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Research Article

IMPACT INVESTING VS. PHILANTHROPY: A COMPARATIVE ANALYSIS OF FUNDING MODELS FOR LONG-TERM SUSTAINABILITY IN SOCIAL ENTREPRENEURSHIP

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Abstract
Social entrepreneurship has emerged as a critical force for addressing complex global challenges. However, the long-term sustainability of these ventures remains a significant hurdle. A central debate within the sector concerns the efficacy of its two primary funding paradigms: traditional grant-based philanthropy, which prioritizes social outcomes, and market-driven impact investing, which demands both social and financial returns. This research provides a rigorous comparative analysis of impact investing and philanthropic funding models. It specifically investigates how each model distinctly influences the long-term operational and financial sustainability, scalability, and mission integrity of established social enterprises. A qualitative, multiple case study methodology was employed. The study analyzed a purposively selected sample of (n=12) mature social enterprises, stratified into two cohorts: six funded primarily by philanthropy and six funded primarily by impact capital. Data were gathered via semi-structured interviews with founders/CEOs and longitudinal analysis of organizational reports and financial statements. The findings indicate that philanthropic funding is essential for early-stage risk-taking and deep-impact programming but often correlates with restricted growth and long-term funding dependency. Conversely, impact investing successfully drives operational discipline and scalability. This model, however, introduces significant pressures that increase the risk of "mission drift" as enterprises prioritize financial benchmarks over core social objectives. Neither funding model is unilaterally superior. The research concludes that long-term sustainability in social entrepreneurship is not an "either/or" proposition. It is best achieved through a strategically phased, hybrid financial ecosystem that leverages philanthropy for mission-critical capacity-building and impact investing for scaling proven, market-based solutions.

Keywords: Impact Investing, Philanthropy, Social Entrepreneurship

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INTRODUCTION

Social entrepreneurship has fundamentally reshaped the landscape of civic action and economic development over the past three decades. These hybrid organizations are purposefully designed to address intractable societal problems, from climate change and poverty to healthcare access and educational inequity (Demattos Guimarães et al., 2024). They operate at the complex intersection of market-based mechanisms and social-welfare objectives, striving to create measurable, positive change that government and traditional non-profits have struggled to achieve alone (Zhou et al., 2024). The rise of this “Fourth Sector” represents a significant paradigm shift, moving beyond the binary definitions of for-profit business and grant-dependent charity toward a model of sustainable, scalable impact (Kuriansky & Kakkattil, 2024).

The central challenge confronting this sector is not a lack of innovation, but a persistent crisis of long-term sustainability (Marie et al., 2024). While start-up capital is increasingly available, social enterprises face a “valley of death” as they attempt to scale from pilot projects to self-sufficient organizations (Leitão et al., 2024). This struggle for financial viability forces founders into a constant, resource-draining quest for funding, often distracting from the core mission itself. The very structure of a social enterprise balancing the dual masters of profit and purpose creates unique financial pressures that traditional business models do not encounter, making the choice of funding a critical determinant of survival (Tang & Wang, 2025).

This financial challenge has given rise to two dominant, and often competing, funding philosophies: traditional philanthropy and modern impact investing (Hilton, 2025). Philanthropy, rooted in altruism, provides grant-based capital with a primary expectation of social return, allowing enterprises to tackle deep, non-market-based problems (Shahid et al., 2024). Impact investing, in contrast, represents a market-based approach, providing debt or equity with a dual expectation of both a measurable social and a financial return. These two paradigms bring divergent logics, timelines, and pressures, creating a fundamental strategic dilemma for social entrepreneurs navigating the path to sustainability (Power et al., 2024).

The core problem addressed by this research is the critical lack of empirical, comparative evidence regarding how these two dominant funding models philanthropy and impact investing distinctly influence the long-term viability and mission integrity of social enterprises (Saka-Helmhout et al., 2024). A fierce debate persists within the sector: proponents of philanthropy argue it provides “patient capital” essential for mission purity and serving the most vulnerable, while critics label it as a driver of dependency and operational inefficiency (Małecka et al., 2024). Conversely, advocates for impact investing champion its role in instilling market discipline and enabling scale, while detractors warn it inevitably forces a drift toward profit-maximization at the expense of social good (Abdeldayem et al., 2024).

