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EDITORIAL

The Social Finance and Social Innovation Nexus[1]

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ABSTRACT *Social innovation will be essential for addressing today's complex social and ecological challenges. Social entrepreneurs involved in the generation and implementation of innovative endeavours have repeatedly pointed to the critical need for financial support. However, mainstream financial institutions and practices have tended to marginalize both the social entrepreneurs and the individuals and communities who may benefit the most from a variety of social innovations, largely due to perceived risks associated with return on investment. Significant barriers and disincentives exist within current mainstream economic structures despite a growing interest and willingness of some individuals and organizations capable of channelling private capital into innovative social and environmental products or processes. This article provides a conceptual framework for bridging social innovation theory and social finance practices in order to develop an improved understanding of the conditions most conducive to the success of social finance and social innovation.*

KEY WORDS: Social innovation, social finance, complexity

Introduction

> [We] have long relied on governments and community organizations to meet evolving social needs, while leaving markets, private capital and the business sector to seek and deliver financial returns. However, this binary system is breaking down, as profound societal challenges require us to find new ways to fully mobilize our ingenuity and resources in the search for effective, long-term

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> solutions. Mobilizing private capital to generate, not just economic value, but also social and environmental value, represents our best strategy for moving forward. (Canadian Task Force on Social Finance 2010, p. 1)

All examples of social entrepreneurship and social innovation need financial resources to start up, grow, and go to scale (Harding 2007, Bloom and Chatterji 2009). However, it is increasingly clear that conventional finance does not always offer the types of capital needed by this growing sector (Nicholls 2010a). As a consequence, new institutions focused on supplying a distinct form of capital classed as 'social finance' have emerged.

Social finance refers to the deployment of financial resources primarily for social and environmental returns, as well as in some cases, a financial return. To date, research on social finance has tended to concentrate on the new institutions, mechanisms, and instruments that enable financial resources to be created and directed towards transformative ideas, initiatives, programs or products aimed primarily at creating social and environmental value (Nicholls and Pharoah 2007, Canadian Task Force on Social Finance 2010). These include: new types of asset class such as impact investing or micro-finance; innovations at the fund level; and new tools such as competitions and challenge grants. Social finance can be an innovation in itself or it can be a means by which social innovation can be financed. As Nicholls and Pharoah (2007, p. 2) noted:

> Social finance, therefore, is more than just the flow of money into social or environmental projects. It is conceived as an ethos about the way money is used . . . social finance can be seen as the discourse around such flows that is developing in concrete terms in the new institutions of supply, intermediation, and demand. This is a discourse in flux with competing perspectives driving the debate.

Finance for social entrepreneurship and innovation is important for at least two reasons. First, social finance can stimulate social innovation because the investment typically challenges the institutional logics associated with conventional investor rationalities (Nicholls 2010a); this creates the space for experiments that challenge both the institutional logics and the existing patterns in resources flows, which are often tied to other dominant social structures. Second, social finance can support social entrepreneurship and innovation directly throughout its development, adoption, and implementation stages.

One challenge is that traditional financial practices have arguably marginalized many of the individuals and communities who may benefit the most from a variety of social innovations. Additionally, investing in innovation, and in social innovation in particular, may carry a higher risk in terms of return on investment than investment in more established products, processes or organizations. Traditionally, businesses have managed this risk internally by investing in research and development (R&D) to ensure innovation occurs simultaneous to the development of their established

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products (Lundvall 1992). Similarly, governments have invested in scientific and technical innovation by supporting university research programs as a means of R&D (Laredo 2007). But social innovation that develops radically new processes, products or programs to address social needs has relied primarily upon more risk-taking philanthropic or state-lead grant giving. This places a demand upon these philanthropists to be informed about the spectrum of options available that fall under the banner of social finance, as well as about the different social, environmental, and financial risks and returns that they offer (Nicholls 2010a). Moreover, it requires social investors to be cognizant that the social innovation process involves distinct phases (Van de Ven 1999, Geels 2002, Moore *et al.* 2012), each requiring unique financial strategies, and that 'going to scale' with social innovations requires different kinds of support than building a market for technical innovation (Westley and Antadze 2010), involving bespoke types of finance at each stage.

