The financing structure of social enterprises: conflicts and implications

Abstract:
This article analyses the financing structure of social enterprises which usually have access to a wide range of funding sources. Although a diversified financing structure promises stability in terms of cash flows to the business, empirical evidence shows that social enterprises have a rather concentrated financing structure. This can be explained as a diversified financing structure that can result in conflicts which either originate from the capital providers' divergent return requirements or the design of financing instruments. To reduce these conflicts, inherent in a diversified financing structure social enterprises concentrate on the most suitable financing sources. As social and financial return requirements differ between capital providers, the concentration on a reduced number of financing sources implies a more clearly defined set of expectations that the social enterprise has to consider. The social enterprise needs to adapt to the expectations of its capital providers and align the strategy accordingly.