be taken into account and include founder and opportunity attributes. Examples of founder attributes are the education and industry, management or start-up experience of the entrepreneur. On the other hand opportunity attributes can encompass a large market or competitive advantage. (Shane 2003, 188–191). These indicator types are both relevant in the case of social enterprises in off-grid renewable energy and should therefore be clearly communicated to the potential investors to be able to influence their decision-making. Scott (2005, 201) also emphasises the *"quality of management"* and illustrates that it has constantly topped the lists of factors influencing fund managers' decisions to invest. The role of the CEO can be played down by emphasising the whole management team or the board and management processes, i.e. governance in general. The data conveys that high emphasis is indeed placed on the entrepreneur and team in the investor decision-making process, especially when there is no or little track record available. Therefore, the management is utilised as a risk management tool, which is good reason for investors to develop a relationship with the entrepreneurs, who are the vehicles of bringing the business to life. All secondary data included clear management team, board, and at times even partnership presentations, illustrating that enterprises already make use of this advertising opportunity.

As stated by Neu (1991, 243–246), trust is a necessary precedent for economic exchange and must exist prior to contracting. It is also based on common expectations as a starting point for interaction, to complete imperfect contracts in imperfect markets. Therefore, *investor needs and expectations* are crucial to understand as well as often varying requirements for reporting, and the quantity of information that is felt to be adequate by the investor. Some prefer a more structured approach than others, but usually both official and unofficial components are included. Those preferring a more structured approach probably also feel more trustful about the enterprise if it has structured communication, like monthly, quarterly and annual reporting and official board meetings, whereas other investors put more emphasis on the personal relationship. An otherwise financially disciplined picture of the enterprise is also beneficial and gives a professional impression. As stressed by an accelerator, it is up to the enterprise to choose what out of the multitude of information it presents to investors to give them the correct and full view. *Innovativeness* is something that investors look for in a business. Some interviewees even felt that investors valued innovation more than the mission of spreading energy access.

The company should be clear on what kind of investors it does not want to attract, either because of management styles opposing company interests or because of maintenance costs (Guimard 2008, 83). Face-to-face interactions allow the entrepreneur to investigate the true *motives and desires* of investors, to actually figure out what it is that they find compelling about the enterprise, which is fully supported by the data. Kickul and Lyons (2012, 147–148) state that *values and mission* of the enterprise should both be aligned with the intentions of possible investors, and that the most significant determinant of fit is where the investment is on the continuum of grants to commercial investment. The data did not support the precedence of classification between socially and commercially oriented investors above all other factors, but rather stated that the most significant factor is who the individual investor really is and what their motivations are, because each one is different despite the classification. Having a personal interest in what the enterprise was developing was also seen as important. Mission and values alignment between the enterprise and the investor is usually quite inherent to the business of energy access, but definitely the investor should also be someone who understands the market.

A high *level of involvement* commonly leads investors and investees to have a profound relationship, extending beyond providing funding and therefore also requiring enhanced trust and better alignment of interests **(**Exploring Energy SME Financing – – 2013, 32). The data sides with this thought, because definitely interviewees aim at long-term relations with their investors and feel that they are beneficial for the company in much more ways than just providing funding, for example by extending networks and adding to existing skill sets, as well as providing a broader outlook when entrepreneurs are focusing on what is going on inside the enterprise. Consequently, *investors play a major role in helping enterprises bridge any internal capacity gaps in skills or knowledge.* Investors can even be "*ambassadors*" of the enterprise, providing a high signalling value to new potential investors and other stakeholders. Therefore word-of-mouth can be a significant marketing tool. Involving investors proactively when troubles arise increases transparency and also trust.