This debate is currently dominated by anecdotal evidence, theoretical papers, and advocacy-driven reports rather than rigorous, independent analysis (Taylor & Rosca, 2024). Social enterprises are forced to make foundational strategic choices about their capitalization structure in an information vacuum, often defaulting to the funding that is most immediately available rather than what is most strategically appropriate (Liu et al., 2024). This lack of clear data creates a significant risk, where the very capital intended to secure an organization’s future may inadvertently undermine its long-term sustainability or corrupt its core purpose (Jahre et al., 2025).

The problem is therefore threefold. First, the specific, causal mechanisms by which each funding source influences internal organizational behavior, strategic planning, and operational decision-making are poorly understood (Dahrouj et al., 2025). Second, the long-term trade-offs between achieving scalability (often prioritized by impact investors) and maintaining “mission integrity” (often prioritized by philanthropists) have not been systematically compared (Baird et al., 2025). Third, the sector lacks a nuanced framework for understanding when and why a

particular funding model is appropriate, leading to a polarized, "either/or" discourse that ill-serves the complex realities of hybrid organizations (Kangas et al., 2024).

The primary objective of this study is to conduct a rigorous, systematic comparative analysis of philanthropic and impact investing models to determine their differential effects on the long-term sustainability of established social enterprises (von Rosing Volume 2, 2025). This research moves beyond the simplistic "which is better" debate to ask how and why these funding streams create divergent pathways for organizational development, operational focus, and mission adherence. The ultimate aim is to equip social entrepreneurs and capital providers with an empirical framework for making more informed, strategic funding decisions.

To achieve this overarching goal, the research is guided by three specific objectives. The first is to identify and compare the operational pressures, reporting requirements, and governance structures imposed by philanthropic grants versus impact investment capital. The second objective is to critically assess how these distinct external pressures influence a social enterprise's internal strategic choices, particularly regarding scalability, risk-taking in program design, and resource allocation between social-impact activities and revenue-generating operations (Weng et al., 2024).

The third and most critical objective is to analyze the resulting outcomes on two key axes: (1) long-term financial and operational sustainability, and (2) mission integrity, defined as the organization's adherence to its core social purpose over time. By comparing mature organizations that have evolved within these two different funding ecosystems, this research seeks to provide empirical evidence to either substantiate or challenge the widely-held beliefs about philanthropic dependency and impact-driven "mission drift."

The existing academic literature on social enterprise finance is substantial but fragmented. A significant body of work, often emerging from non-profit management studies, focuses exclusively on philanthropic funding (Kim & Kim, 2024). This research deeply explores donor-grantee relationships, fundraising strategies, and the challenges of grant dependency, but it generally treats the enterprise as a non-profit entity, failing to engage with the market-based logic of impact investing. This siloed approach provides a comprehensive view of one funding paradigm while ignoring the other, rendering it incapable of addressing the comparative questions at the heart of the sector's current dilemma (González G. Vega et al., 2025).

Conversely, a separate and rapidly growing stream of literature from finance and business ethics examines impact investing as a novel asset class. This research focuses on financial instrument design, impact measurement (e.g., IRIS+ metrics), and the motivations of investors (Daum et al., 2025). However, it often remains at a macro-level of portfolio theory or, when it does analyze enterprises, it does so from the investor's perspective, prioritizing questions of financial return and risk mitigation. The internal, qualitative experience of the social enterprise receiving this capital and the resulting pressures on its mission is frequently overlooked or simplified.

The most significant gap, therefore, is the absence of direct, comparative, and empirically-grounded research that places both funding models within the same analytical frame. Few studies have employed a methodology that allows for a "side-by-side" comparison of mature social enterprises stratified by their primary funding source. The field is dominated by theoretical models or single-case studies. There is a distinct lack of qualitative, multi-case analysis that explores the lived managerial experience of navigating these funding pressures, leaving a critical void in our understanding of how capital truly shapes organizational behavior and long-term outcomes.