Historically, social entrepreneurs have relied on grants and contracts from government agencies or foundations as a primary source of financial support. But in times of fiscal constraint, these sources may become more limited than in the past. Moreover, the number of complex challenges for which social innovations are needed has resulted in an increase in the number of social entrepreneurs competing for the same sources of funding, which is likely to continue. Therefore, new forms of capital for investment in social innovation and social entrepreneurship are urgently needed (Canadian Task Force on Social Finance 2010). Kramer and Cooch (2007, p. 43) summarize the challenge and opportunities for social finance:

> Foundations usually try to solve the major social problems of our day – such as poverty, homelessness, global warming, and lack of healthcare – by making grants to nonprofits. Yet the lack of grant money did not cause these social problems. Instead, they are often attributable to market failures, where a misalignment between social goals and economic incentives has created or perpetuates social ills. One of the most effective ways to alleviate, and sometimes even to eliminate, social suffering is therefore to supplement, leverage, or alter the incentives of conventional capital markets.

However, significant institutional barriers and disincentives exist within current mainstream economic structures for those interested in, and capable of, channelling private capital into innovative social and environmental interventions. For instance, a lack of tax support, high transaction costs, legal risks, and a lack of infrastructure supported by knowledgeable investors with experience in social finance, all contribute to creating conditions that limit society's investment in, and capacity for, social entrepreneurship and innovation (Nicholls and Pharoah 2007, Freireich and Fulton 2009, Canadian Task Force on Social Finance 2010). Other issues include: the lack of agreed social performance metrics; a lack of capacity building support in the social finance ecosystem; a lack of deal flow and pipeline building institutions; a lack of absorptive capacity on the demand-side of social investees.

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Even though surveys of social entrepreneurs have often identified access to appropriate finance as being one of their prime strategic concerns (e.g. Harding 2007, Bloom and Chatterji 2009), the literature on this topic remains limited (see Dees and Battle Anderson 2006, Nicholls and Young 2008, Nicholls 2009). Moreover, the analyses of social finance that do exist have primarily been driven by the needs of practitioners and policy makers. This research has largely focused on the extent of demand for, and the availability of, such capital (Bank of England 2003, OTS 2006, 2008, Unwin 2006, Bolton and Kingston 2006, Nicholls and Pharoah 2007, Emerson and Spitzer 2007, Emerson *et al.* 2007, Goodall and Kingston 2009, Social Enterprise 2009, Social Finance 2009, NESTA 2009, Wood 2009, Freireich and Fulton 2009, O'Donohoe *et al.* 2010, Bridges Ventures 2010, SITF 2010, Impact Investment Shujog 2011a, 2011b, BCG 2011, ClearlySo 2011, Cabinet Office 2011, 2012, Thornley *et al.* 2011, Grabenwarter and Liechtenstein 2011, Saltuk *et al.* 2011, Arosio 2011). In comparison, the scholarly literature on this subject is at a very early stage of development, with the exception of work on the sub-topic of micro-finance that is well researched (e.g. Weber 2004, Burgess and Pande 2005). However, these explorations have largely focused on the role of micro-finance in reaching international development goals rather than the potential of this particular social finance mechanism to open up new opportunities to generate and adopt social innovation. Elsewhere, scholarly contributions have assessed the motivations of investors (McWade 2012), the ethics involved in impact investment (Eadery 2006, Buttle 2007), discussions of a portfolio approach for impact investing (Ottinger 2007), and the debate about the merits and disadvantages of philanthro-capitalism between Bishop and Green (2008) and Edwards (2009). To date, Nicholls, (2010a) still represents the most developed attempt to theorize the subject.

The relative paucity of scholarly work on social finance may suggest that the topic has yet to be recognized by mainstream scholarship as a distinct and legitimate field of research. Such a barrier to scholarly engagement with social finance reflects the fact that it is a field of praxis that has yet to develop clearly defined epistemological boundaries and institutional structures. As such, social finance lacks a normative narrative with which to build its wider legitimacy with scholars as a new 'paradigm' worthy of study (Kuhn 1962, Suchman 1995). Indeed, financial economists have proposed that there is no such thing as 'social' investment at all, merely investment characterized by different investor appetites for risk-return options that do not (and, perhaps, should not) factor in social or environmental externalities or objectives per se (Hayek 1944, Friedman 1962, Harvey 2005, Glyn 2006). Moreover, within political science, state expenditure has been characterized by calculations based upon utilitarian cost-benefit analysis and models of Pareto efficiency rather than interpersonal and relative benefits and wellbeing (see Offer 2003, for an effective analysis of this approach). From this viewpoint, the idea of social investment is also redundant since policy makers might argue that all their spending is socially focused in accordance with their democratic mandate and responsibilities (see, for example, Moore 1995). Finally, research focused on civil society or the Third Sector has typically viewed