Before approaching potential investors, it is important to be clear on the enterprise's financial drivers to be able to determine appropriate investors and understand the reasons a certain type of capital fits best in the current situation (Kickul & Lyons 2012, 145) and what its planned uses are (Lynch & Walls 2009, 58). As stated by Guimard (2008, 83–85), individuals as investors may have a strong sense of ownership and be very good at marketing especially smaller companies. However, commonly they are costly to maintain and invest in small amounts. Institutional investors on the other hand are less expensive to maintain and can add prestige to the company with their name, but may also want to influence the company strategy. There may also be discrepancy between the time horizon of management and the short-term orientation of certain fund managers. This is in line with the findings of the data: investors preferred individuals/entrepreneurs/”real people” as equity investors and felt funds were appropriate for working capital debt, and bringing different groups together seemed to create the best solution for a *funding mix*, e.g. first-loss catalytic investors can encourage for example banks to loan larger amounts. Data collected supported the notion that a mix of capital, including commercially and socially-oriented as well as catalytic grants is required to grow the renewable energy sector and that specifically lack of access to capital remains a bottleneck for growth. SMEs clearly have a significant role in the solution to spreading energy access in Africa, but insofar foreign entrepreneurs have had better chances at success than local entrepreneurs.

Nevertheless, there is no implying that the pioneer gap could simply be “marketed away”. A *lack of suitable financial instruments* for SMEs operating in off-grid renewable energy clearly exists. What the enterprises themselves can do about this is be proactive in their IR by attempting to build suitable mixes of funding and bringing together different types of investors to find the right suppliers of anchor investments, grants, debt, equity etc. willing to invest together. Other market players like accelerators and investment funds should aim at coming up with financial innovations to mediate between large investors wanting to invest substantial sums at once and the small needs of the early-stage enterprises. These innovations are in the making, but have not yet sufficiently filled the funding gap.

In social enterprise, networks are built on a shared mission (Kickul & Lyons 2012, 6). Therefore, social entrepreneurs welcome the concept of “*co-opetition*”, a combination of competition and cooperation, about creating a bigger pie to compete over, something that a single company cannot achieve alone (Nalebuff & Brandenburger 1997, 28) but that involves the development of the whole industry. A large part of the problem with the early stage of the industry is the difficulty of getting investors to think on the same scale as the company as well as understand the potential of the market. Exponential growth is possible even with a very short operating history due to scalable and replicable business models or distribution partners. Also, the selected reputation of Africa as poor and sick has diminished investors’ perceptions of the region as a viable market. The weak reputation of solar energy, due to the prevalence of low-quality products in the past, has been addressed through investments into customer service, after-sales maintenance and warranties, which translate into on-time payments by the customer and referral sales. Providing successful exits to investors is beneficial for the whole industry, because it shows the market potential there and attracts commercial capital.

All in all, some common communicational aspects should be taken into account by the management of social enterprises in off-grid renewable energy. Management messages should be as *simplified* as possible and *condensed* into a handful of key points or core messages to avoid inconsistencies (Scott 2005, 198–199). According to Guimard (2008, 91–92), key aspects of communication content are *clarity, accessibility* and *consistency* over time and via different channels. The data should also be *comparable, objective* and *informative,* and it should be kept in mind that every bit of communication is an opportunity to spread awareness of the enterprise. An advantage of this seemingly tedious process of keeping investors informed is getting used to high standards in communication (Guimard 2008, 19). Especially looking at the secondary data of the case enterprises it can be concluded that these aspects are already reasonably well handled. Referring to the logic model presented in the theoretical implications, enterprises should consciously go through the activities in their operations which currently do and potentially could build trust in their investor relations, to see whether there is anything that could be added to the current "marketing mix".

6.3 Evaluation of the study

Eriksson and Kovalainen (2008, 291) suggest three alternative ways of orienting oneself to evaluation criteria in qualitative research: using the classic criteria, with their background in quantitative research; using alternative but nevertheless common criteria or dismissing the idea altogether that common evaluation criteria for qualitative approaches exist. The *general evaluation criteria* of positivist research, including *validity*, *reliability* and *replicability* are not fully applicable in this thesis due to its constructionist nature as the researcher has roles as both data collector and analyser. Replicability is unobtainable, because reality is not static and research is situated in specific circumstances and contingent. Many alternative evaluation criteria have been suggested, but none has received widespread support. This leaves a substantial weight on the researcher to argument the value and evaluation criteria of their own analysis. (Taylor 2001, 318–319).