The novelty of this research lies in its direct, comparative methodology. By intentionally selecting and analyzing two distinct cohorts of mature social enterprises one primarily philanthropy-funded, the other impact-capital-funded this study moves beyond the theoretical and anecdotal. It provides a rare, empirically-grounded exploration of the divergent paths these

funding models create (Donald et al., 2024). Its focus on mature organizations, rather than start-ups, is a second novel element, allowing the analysis to move past initial funding choices and examine the long-term, cumulative effects of capitalization strategy on sustained operations.

This research is justified by its profound practical and theoretical implications. For social entrepreneurs, it promises to deliver a much-needed, evidence-based framework for navigating the "mission versus market" tension. It moves their capitalization strategy from a reactive exercise to a proactive, informed choice. For capital providers, both philanthropists and impact investors, this study's findings will illuminate the unintended consequences of their own models, offering insights into how to deploy capital more effectively to foster genuine, long-term sustainability without compromising the social missions they seek to support.

Theoretically, this study makes a crucial contribution to the literature on hybrid organizations and non-profit finance. It challenges the polarized discourse by empirically investigating the nuanced reality of financial trade-offs. It seeks to replace the "either/or" paradigm with a more sophisticated, "when and why" framework. By focusing on the interplay between external financial logic and internal organizational identity, this research provides a critical, timely, and necessary contribution to one of the most pressing debates in the field of social entrepreneurship.

RESEARCH METHOD

Research Design

This study employed a qualitative research design, specifically utilizing an explanatory, multiple case study methodology. This approach was deemed most appropriate given the research objective of understanding the complex, real-world phenomena of how different funding models influence organizational behavior and long-term sustainability. A case study design is essential for answering "how" and "why" questions, permitting a deep, contextualized exploration of the causal mechanisms linking funding structures to strategic outcomes. The comparative nature of the design, contrasting two distinct cohorts (philanthropy-funded vs. impact-invested), allows for rigorous cross-case analysis to identify patterns of convergence and divergence, thereby strengthening the analytic generalizations derived from the findings (Sarker & Elnahas, 2025).

The philosophical underpinning of this research is interpretivist, acknowledging that organizational realities are socially constructed by the actors within them. The focus was on capturing the lived experiences and strategic rationales of social entrepreneurs as they navigate the pressures and opportunities presented by their funders. This required an inductive analytic process, where themes and theoretical frameworks were allowed to emerge from the data rather than being imposed a priori. This qualitative strategy prioritizes depth and explanatory richness over the statistical generalizability of quantitative methods, which would be insufficient to capture the nuanced processes of mission negotiation and strategic adaptation at the heart of this inquiry (Talan et al., 2024).

Research Target/Subject

The study population consisted of mature social enterprises operating in the global context, defined as organizations past the initial start-up phase (minimum five years of operation) with a clearly articulated dual-mission (social and financial). A purposive sampling strategy was implemented to select information-rich cases capable of illuminating the research questions. The primary sampling criterion was the organization's dominant funding source since its inception. This ensured a clear basis for the comparative analysis (Ryandono et al., 2025).

The final sample comprised twelve distinct social enterprises (n=12), which were bifurcated into two cohorts. Cohort A ("Philanthropy-Funded") included six enterprises that had received over 75% of their external growth capital from philanthropic grants, foundations, and donations. Cohort B ("Impact-Invested") included six enterprises that had received over 75% of their growth capital from impact investors in the form of debt or equity. Further selection criteria included operational sector (diversified across health, education, and environment to ensure variety) and organizational scale (annual revenue exceeding $1 million USD) to ensure the organizations were established entities grappling with significant sustainability and scalability challenges.

Research Procedure

Data collection commenced with the identification and recruitment of qualifying social enterprises through academic networks, impact investing forums, and philanthropic databases. Once participation was secured, semi-structured interviews were scheduled with the founder(s) or Chief Executive Officer (CEO) of each of the twelve organizations. These interviews were conducted via secure video conferencing, lasted between 75 and 120 minutes, were audio-recorded with explicit consent, and professionally transcribed verbatim. Participants were assured of organizational and personal anonymity to encourage candid responses.