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capital flows into the creation of public goods in charitable terms – namely as gifts or grants rather than investments (Clotfelter 1992).

The collection of articles in this Special Issue builds upon the emerging field of work investigating social finance and represents the first special issue of a scholarly journal focused exclusively on this topic. This Special Issue aims to address some specific research topics around innovation in this nascent field and focuses on several key themes, including an analysis of current social performance metrics and their relationship to capital deployment; a new epistemological frame for the role and impact of social finance; reflections on social finance models focused on different levels of change and impact; an empirical study of innovation in social finance market structures, particularly in the intermediary space; a wider scan of the macro-, socio-historical context for social innovation and its supporting structures and sources of resources. Furthermore, this Special Issue makes new contributions both empirically and theoretically. In terms of the former, it features a range of new case study and interview data as well as new syntheses of existing secondary material.[2] In terms of the latter, the Special Issue uses a series of conceptual lenses that draw their theoretical foundations from the growing social innovation literature and, particularly, work carried out by the Social Innovation Generation group at the University of Waterloo (SiG@Waterloo), Canada.[3] This approach allows a new set of perspectives and insights to be developed that bring together thinking on social innovation and social finance for the first time. Specifically, the articles in this volume are focused on social innovations directed at issues that may not simply arise from a gap in governance or in the markets, but that are complex, dynamic, and seemingly intractable social and environmental problems for which conventional solutions do not exist: the so-called 'wicked problems' (Rayner 2006). All the Editors hope that this Special Issue of the *Journal of Social Entrepreneurship* will provide an initial platform for a longer term, transnational debate on issues surrounding social finance and social innovation across practice and research.

Conceptual Framework

The collaborative nature of this Special Issue means that much of the research presented is linked through a shared conceptual approach. The authors share the view that social innovation is critical to addressing complex social and environmental problems. The growing body of scholarship on social entrepreneurship and social innovation contains several different strands of research (Nicholls and Murdock 2012). One that has gained attention in recent years focuses on the role of social entrepreneurship and the individuals, not-for-profits, and social enterprises that fill the market gap between the private and public sector (Hill *et al.* 2010). However, framing social entrepreneurship in this way can reinforce normative cognitive frames based on business logics within the field of social innovation – from how social risk and return are assessed to how social impacts are evaluated (Dart, 2004, Nicholls, 2010b, Westley and Antadze 2010). While the lessons learned

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from mainstream business innovation have some value, their application tends to neglect other avenues and factors that are important to social innovation, such as the social learning that occurs between organizations as they work together, the role that institutional supports such as government policy or legislation can provide for social innovation, and the challenges associated with scaling up social innovations.

This Special Issue suggests that social innovation operates at multiple levels. First, it can provide Schumpeterian disruption within existing systems at the micro- or meso- levels (for example building new social finance markets). Second, social innovation may also operate at the macro/institutional level by reconfiguring entire systems via changes to their internal institutional logics, norms, and traditions (for example, challenging key normative assumptions around the role of finance and markets: see Nicholls and Murdock 2012). At this latter level of impact, social innovation can challenge the status quo in societies by aiming to transform the power structures across social relations that allocate goods and services ineffectively or unequally (see Moulaert 2009, p. 12).

Moreover, social innovation cuts across all sectors of society. Indeed, one definition of social innovation is that it offers unique combinations of the conventionally disparate logics of the private, public, and civil society sectors in new, hybrid types of action (Nicholls and Murdock 2012).[4] Thus, for the private sector social innovation may impact firms in two ways: first, the recognition that technological innovations fail if they are not integrated with changes in social relations within the organization (Porter and Kramer 2011); second, as a new agenda for the role of business in society (Elkington 1997). For the state, social innovation may connect with an established tradition of welfare reform based upon notions of increased efficiency and effectiveness under conditions of austerity and growing demand (see LeGrand and Bartlett 1993). In terms of civil society, social innovation may include both internal process of organizational change (e.g. new legal forms and collaborations) and novelty in external outputs and outcomes (e.g. new products and services).