The research process is *reflexive* and, therefore, unavoidably partial. The reflexivity of qualitative research has a major role in the evaluation of the study. According to Richardson (2005, 964), the researcher's subjectivity is *"both a producer and product"* of the text at hand, and it must be discerned whether the researcher has been sufficiently self-aware of this in order for the reader to make conclusions about the point-of-view present in the research. This is the case in the study at hand as well, but subjectively evaluated the researcher claims to have been reasonably well aware of this point, for example by taking time to zoom out of the data in the analysis stage to not be blindly led by individual comments, but to come to just conclusions by considering the data as a whole. Nevertheless, efforts have been made also to present also deviant or unique statements in the reporting of the analysis. Eriksson and Kovalainen (2008, 59) also highlight the importance of reflexivity especially in the case of novice researchers, when power relationships between the researcher and participants affecting results are not spontaneously taken into account. This is important to pay attention to for example in making interpretations and suggestions to improve *trustworthiness* of the research. Conscious attempts were made by the researcher to give all data equal weight and consideration in the analysis, but due to human subjectivity this cannot of course be guaranteed 100 percent and the researcher takes full responsibility for this. Coding and categorisations have been done and analysis written with a data focus, i.e. what seemingly fits the data. This is of course a large part of where reflexivity should be addressed due to including a many of personal choices made by the researcher. These choices include what out of the multitude of raw data to present and highlight in the analysis, which remarks to lift out as direct quotes, how to group the data and which order to present it in. To increase trustworthiness, efforts have been made to leave a traceable trail in the analysis and extensively explain each step of the process in the chapter on research design, as well as clearly coding the data.

As discussed by Taylor (2001, 320–321), general evaluation criteria applicable for all academic research include the *relation to previous research*, as well as building on it or challenging existing information. Good research and its *processes are properly explicated*. Research should also be *coherent* and *rigorous*, implying that the analysis should involve systematic investigation, which may include using quantitative analysis to assist. According to these criteria the researcher deems this thesis to be of good quality: efforts were made to make a thorough literature review and build theory from this, the product of which is visible in chapters two and three. The researcher has attempted to explore a rich and diverse list of literature and paid attention to adequate and complete referencing in the text. Additionally, full documentation and clarification of the research process has been aimed at, which, in addition to the structure of the thesis, speaks for its coherence. The aforementioned documentation and clarifications along with the meticulous analysis enhance the rigorousness of this thesis. The researcher herself has next to no background in finance and, therefore, claims to not have misused financial jargon to confuse the reader. However, inexperience may be visible in the definition of some terminology or its rigid use. According to Gummesson (2003, 491), interpretative research is differentiated from everyday interpretation by being *systematic*, *connected to theory* and as *transparent* as possible by being publicly accessible. These criteria can be said to have been relatively well met based on the above explanation, with the main weakness being in transparency, where naturally the massive amounts of transcripts and data matrices are not hereby published, taking into account confidentiality issues.

According to Eriksson and Kovalainen (2008, 310), *validity* signifies how well a study reflects the concept that the researcher is trying to measure. This is left for the reader to judge, based on the interview questions posed as well as the results presented and conclusions made based on the data analysis. The researcher is aware of being a novice in the fields of social entrepreneurship, finance and marketing, and of the possibly misguided choices this may have caused along the way. The researcher also realises that especially in the first interviews questions to the interviewees may have been considered as slightly leading, for example giving the interviewee possible answer alternatives if they did not at first understand the question, instead of simply reframing the question. Also because of using semi-structured interviews, the interviews were at times more discussion-like than pure interviews. Interview questions could also have been asked avoiding complexity better, i.e. not asking several questions at once or needlessly clarifying questions before giving the respondent a chance to reply. However, along the lines of the suggestions of Daymon and Holloway (2011, 318–319), a *respondent validation* was carried out at the point when interviewees were requested to review the interview memos containing the main points (by judgement of the researcher) of the interviews to make sure that these had not been misunderstood or misrepresented.

Yin (2003, 97–106) sets three principles for data collection to help address possible issues with validity and reliability: using *multiple sources of evidence*, creating a case study *database* for organising and documenting the data collected and maintaining the *chain of evidence*, all of which were also followed in this study. Both *data source* and *methodological triangulation* were utilised to improve the quality of the thesis: data source triangulation was utilised to compare data collected from case companies versus the accelerators, and methodological triangulation by comparing data collected from primary and secondary sources (see Appendix 2). A database or data matrix was constructed of the multitude of interview transcription data, and the chain of evidence to this explained in full in the research design chapter, along with other data collection and analysis procedures.