Data analysis followed a systematic, multi-stage process. First, a deductive-inductive thematic analysis was initiated. All 12 transcripts were imported into NVivo 12 qualitative data analysis software. An initial coding framework was developed based on the research objectives (e.g., "Operational Pressures," "Mission Drift," "Scalability Strategy") (Baltazar et al., 2025). This framework was then iteratively refined as new, emergent codes were identified directly from the data. Following the initial coding, a within-case analysis was performed for each enterprise, creating a detailed narrative summary. Finally, a rigorous cross-case analysis was conducted, comparing the findings between Cohort A and Cohort B to identify the systematic patterns, trade-offs, and divergent outcomes associated with each funding model, which form the basis of the "Results" section.

Instruments, and Data Collection Techniques

The primary data collection instrument was a semi-structured interview guide, developed and refined through expert consultation and piloting. This guide was designed to be flexible yet comprehensive, organized around several key thematic areas: (1) founding history and funding journey; (2) perceived pressures and reporting requirements from capital providers; (3) internal strategic decision-making processes (e.g., program expansion, pricing models); (4) challenges to maintaining mission integrity; and (5) strategies for achieving long-term financial sustainability. The open-ended nature of the questions allowed for emergent themes to be explored in depth with each participant (Dinh et al., 2024).

A secondary instrument was a structured document analysis protocol. This protocol guided the systematic collection and review of organizational artifacts to triangulate data from the interviews. The protocol specified the collection of: (1) annual reports and impact statements from the past five years; (2) original grant proposals and impact investment term sheets (where available); (3) organizational charts and governance documents; and (4) publicly available financial statements or summaries. This documentary evidence provided a crucial, objective complement to the subjective narratives gathered during interviews, allowing for a more robust and validated analysis.

RESULTS AND DISCUSSION

The initial analysis involved a descriptive summary of the twelve participating social enterprises, bifurcated into Cohort A (Philanthropy-Funded, n=6) and Cohort B (Impact-Invested, n=6). Data collected from organizational reports provided a baseline for comparing

the two cohorts across key operational and financial metrics. This descriptive data, presented in Table 1, grounds the subsequent qualitative analysis in the structural realities of the enterprises. The table summarizes organizational age, primary sector, average five-year revenue growth, and primary impact reporting focus.

Table 1. Descriptive Profile of Case Study Cohorts

Case ID	Cohort	Sector	Org. Age (Yrs)	Avg. 5-Yr Revenue Growth	Primary Impact Reporting Focus
SE-P1	A: Philanthropy	Health	12	8% (Grant-based)	Activities Delivered; Beneficiaries Served
SE-P2	A: Philanthropy	Environment	9	5% (Grant-based)	Qualitative Narratives; Policy Influence
SE-P3	A: Philanthropy	Education	15	11% (Grant-based)	Program Outputs; Beneficiary Testimonials
SE-P4	A: Philanthropy	Health	10	7% (Grant-based)	Activities Delivered; Community Feedback
SE-P5	A: Philanthropy	Environment	14	4% (Grant-based)	Conservation Area Protected; Species Count
SE-P6	A: Philanthropy	Education	8	13% (Grant-based)	Program Outputs; Student Enrollment
SE-I1	B: Impact-Invested	Health	9	45% (Earned)	Financial ROI; Cost-per-Patient Metric
SE-I2	B: Impact-Invested	Environment	7	60% (Earned)	Financial ROI; Carbon Tonnes Sequestered
SE-I3	B: Impact-Invested	Education	10	75% (Earned)	Financial ROI; Users Acquired (SaaS)
SE-I4	B: Impact-Invested	Health	8	52% (Earned)	Financial ROI; Lives Touched (Scaled)
SE-I5	B: Impact-Invested	Environment	11	38% (Earned)	Financial ROI; Waste Diverted (Tonnes)
SE-I6	B: Impact-Invested	Education	7	81% (Earned)	Financial ROI; Revenue-per-User