The particular social innovation framework adopted here is informed primarily by three theories: Giddens' (1984) structuration theory; complex systems theory (e.g. Midgley 2000, Waltner-Toews *et al.* 2008, Goldstein *et al.* 2010); and resilience theory (Gunderson and Holling 2002). Giddens' (1984) social structures – those of domination (represented by authority, power, and resource flows), signification (socially constructed meanings and discourse), and legitimation (shaped by culture, norms, beliefs and values) – serve as a basis for understanding the 'social' part of innovation and the transformative changes that result. Therefore, for the purpose of this Special Issue, social innovation is defined as: 'a complex process of introducing new products, processes or programs that profoundly change the basic routines, resource and authority flows, or beliefs of the social system in which the innovation occurs. Such successful social innovations have durability and broad impact' (Westley and Antadze 2010, p. 2). Thus, from this perspective, social innovation involves transformative change in at least one area of structuration (Giddens 1984).

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While social and natural scientists interested in change or transformation of complex adaptive systems have recognized the importance of cross scale dynamics (Kaufmann and Tödtling 2001, Gunderson and Holling 2002, Smith *et al*. 2005, Johnson 2010), few have articulated as clearly as Giddens the complex but ordinary process of re-creating and altering the rules and relationships that govern society. In something as basic as a conversation, the micro-dynamics of power, resources, meaning and rules can be found (Collins 1988). Through each conversation, people reproduce the broader institutional structures that constrain or support society, or challenge them in either incremental or radical ways. Social innovation requires this kind of challenging and re-inventing of rules and relationships, at times in a manner that is incremental and adaptive, and at times in much more disruptive or radical ways. Both may be suppressed by the dynamics of what Gunderson and Holling (2002) call 'remembrance', but occasionally when conditions at other scales are right or when crisis creates disturbances at those scales, there can be a vertical cascade of change.

An ongoing debate in research on social innovation or transformational social change – the so-called 'rate debate' – asks whether change and radical innovation can only occur infrequently, involving quick and dramatic shifts, or whether it arises through systematic, incremental change that accumulates to produce significant results over a short or long period of time (Kemp 1994, Van den Ende and Kemp 1999, Repetto 2006). For example, the 'punctuated equilibrium' model suggests that a complex system may experience relatively long periods of stability, perpetuated by positive and negative feedback loops, which eventually may be punctuated by bursts of paradigmatic change (Repetto 2006). But this model emphasizes the role of emergence, while other models emphasize the deliberate agency required to undertake social innovation and thus argue that the large scale 'big bang' burst of change is less likely than incremental change that cumulatively contributes to a transformation. In particular, radical change is considered to involve a slow evolution due to the social learning effects and the dynamics of scale that are inherent in any social innovation process; that is, a social innovation needs to be tested at one scale and then adjusted accordingly before enough learning has occurred that it can successfully be taken to another scale (Kemp 1994, Rotmans *et al*. 2001). The collection of articles presented here assumes that both may occur, depending on the interactions, conditions, and context within any complex system. In fact, incremental change may cumulatively create the tipping point for a punctuated equilibrium shift, and thus, any social innovation may potentially involve both fast and slow changing variables.

While Giddens (1984) provides a framework for considering social structures, complex systems theory informs the understanding of both the dynamic social innovation process itself and the context within which social innovation occurs. Using a complex systems lens, social innovation can be understood to arise within social structures and problem domains characterized by certain properties such as self-organization, emergence, unpredictability or high levels of uncertainty, nonlinearity, and multiple scales (see also Goldstein *et al*. 2010). Therefore, social innovation is not a process that can

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be accurately predicted. Rather, the process of innovation will emerge out of the coalescence of contextual factors that may not have discernible, linear cause–effect relationships. Yet, it seems possible that the contextual factors that create opportunities and constraints for social innovation are not infinite; that is, patterns will exist.