To sum up, the main criticisms against case study research have typically been about *lack of rigour* and *lack of systematic processes* as well as providing *little basis for generalisation.* Here it has been explained how the researcher has attempted to increase the rigour and systematic processes of especially data collection and analysis in this thesis. However, the generalisation that can be done in case studies is specifically *analytic generalisation,* meaning being able to generalise to theoretical propositions, not to universes like in statistical generalisation. (Yin 2003, 10). Therefore, the researcher does not suggest that the results and discussion presented here would be applicable to the universe of all social enterprises or even those operating in off-grid renewable energy, or solar, for that matter. Nevertheless, being largely in line with previous literature, as has been presented in the previous discussion on theoretical and managerial implications, and, additionally to the six enterprise interviews, having consulted two accelerators that have a broader view of the field, the researcher does present these aforementioned results with confidence that they are representative of the small population studied. The following sub-chapter considers limitations of this study and suggestions for further research.

6.4 Limitations and suggestions for further research

All the topics of social entrepreneurship, off-grid renewable energy, relationship marketing and investor relations have individually been quite extensively studied. However, to the knowledge of the author, these topics have not previously been combined in such a way as in this thesis. Findings were largely in line with theory and other previous literature from all the above-mentioned areas, and also the main intertwining factor of trust-creation was in a role as integral as in previous studies. Due to the scope of the study, only a limited amount of aspects of social entrepreneurship and the pioneer gap could be examined in this thesis. An simple suggestion for further research would be to explore the pioneer gap from the perspective of other stakeholders, like investors, consumers, or the government.

Kotler and Armstrong (2006, 51–55) define the *marketing process* as comprising four functions of marketing management: *analysis* of markets and operating environment, *planning* marketing strategies, *implementation* of turning plans into actions and *control* of measurement, evaluation and corrective action. This is something that has not directly been researched in this thesis, but an educated guess would presume that marketing activities present in investor relations process are not intentionally planned nor managed in social enterprises. Control of IR was mentioned in none of the conducted interviews, but it was not specifically asked about either. Some of the enterprises did mention changing their approach to investors in some way over time, implying that firms do naturally take note of if an approach is efficient or not. However, a further topic of research would be how the *marketing and investor relations processes* in full are visible in social enterprises and whether or not they can even be applied at an early stage of development and with limited resources.

The Morgan and Hunt (1994, 22) model suggests the importance of both trust and commitment in relationships, Gummesson (1994, 6, 9) mentions that relationship marketing emphasises long-term interactive relationships, and data collected also supports the proposition that interviewees aim at and suppose long relationships with their investors. Therefore, it would be interesting to explore what *the role of commitment is* and what its determinants are in this context. Other possible topics of research in the context of the pioneer gap include a more detailed look on *efficient use of limited resources* in the firms in question, the *learning curve* of social enterprises in obtaining funding and IR or how an enterprise can affect *developments in operating environments* (i.e. legal or political). Directly relating to the determination of a mix of funding or investors usually being the best solution for an enterprise, it would prove interesting to look into how much these enterprises *proactively strive to bring different potential investors to invest together* as a mix of anchor investment, grants, equity, debt, etcetera. Additionally, the development of financial innovations to bridge the funding gap would be an interesting topic of study.

Macroeconomic conditions, like the financial crisis, were not taken into account in the analysis of ease of access to funding, due to the limited scope of the thesis. Therefore, a suggestion for further research could be taking this into account and conducting a longitudinal study of how ease of access to funding may change in more favourable macroeconomic conditions. However, all different affecting conditions can never fully be replicated at different times. Yet another interesting topic is one briefly touched upon in this study, specifically comparisons between *local African versus foreign (usually Western)* entrepreneurs operating in Africa and how they differ in their experiences of the pioneer gap, both regarding funding and capacity gaps. Lack of public information on SME finance also makes it empirically challenging to study quantifiably (Berger & Udell 1998, 617). Therefore also this study is based on *subjective perceptions* of interviewees of fundraising, not objectively quantified. It is important to remember that no stakeholder alone can transform a market (Glemarec 2012, 88), but that stakeholder groups must work together with aligned missions to fully develop an industry. Therefore the possible topics for future research are endless, when broadening to the *effect of different stakeholder groups* like the government and multinational organisations on the pioneer gap in off-grid renewable energy. A comparison could also be made on social enterprises operating in other, more institutionally developed sectors, like health or education, and how the off-grid renewable energy perception of the pioneer gap compares with possible simpler funding gaps existing elsewhere.