The descriptive data immediately highlights a stark divergence between the two cohorts. Cohort A (Philanthropy) demonstrates modest revenue growth, entirely reliant on grant cycles, with an average growth of 8.0%. Cohort B (Impact-Invested) exhibits aggressive earned revenue growth, averaging 58.5%. This financial disparity is mirrored in their impact reporting. The philanthropy-funded group focuses its reporting on qualitative narratives, program activities, and direct beneficiary counts, aligning with traditional non-profit grant reporting requirements.

Cohort B's reporting, in contrast, is heavily quantitative, standardized, and inextricably linked to financial performance. Every organization in this cohort reported "Financial ROI" as a primary metric, alongside a single, scalable impact metric (e.g., "Cost-per-Patient," "Carbon Tonnes Sequestered"). This suggests that impact, for this group, is measured in terms of efficiency and scale, whereas Cohort A measures impact in terms of depth and narrative. These initial findings frame the different operational worlds these enterprises inhabit (Mashelkar et al., 2024).

Thematic analysis of the 12 CEO interviews revealed two distinct, dominant categories of operational pressure corresponding to each cohort. For Cohort A (Philanthropy-Funded), the

primary emergent theme was "The Mission-Centric Resource Struggle." Leaders in this group described their core challenge as securing long-term, unrestricted funding for core operations. They reported significant administrative burdens tied to managing multiple, fragmented grant cycles, each with bespoke reporting demands that often distracted from strategic management (Milanov et al., 2025).

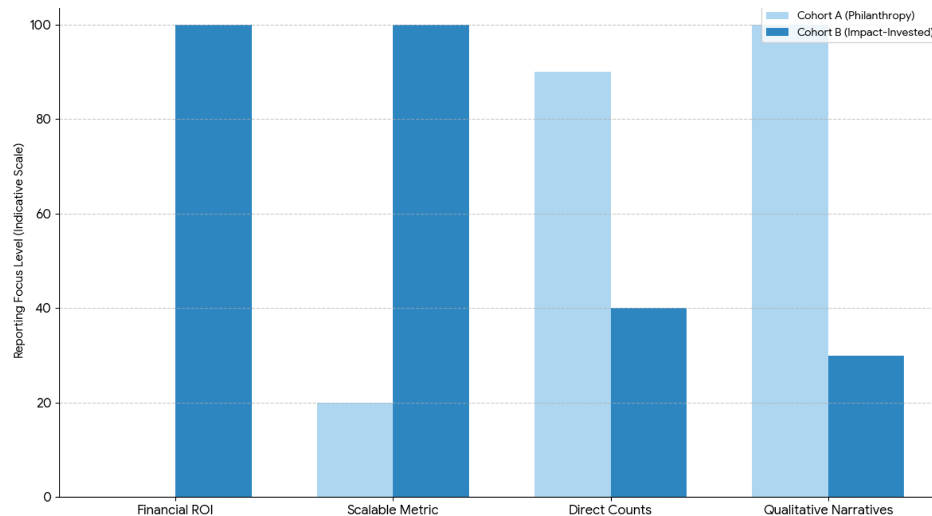

Figure 1. Impact Reporting and Metrics Focus

For Cohort B (Impact-Invested), the dominant theme was "The Market-Driven Performance Mandate." CEOs in this cohort described an intense, constant pressure to meet financial benchmarks, grow market share, and demonstrate scalability. The reporting requirements from impact investors were described as rigorous and relentless, focused on financial projections and standardized efficiency metrics. This pressure created a highly disciplined, fast-paced operational environment focused squarely on growth.

These divergent pressures were found to have a direct, inferential link to organizational strategy. The "Mission-Centric Resource Struggle" in Cohort A led to a strategy best described as opportunistic adaptation. Leaders reported that new programs were often developed based on available "Requests for Proposals" (RFPs) rather than core strategic priorities. This resulted in "mission creep" not a drift toward profit, but a fragmentation of services as the organizations chased funding, making it difficult to build long-term, scalable capacity.