One model of such patterns, especially of those that surround the process dynamics of innovation, is offered by a variant of complexity theory: resilience theory (Gunderson and Holling 2002, Berkes *et al.* 2003, Folke 2006). This theory offers a framework that suggests that adaptation and transformation (and the related introduction of novelty) is a critical element of all resilient systems. Resilience theorists have adopted the adaptive cycle as a heuristic for understanding the four major phases that underlie the process of change (Gunderson and Holling 2002, Olsson *et al.* 2006). However, while resilience theorists have developed numerous case examples of transformative change in ecological systems, cases of the complex dynamics arising from the interactions of deliberate and emergent factors in social or linked social-ecological domains are less available. Thus, case studies continue to play an important role in building an improved understanding of those factors that serve as barriers or supports to social innovation, and the emergence that takes place. With insights gained from Giddens (1984), this Special Issue seeks to illuminate how complex system dynamics may transform the flows of financial resources, the norms and beliefs about the problems or potential of socially innovative solutions, and policies, legislation or other tools in which authority or power become embedded. The complex systems lens is further complemented by research on the role of institutional entrepreneurs, transformational leadership, strategic process and networks, allowing us to examine the importance of entrepreneurial agents navigating the social structures that are altered during the process of innovation (DiMaggio 1988, Mintzberg *et al.* 2002, Westley and Vredenburg 2003, Dorado 2005, Olsson *et al.* 2006, Westley *et al.* 2006, Garud *et al.* 2007, Moore and Westley 2011, Partzsch and Ziegler 2011). This perspective is also a complement to Giddens' (1984) views on structure and agency; that is, that each shapes the other.

As noted earlier, one important aspect of the emergent process highlighted by complex systems theory is the role that cross-scale dynamics may play. Thus, scale becomes an important construct in the social innovation framework, and may involve organizational, ecological, or governance scales (e.g. Collins 1988, Levin 1992, Brenner 1999). The term 'scaling out' refers to the replication of the same innovation in several different locations within the same scale, while the term 'scaling up' refers to the process of an innovation crossing between and among scales (Westley and Antadze 2010). Quite often, to effect transformative change in a broader system, an innovation imagined and developed in one scale will be reconfigured into an entirely new form to suit the context of a different scale.

Using the combination of the three theoretical perspectives provides two distinct advantages over previous scholarship on innovation. First, a dominant group of scholarship that has developed across a range of disciplines, including sociology, business, and economic geography, tends to treat innovation as a product or outcome that can be achieved and that will provide financial

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returns. But the theoretical perspective tying together this Special Issue is focused on innovation aimed primarily at creating social and environmental value. In some cases, financial returns may also accrue if social finance that supports or stimulates the development of the social innovation has utilized a 'investment' model that aims to provide a return (e.g. impact investing), but in other cases, financial return is not expected (e.g. grants). Neither type of social finance for innovation is considered more or less innovative here.

Second, a sub-field of the innovation literature identifies its studies as pertaining to innovation systems (Boschma 2005, Tödtling and Trippl 2005, Doloreux and Dionne 2008). This perspective considers all aspects of the production, distribution, and 'consumption' of the innovation as important to understanding the entire innovation system. However, the system is still focused on the innovation, and arguably, on a final product. The complex systems lens perceives the system as including the macro-scale, slow-moving variables such as demographic or economic trends and beliefs and values, as well as fast-moving variables such as local network interactions. These variables may or may not appear directly related to a social innovation, but given that social innovation hinges upon emergence and non-linear variables, seemingly unrelated factors may be as important as those highlighted by traditional innovation systems research.

Given this conceptual framework of social innovation, this Special Issue is devoted to understanding one particular aspect of our social structures – financial resource flows – and how redirecting financial capital may provide new opportunities for social innovation to emerge or to go to scale. From Giddens' (1984) perspective, this represents a change in the structures of domination and the rules and relationships that govern the flow of resources in the broader system. However, in keeping with Giddens (1984), we recognize that the three domains of structure are only analytically distinct. To change the flow of resources at the broader, institutional scale, we need to change both the legal institutions and the basic cultural beliefs (legitimation and signification) that are linked to the current structure of resource distribution. As this Special Issue will demonstrate, at times attempts to redirect financial resources to enable social innovation are, indeed, impeded by significant barriers in practice, law and understanding. Thus, the collection of articles presented in this issue aims to formulate a new understanding of the challenges that social entrepreneurs and social financiers face in developing and implementing mechanisms to inject resources into any complex problem domain. Furthermore, the complex systems perspective assists in expanding the range of scales, as well as the structural and agency factors that may be considered within the social innovation process. Recognizing that social innovation is a complex, multi-phased process illuminates the opportunities and constraints that may affect, or be affected by social finance activity.