SUMMARY

The amount of people lacking access to electricity globally is close to 1,3 billion, of which nearly half are in Africa (World Energy Outlook 2013 – –, 1), including an often omitted one billion more who have access to low quality and interrupted grid electricity, suffering from systemic failures and blackouts (Energy for a Sustainable Future 2010, 7). Reliance on grid extension has often left scarcely populated areas without electricity, because it may not be viable from an economic or technical point-of-view. A clear rural electrification strategy includes off-grid renewable energy as a key component. (IO-REC 2012 - - 2013, 14, 17).

Social enterpreneurship aims to take the best tools from business and harness them for social (or environmental) impact, without forgetting financial returns. Drawing from previous definitions of entrepreneurship, Dees (1998, 4) characterised social entrepreneurs as *change agents of society*, applying the best of business to entrepreneurship to pursue a social mission. Social entrepreneurs may head either non-profit or for-profit ventures, operating through business models that may use both grant as well as earned revenue (Bugg-Levine and Emerson 2011, 265). Additionally Austin, Stevenson and Wei-Skillern (2006, 2) state that social entrepreneurship *"can occur within or across the nonprofit, business, or government sectors."* Dichter et al. (2013, 38) note that social enterprises may encounter difficulties in finding funding after their seed stage, which philanthropy and prize money may aid in getting through. Few investors are willing to fund a firm focused on serving the poor, especially not in its early stages. At this stage the challenges met are sizeable especially in off-grid renewable energy: poor customers, poor infrastructure, missing supply chains, unconventional business models, difficulty attracting gifted workforce and management, information asymmetry and high perceived risk. This is what is termed the *pioneer gap*, which consists of funding and capacity gaps.

Reasons for a *funding gap* include *information asymmetries* between the enterprises themselves and financial institutions; *high upfront costs* due to building up the infrastructure for distribution and service; *high working capital* costs because of sourcing product parts internationally and therefore battling international trade issues like import duties; and finally *diminished liquidity due to offering end-user financing* to its customers. The financing gap therefore limits the growth and scaling up of energy SMEs and consequently hinders reaching the breakeven point. **(**Exploring Energy SME Financing – – 2013, 6, 14–15, 44–45). In the case of social enterprises operating in off-grid renewable energy, the enterprises by definition are pioneers operating where energy grids do not exist and the whole industry is underdeveloped. The pioneer gap also entails critical gaps in support for these enterprises affecting the availability of investable deals. What early-stage enterprises lack in addition to funding is assistance in business development,

in the form of coaching, for example, which needs to be tailored to the unique needs and existing capabilities of the enterprise (Toniic E-Guide to Early-Stage – – 2013, 3). *Preparedness of social enterprises* to investors has been a cause for criticism in studying the funding gap (Rutherford & von Glahn 2014, 61–62), leading to the choice of a marketing lens for this thesis. The purpose was to study *how social enterprises operating in off-grid renewable energy in Africa utilise marketing activities in their investor relations in bridging the pioneer gap.* This main research question was divided into the following sub-questions:

- *How does the pioneer gap affect fundraising for these enterprises?*
- *How are the funding needs for these enterprises characterised?*
- *How do these enterprises build trust in their investor relations?*

The first sub-question aimed to describe the fundraising *situation* with the pioneer gap as context. The second attempted to describe *what is needed* to bridge this gap, and the third *how to get it*. The second chapter of industry reports and practical literature had the overarching theme of how the pioneer gap can be addressed and discussed the financing of social enterprise, including the effect of business models typical to off-grid renewable energy on fundraising. Commonly vertical integration of part of the supply chain is necessary for the enterprise, due to the absence of market infrastructure. Relevant asset classes and types of financiers were also discussed, and altogether these topics covered the first and second research sub-questions. The third chapter, a more theoretical chapter, discussed marketing practices in investor relations, including for example creating trust in social enterprise, in connection to the third research sub-question.