The "Market-Driven Performance Mandate" in Cohort B led to a strategy of focused prioritization. These organizations were forced to identify and double-down on their most profitable, scalable products or services. Activities that were high-impact but not financially self-sustaining were systematically de-prioritized or cut. The strategic process was disciplined and data-driven, but it explicitly tied "impact" to "revenue," narrowing the scope of what the organization was willing or able to do.

A central objective was to relate funding models to the tension between mission integrity and scalability. The data from Cohort A demonstrated exceptionally high mission integrity. Leaders consistently refused to adopt earned-revenue models (e.g., charging beneficiaries) that they felt would compromise their core mission of serving the most vulnerable. This adherence to mission, however, came at the direct cost of scalability; all six enterprises in Cohort A remained small, localized, and dependent on their next grant (L. Scott et al., 2025).

Data from Cohort B showed the inverse relationship. All six impact-invested enterprises achieved significant scale, expanding operations nationally or internationally. This scalability was, in every case, linked by the interviewees to a necessary "mission compromise." This compromise was frequently described as a "pivot" from serving a deep, non-paying population

to serving a broader, paying customer base, which in turn subsidized a smaller, "mission-aligned" component of their work.

Case SE-P2 ("Eco-Advocacy"), an environmental organization in Cohort A, provides a clear illustration of the philanthropy model. The organization achieved significant, deep impact by successfully lobbying for regional marine protected areas. This work, however, generates zero revenue. The CEO described their existence as a "constant, exhausting fight for survival," entirely dependent on foundation grants. Their strategy was "deep but static," with no viable path to scaling their advocacy model.

Case SE-I3 ("Edu-Tech"), an education enterprise in Cohort B, exemplifies the impact-investing model. The organization began with a mission to provide free, high-quality literacy software to underserved public schools. After taking on impact investment, they were pressured to find a sustainable revenue model. They "pivoted" to a B2B model, selling their software to affluent private schools and corporations. This strategy generated high returns and rapid scale, but the CEO admitted their original mission "is now only about 10% of what we do."

The "Eco-Advocacy" (SE-P2) case explains the philanthropy paradox. The model perfectly supports "pure public good" work that markets cannot or will not value. However, this reliance creates extreme operational fragility and locks the organization into a state of perpetual dependency. The "deep impact" is achieved, but it is never secure or scalable. The organization's success is paradoxically a source of its sustainability crisis, as its non-market-based mission cannot be converted into earned revenue.

The "Edu-Tech" (SE-I3) case explains the mechanism of "mission drift" in the impact-invested cohort. The drift was not malicious but was a logical, strategic response to the demands of the funding model. The investors needed a path to a financial exit, which required a scalable, profitable revenue stream. The organization's original mission (serving non-paying schools) was incompatible with this demand. The "pivot" was a survival strategy that prioritized the organization's financial sustainability over its original social purpose.