Overview of Contributions

This Special Issue consists of five papers organized into three thematic sections. The first section focuses on *Assessing risk in social finance*. Social innovations are unlikely to emerge without some form of risk. But the

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perception of risk for those interested in investing in ideas, organizations and funds that fall outside conventional financial practices has been identified as a barrier to social finance maturing into an established sector. Therefore, alternative techniques and tools may be required for evaluating 'social' risk and return. Two papers in this section present insights into these issues that explore the complex relationships between performance metrics, social value creation, social impact and risk.

Antadze and Westley provide an overview and analytic synthesis of the current state of social impact measurement, with a particular interest in measures that go beyond standard economic and financial metrics. They find limited evidence to date of the development of specific metrics for social innovation impact. Moreover, such metrics that do exist are limited either by a narrow focus on innovation as a product (technical innovation) or by metrics only evaluating the impact and value of the social sector without explicit reference to innovation per se. The authors discuss the effects that a lack of effective measurement mechanisms has for various actor groups, including: impact investors; international development organizations; donors; and not-for-profits. Building on the conceptual framework outlined above, Antadze and Westley make the case for using developmental evaluation as a tool to assess social innovation as a process, supported by social finance, as much as a set of outcomes or impacts.

In the second paper in this section, Geobey *et al.* suggest that failing to account for the social and environmental impacts of investment can be more costly than trying to include them as part of a risk-return assessment approach. Given the risks associated with the uncertainty, nonlinearity, and emergent characteristics of much social innovation in complex problem domains, trying to establish measures for financial risk at the outset can be extraordinarily difficult. But constructing meaningful measures is not impossible. Geobey *et al.* propose incorporating a 'developmental impact investment' approach into standard portfolio theory to model and measure the nature of innovation in complex systems and its effects. The authors suggest that such an approach can be presented as an incremental innovation for investors whilst still having the potential to create transformative outcomes.

The second section of this volume contains two more papers and focuses on *Funding system change*. This section presents the findings of two case studies that illustrate the practical challenges faced by those providing social finance for social innovation processes, particularly when attempts are made to scale up an innovation for broader, systemic change.

Tjornbo and Westley explore the role of competitive grants as a means to stimulate social innovation. By means of an analysis of various perspectives on the *Big Green Challenge* hosted by the UK's National Endowment for Science, Technology and the Arts (NESTA), the authors explore various challenges in scaling out and scaling up social-environmental innovations that were generated through the competitive granting process. The paper notes that scaling up, particularly, can be extremely challenging for social innovators because of barriers in the wider institutional environment. Moreover, when a social innovation process engages new groups or individuals, these new groups

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may not have the organizational capacity to achieve their social intentions. Tjornbo and Westley's study finds that social innovators need a range of resources to flourish, including: personalized support from those providing financial resources in order to develop the innovation and scale it up; flexibility in how they may spend the money; and personalized evaluation tools to measure the impact. The paper concludes by arguing that social investors could maximize the impact of their capital allocation decisions by providing financial support for an innovation design process that learns from the pitfalls experienced in the *Big Green Challenge* case.

In the second paper in this section, Moore *et al.* employ a new theoretical framework based on a complex systems perspective. This 'social transitions' framework is used to examine a specific strategy by a private foundation to invest in social innovation by engaging with intermediary organizations. The case analysis demonstrates that the perceived effectiveness of social finance was different across different social scales, referred to in this model as 'niche, regime, and landscape'. This was due to differences in the availability of resources within a scale that an intermediary could access, as well as in the levels of coordination across the scale. Although emergence plays a role in any social innovation process, the results in this case demonstrate a need for some deliberate coordination when possible. Moreover, when the focal foundation engaged in social finance at the niche scale of social innovation, the relationships with the intermediaries were challenging and resources, capacity, and power were asymmetrical. Later, when the foundation had moved to investing at the landscape scale for broader, systemic change, the intermediaries working within this scale tended to be membership organizations that were well-resourced and could support the high levels of coordination required for successful social innovation processes. Moore *et al.*'s research demonstrates that the process of engaging new individuals in the social or environmental arenas can result in innovative ideas coming to light. However, the challenge is ensuring that sufficient financial and organizational capacity is devoted to implementing the innovation at different scales. Accomplishing this without risking burn out, and while maintaining legitimacy with key grass-roots stakeholders, demands different skill sets and resources than those needed to create the innovation in the first place.