The fourth chapter illustrated the research design of this thesis, particularly the case study method chosen for data collection and analysis. Semi-structured interviews were utilised to gather data from eight interviewees, of which six were case companies and two accelerators working with the types of enterprises that the case companies represented. Secondary data was collected from written case company materials. Data analysis was done with a data-focused approach, thematically and solely cross-case as the object of interest was the phenomenon being studied, not the individual organisations.

The actual data analysis was presented in chapter five, divided into sections following the research sub-questions: the first theme is about fundraising difficulties, the second about the suitability of investors and the final about investor communication. Put simply, *the pioneer gap affects fundraising* for these enterprises by complicating business models and raising the need of working capital. A lack of funding leads to not being able to present a track record of the unfamiliar business model to investors, which leads back to difficulty attracting adequate financing. Condensing the *funding needs* of enterprises, different types of investors and funding fit different developmental stages of the enterprise and a mix of different funding sources creates the best fit. The interviewed enterprises all aim to progress from socially-oriented investors to commercially-oriented investors as they develop. The significant components in *trust creation* included mission alignment, risk perceptions, information asymmetry and the personal relationship, which was supported by both theory and the data.

Chapter six consisted of the discussion and conclusions about the main findings. It comprised theoretical and managerial implications as well as limitations and suggestions for further research. The theoretical implications presented the creation of trust, deemed the key concept for bridging the pioneer gap, in a logic model. The managerial conclusions focused on how the enterprises themselves were able to influence their fundraising success by marketing activities in their investor relations. Useful marketing activities included leveraging existing investors as ambassadors, storytelling, taking investors' needs into account and aiming for mission alignment. All in all, the main conclusion is that it is crucial for an enterprise to alleviate all kinds of information asymmetry due out of the pioneer gap context, arising either out of the early stage of the individual enterprise or out of the early stage of the entire industry, in order to create trust between themselves and the investor.

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APPENDIX 1: OPERATIONALISATION TABLE

How do social enterprises operating in off-grid renewable energy in Africa utilise marketing activities in their investor relations in bridging the pioneer gap?	THEORY / LITERATURE REVIEW	INTERVIEW QUESTIONS
How does the pioneer gap affect fundraising for these enterprises? **(situation)**	chapter 2: business models & other aspects of SE, financing & financier types, capacity gap, industry approach	questions 1, 3, 8, 9, 12, 13, 14
How are the funding needs for these enterprises characterised? **(what is needed)**	chapter 2: business models & other aspects of SE, financing & financier types, capacity gap, industry approach	questions 4, 5, 6, 7, 9, 13
How do these enterprises build trust in their investor relations? **(how to get it)**	chapter 3: relationship marketing (RM), investor relationship (IR) management, creating trust & commitment (mission alignment, perceptions of risk, information asymmetry)	questions 2, 4, 9, 10, 11, 12, 13, 14

APPENDIX 2: DATA COLLECTION

The following data were used in the data analysis for this thesis. Primary data includes all the interviews conducted, and secondary data includes extra material provided by the interviewee and/or company brochures accessed online.

Primary data

- Dr. Harald Schützeichel. Founder & Managing Director, Sun-Connect / Founder & CEO SunTransfer. Interview 22.5.2014.
- Willem Nolens. Founder & Managing Director, SolarNow. Interview 23.5.2014.
- Graham Smith. VP of Business Development, Off.Grid:Electric. Interview 28.5.2014.
- Bart Hartman. Founder, Chairman & Chief Entrepreneur, NOTS Impact Enterprises. Interview 12.6.2014.
- Fabio De Pascale. Chief Energising Officer, Devergy. Interview 20.6.2014.
- Radhika Thakkar. VP Global Business Development, Greenlight Planet. Interview 26.8.2014.
- Evgenia Sokolova. Director of Finance Team, Embark Energy. Interview 2.9.2014.
- Davinia Cogan. SME Advisor, GVEP International. Interview 18.9.2014.

Secondary data

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APPENDIX 3: INTERVIEW DRAFT

INTERVIEW FOR MASTER'S THESIS

Dear Madam/Sir,
Thank you for agreeing to be interviewed for my Master's thesis concerning *fundraising and investor relations of small or medium-sized enterprises operating in the off-grid renewable energy markets in Africa.* Please find the interview questions below, for your perusal in advance. Also, please be so kind as to complete/correct the background information to ensure efficient use of time during the actual interview.