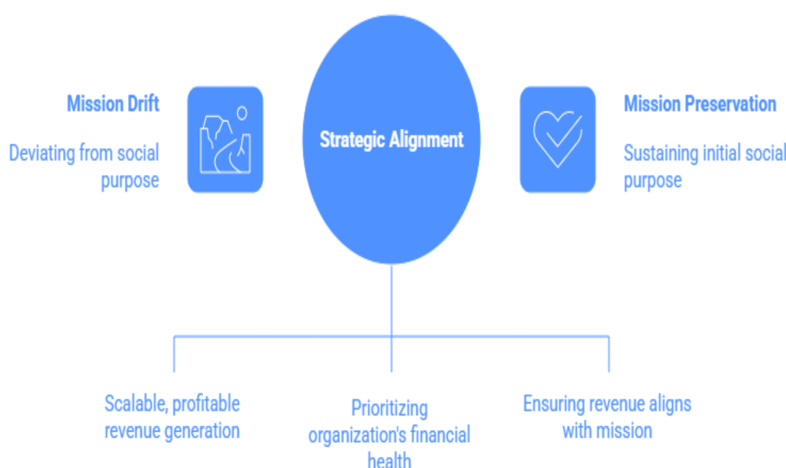

Figure 2. Mantaining Social Mission Despite Funding

The collective results strongly indicate that the choice between philanthropic and impact-investing capital is not merely a financial preference but a fundamental choice of organizational identity and trajectory (Fang et al., 2025). The data from all twelve cases consistently show that philanthropic funding enables mission depth but actively inhibits scalability. Impact investing, conversely, successfully forces scalability but does so by requiring a strategic compromise that often dilutes mission depth.

A final interpretation of the findings suggests that "long-term sustainability" has two different meanings for these cohorts. For Cohort A, sustainability means securing the next

grant to continue their deep-impact work. For Cohort B, sustainability means achieving market dominance and financial independence. The data reveals that neither funding model, in its pure form, effectively supports the hybrid ideal of a social enterprise: an organization that can both scale and maintain an unwavering focus on its core social mission (Blankesteijn & Ghorbani, 2025).

This study's primary findings reveal a fundamental divergence in the operational realities, strategic trajectories, and sustainability outcomes of social enterprises based on their dominant funding model. The descriptive data established two distinct universes: a philanthropy-funded cohort (Cohort A) characterized by modest, grant-reliant growth (8.0% avg.) and qualitative impact reporting, and an impact-invested cohort (Cohort B) defined by aggressive, earned-revenue growth (58.5% avg.) and quantitatively-driven, ROI-focused impact metrics. This initial bifurcation set the stage for all subsequent findings.

The operational pressures exerted by these capital sources were found to be profoundly different and deeply influential. Cohort A endures a "Mission-Centric Resource Struggle," a state of constant administrative effort to secure fragmented, project-based grants which distracts from core strategic goals. Cohort B, in contrast, operates under a "Market-Driven Performance Mandate," an intense, relentless pressure from investors to meet financial benchmarks, demonstrate market scalability, and optimize for efficiency.

These divergent pressures were shown to directly precipitate two different strategic adaptations. The philanthropy-funded group adopted a strategy of opportunistic adaptation, where organizational priorities were often dictated by available grant opportunities, leading to a "mission fragmentation" rather than strategic growth. The impact-invested group employed focused prioritization, systematically identifying and scaling their most profitable services while de-prioritizing or cutting high-impact but non-revenue-generating activities, resulting in "mission compromise (Rosca & Taylor, 2024)."

The central trade-off between mission and scale was starkly illuminated. Philanthropic funding enabled the preservation of "mission depth" and service to non-paying beneficiaries, but at the direct cost of scalability, locking organizations into a "deep but static" model. Impact investing successfully forced aggressive scalability, but required a strategic "pivot" away from the original non-paying mission to secure financial returns. The results conclusively show that neither funding model in its pure form adequately supports the hybrid ideal, and that "sustainability" itself holds two incompatible meanings for these groups.

The "mission fragmentation" observed in Cohort A aligns closely with resource dependency theory, confirming existing literature on the dysfunctional power dynamics between non-profits and grant-making foundations. Our findings, however, provide a critical nuance. We differentiate this fragmentation an externally-driven diversification of services from the internally-driven "mission creep" often discussed. This study suggests that for philanthropy-funded enterprises, the threat is not a drift toward profit, but a diffusion of effort so severe that it cripples the organization's ability to build a scalable, cohesive strategy (Albino et al., 2025).

The findings on Cohort B provide robust empirical support for critics of impact investing who have long warned of "mission drift." While much of the literature championed by investors focuses on the virtues of market discipline, this study details the precise mechanism of that drift: the strategic pivot from a non-paying beneficiary population to a paying customer base (as seen in Case SE-I3). This result challenges theoretical models that assume impact and profit can be seamlessly co-optimized, suggesting the trade-off is far more acute than previously acknowledged.