The findings across the first two sections of this Special Issue show that a number of key issues in social finance are closely related to those that are already well understood in mainstream finance, these include: the need for capacity building and careful pipeline creation; the value of appropriate skill-sets on both the demand- and supply-sides; the significance of social capital and networks; and the need to demonstrate impact. The difference for social investors is that they operate in a market that is yet to be fully institutionalized and in which significant institutional gaps persist. Furthermore, the findings of the first four papers also demonstrate that social relationships and effective relationships across key stakeholders are an important component in the successful mobilization of social finance, and, as a consequence, are a significant factor in assessing the social risk involved in this emergent marketplace.

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In the third and final section, *A critical perspective on social finance*, the contribution by Quilley steps back from detailed case study analysis to consider the wider political-economic implications of wider, systemic transformations. Taking a critical look at social innovation, this paper highlights the extent to which the complex adaptive systems approach is premised on the notion of nested levels of complexity and subsystems within systems. Quilley contends that from such a perspective, and within the current economic system, 'scaling up' implies either a radically different variety of capitalism, or an even more fundamental transformation of the relationship between economy and society. Drawing on Polanyi's account of the 'Great Transformation', this paper suggests that the current social finance models are part of a renewed 'counter movement for societal protection' or for a more resilient system. More than that, many of the ideas and organizational forms emerging now have strong affinities with the vigorous responses to Victorian laissez-faire capitalism at the end of the nineteenth century. But the radical potential of late nineteenth century social innovation was blunted by the emergence of Keynesian welfare arrangements which, although progressive, were tied to continuing normative models of economic growth. The resulting 'social compact' became top-heavy, statist and bureaucratic, emphasizing what Polanyi described as 'asymmetrical redistributive arrangements', and further undermined the reciprocal arrangements often found in more traditional, pre-modern societies.

The paper asserts that the situation in the opening decades of the twenty-first century is very different. Limits to growth have been recognized since the 1970s, but, since 2008, debates around such constraints have become more urgent, driving significant grassroots social action around concepts such as the Transition Towns movement, 'degrowth', and 'anti-1%' (the world's wealthiest people). In a world of constrained growth, social innovation has the potential to become genuinely disruptive, and it is in this window of opportunity, the paper argues, that social innovation and social finance can unite to explore cross-scale linkages to impact broader social arrangements. The paper carefully locates social innovation within two centuries of radical thought and action that, although often blocked and sidelined at the time, remain accessible as a repertoire of ideas and models for today's social change agents. The paper's analysis grounds the epistemology and ontology of the social innovation framework in political economy but also sensitizes the field to historical contingency. This contribution offers a valuable framework for a scholarly field as nascent as social finance.

Conclusion

Ultimately, social innovations that alter society's most important power structures – its authority, rules, beliefs, and its flow of financial resources – will be crucial to overcoming the world's most complex challenges. This Special Issue proposes that social finance is both a product of existing social innovation processes (part of a new capitalism *zeitgeist*) and, simultaneously, a part of the enabling conditions for the further development of

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social innovation and transformative change. Thus, the relationship between social finance and social innovation cannot be reduced to a simple one of cause and effect. Social innovation can emerge in the absence of social finance, and not all types of social finance will lead to successful social innovation. But the cases, models, frameworks and experiments presented and discussed in this volume of papers illustrate the growing relationship between social finance and social innovation and the value of using a social innovation theoretical lens for an analysis of the emergent social finance marketplace.