You will receive a rough written manuscript of the interview within a week after the interview for inspection to ensure no factual misrepresentations or misunderstandings occur, and also the final version of the thesis once completed. I will be grateful to receive any additional information you would deem appropriate to provide which might complete what is discussed during the interview (and naturally which you see as not compromising the confidentiality of your enterprise in any way).

Your time and contribution are greatly appreciated. I will be happy to answer any queries you might have.

Kind regards,

Saila Kokkonen
Master's student in International Business
Turku School of Economics
Finland

PRE-INTERVIEW BACKGROUND INFORMATION
- Name and position of respondent in organisation:
- Professional experience of respondent – years in entrepreneurship, finance, marketing etc.:
- Name of organisation:
- Legal status/operating model:
- Year of founding:
- Countries of operation:

- Which of the following best describes the current stage of development of your organisation:

  ( ) Business model development
  ( ) Start-up
  ( ) Scaling up operations
  ( ) Maturity
- Key financials (turnover, number of staff):
- Company's current source(s) of funding (please tick any source that applies):

  ( ) Founders / management
  ( ) Bank
  ( ) Insurance company
  ( ) Pension fund
  ( ) Development finance institution
  ( ) Foundation
  ( ) High-net worth / wealthy individuals
  ( ) Impact investment fund, *please specify*:
  ( ) Governmental organisation etc. *please specify*:
  ( ) Carbon Emission Reduction credits
  ( ) Other, *please specify*:
- What are the approximate weights of the different sources of finance in your current funding mix?
- What is the typical timeframe that your investors operate within (i.e. maturity of debt investment or exit for equity)? What does this depend upon?
- Are you actively seeking funding at the moment? Is seeking funding an ongoing process?
- Which instruments do you use in providing information to your investors?

	legally required	investor requires	voluntary
annual report	( )	( )	( )
quarterly reports	( )	( )	( )
annual meeting	( )	( )	( )
individual meetings	( )	( )	( )
conference presentations	( )	( )	( )
other	( )	( )	( )

please specify if "other" ticked:

INTERVIEW QUESTIONS:

By ***investor*** *anyone providing funding to the organisation is meant in this interview, including everything from traditional for-profit capital to philanthropic grants.*

1. How would you describe the level of ease or difficulty in raising funds for your organisation?
2. Which persons in your organisation partake in contact with investors?
3. Are investors actively sought, targeted or selected, or how are they chosen?
4. How do you assess the desirability or suitability of a potential investor? Are mission/values alignment/needs of the investor taken into account?
5. How would you describe an ideal investor?
6. What is the ideal funding mix or investor portfolio?
7. Do you classify investors into different segments with different approaches regarding investor relations?
8. What would you name as your main challenge in raising funds or attracting investors? Have you noticed challenges in any particular stage of development?
9. What kind of lessons have you learned along the way? / How have you changed your approach to investors?
10. What do you consider the most crucial asset, skill or tactic in fundraising?
11. How would you describe the role of networks or personal connections in accessing funding?
12. How would you describe the common process between initial contact with a potential investor and securing the investment? Can one be described, or are all cases different?
13. What do your investors provide to you? If anything other than funding?
14. In general how would you describe communication with your investors at different stages of the relationship?

APPENDIX 4: CODES AND CATEGORIES UTILISED IN ANALYSIS

Code	*Category*
level of difficulty	FUNDRAISING DIFFICULTIES
requirements of investors / length of process	
availability of funding	
early stage of company	
industry-related	
how investors sought/targeted	SEEKING / TARGETING INVESTORS
role of networks / personal connections	
common process between initial contact & securing investment	
building trust / investing in team	COMMUNICATION WITH INVESTORS
before initial investment	
after investment	
storytelling	
taking investors' needs & wants into account / differing requirements	
miscellaneous & investors that fit	SUITABILITY OF INVESTORS
commercial vs. social orientation	
mission / values alignment	
future plans	
personal relationship	
other things investors provide	
not suitable investors	
funding mix	
interesting initiatives	
CLASSIFYING INVESTORS	
FINANCIAL SUSTAINABILITY	
SCALING UP/GROWTH	
WORKING CAPITAL NEEDS / VERTICAL INTEGRATION	