This volume aims to make not only its own distinct contribution to scholarship but also to provide a research agenda for the future. The absence of a clear epistemology of social finance noted above may provide a useful starting point for a rich stream of new work. The lack of institutionalization of social finance to date reflects key historical antecedents. In social finance, two quite distinct – and historically incompatible – traditions of capital allocation have come together in the new hybrid institutions and logics. The first tradition is the well-established practice of grant or gift giving, public expenditure, and mutualism used primarily to create public goods appropriated by specific beneficiaries or society at large. The second tradition reflects the investment logics and practice of mainstream finance to reshape the processes by which capital generates social or environmental returns. The confluence of these two traditions has generated a good deal of innovation in social investment thus far (for example, quasi-equity models, new debt structures blending different financial returns, alternative public offerings of 'social' shares and so on), but it has also introduced complexity in terms of emerging norms – and their logics – that are present in the field. A new research agenda exploring social finance might examine its institutional antecedents and contexts better to understand the boundaries of innovation in this field and its possible impacts and outcomes. It would also explore hybridity and seek to understand how such blended logics reproduce or challenge existing institutional structures. The processes for re-embedding market activity (noted by Quilley in this issue) are also analytically relevant here, particularly in terms of reflecting in the evolution of social finance in developing country contexts where markets still remain locally focused in many regions.

Such a research agenda could draw upon a rich history of alternative readings of the roles, functions and construction of markets and market-models in particular, starting with Smith's *Theory of moral sentiments* (e.g. Haakonssen 2002). For at least a century, scholars and theorists have challenged normative, neo-liberal assumptions concerning markets and their relationship to society (Marshall 1907, Keynes 1936, Polanyi 1944, Granovetter 1985, Bourdieu 1986, Sen 1987, Fligstein 1996, Offer 1997, 2006, Biggart and Delbridge 2004, Hammack and Heydemann 2009). The papers in this issue suggest that further research in this theoretical tradition. focused on an analysis of the emergent structures and logics of social investment, could be highly fruitful.

This issue represents what is thought to be the first attempt to integrate social innovation theory and social finance practice. The papers presented

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here begin to build a coherent conceptual framework for considering social innovation as a process tightly and synergistically linked to social finance. Nevertheless, such a collection inevitably has its flaws and limitations and any conclusions that may be drawn from a handful of case studies can best be understood only as early stage – and exploratory – hypotheses. Further empirical work is clearly needed to test the ideas and debates presented in this issue. By bringing together these papers, this Special Issue aims to set the stage for a fuller research agenda for considering the nexus of social innovation, social entrepreneurship, and social finance.

Notes

1. This Special Issue prefers to use the broad term 'social finance' rather than the narrower alternative 'social investment'. This is because an analysis of the capital allocation decisions that fund social purpose organizations demonstrates a complex blend of logics driven as much by personal or cultural values as rationalistic calculation of a specified set of return on investment expectations (see Nicholls 2010b, for the distinction between *wertrational* and *zweckrational* investor motivations and behaviours). Thus, some of the funding activity in this sector resembles consumption as much as investment – effectively buying outcomes prioritized by the investor rather than building long-term capacity or increasing returns over time. The use of social finance as the key focus here also allows this volume to capture the full range of instruments, hybrid funding models, and structured deals that blend different risk-return capital that are evident across the social sector. These include: philanthropic donations; government grants; 'soft' return debt and equity; mutual finance; as well as 'finance first' impact investing.
2. The case studies in this collection demonstrate a range of methodological approaches for qualitative analysis, such as grounded theory approaches and narrative techniques, in an attempt to provide what Young *et al*. (2006, p. 31) refer to as a 'thick description' of the conditions, drivers, and strategies currently being used for social finance. These methodological approaches are useful for illuminating trends that emerge within this new field of research that is not yet well understood.
3. The Social Innovation Generation group is based at the University of Waterloo Institute for Social Innovation and Resilience in Canada. SiG is part of a Canadian collaboration that includes The J.W. McConnell Family Foundation, the MaRS Discovery District, and the PLAN Institute. Work undertaken by SiG on social finance provided the bulk of the material published here and the Editor would particularly like to thank Michele-Lee Moore and Frances Westley for taking a lead on assembling this volume.
4. This perspective aligns with Phills *et al*. (2008, p. 37) who wrote: 'unlike the terms social entrepreneurship and social enterprise, social innovation transcends sectors, levels of analysis, and methods to discover the processes – the strategies, tactics, and theories of change – that produce lasting impact.'

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