Our analysis of scalability contributes to the scholarly conversation on hybrid organizations. The data challenges the simplistic assumption that the market-based discipline of Cohort B is inherently superior for scaling. It aligns with research arguing that scaling "deep" social impact (the goal of Cohort A) is a fundamentally different challenge than scaling

a commercial product (the path of Cohort B). The findings show why this is the case: the deep-impact models (like SE-P2's advocacy) are often "public goods" and structurally incompatible with the ROI-driven exit strategies required by impact investors.

The finding that "sustainability" holds different meanings grant security versus market independence reinforces contemporary work on hybrid organizational identity. This study, however, moves beyond identity theory to empirically demonstrate that this definitional split is a direct consequence of capitalization. The financial logic of the funder does not just influence the organization; it appears to fundamentally define its very purpose and measure of success, bifurcating the sector into two distinct species of enterprise (Casprini et al., 2024).

These results signify that a social enterprise's funding model is not a passive financial tool, but an active, deterministic force that shapes organizational identity. The choice between philanthropic and impact capital appears to set an enterprise on one of two divergent, and perhaps irreversible, developmental pathways. The logic of the capital its expectations, timelines, and reporting demands becomes imprinted on the organization's DNA, dictating its strategy, culture, and ultimate definition of success.

The profound chasm between the two cohorts signifies a fundamental incompatibility between the logic of pure market mechanisms and the logic of pure social intervention. The hybrid social enterprise, designed to bridge this gap, is shown to be sitting in a zone of immense tension. Both dominant funding models pull the organization away from this "hybrid ideal," forcing it to regress toward one of the two poles: either a traditional, grant-dependent non-profit (Cohort A) or a socially-conscious, market-first business (Cohort B).

The consistent "mission compromise" in Cohort B signifies the structural difficulty of valuing non-market "public good" within a capitalist framework. The pivot of Case SE-I3 (Edu-Tech) is particularly telling: it implies that when a financial return is a non-negotiable requirement, the market will always value the paying customer more than the non-paying beneficiary. This finding suggests that "impact" which cannot be monetized will inevitably be marginalized in a portfolio managed for financial ROI.

The "mission fragmentation" in Cohort A signifies an equal, if different, dysfunction within the philanthropic sector. It reflects a system where capital providers (foundations) dictate social priorities through rigid, project-based grants, rather than empowering organizations with the trust and core funding needed to build their own long-term strategies. This model fosters a culture of reactive grant-chasing rather than proactive, strategic capacity-building, undermining the very sustainability it purports to support.

The primary implication for social entrepreneurs is that capitalization strategy must be treated as a foundational, mission-critical decision, co-equal with the initial mission itself. Founders must understand that accepting impact investment is not simply "taking on fuel"; it is an acceptance of a market-driven logic that may, and often does, require a premeditated willingness to pivot the mission to serve a paying market. This choice must be made with full transparency (Matus-Ruiz et al., 2025).

A second implication for practice is that entrepreneurs seeking to maintain "mission purity" for non-market solutions (like SE-P2's advocacy) must recognize the inherent operational fragility of the philanthropic model. This study suggests their strategic focus should shift from chasing fragmented project grants to building long-term, unrestricted capital endowments or broad-based community funding, as the traditional grant cycle actively inhibits the stability required for deep impact.

The implications for impact investors are profound. They must confront the reality that their current, ROI-driven models are filtering out and failing to support deep, systemic, "public good" solutions. The field must evolve beyond its focus on capital-efficient, scalable "socially good" businesses a valid but different category and develop new instruments that can patiently value non-market outcomes if it truly wishes to fund systemic change.

The findings are a stark call to action for philanthropic foundations. The prevalence of restricted, short-term, project-based grants, which directly led to Cohort A's strategic fragmentation, is counter-productive to building a resilient social sector (Bringas-Fernández et al., 2024). This research provides strong evidence for a sector-wide shift toward providing more multi-year, unrestricted, core operational grants that trust organizations to build and execute their own long-term strategies.

These results are a direct reflection of the underlying logics of the two capital types. Philanthropic capital is structurally "concessionary," meaning it does not expect a financial return. This patience allows it to fund non-market solutions. It is, however, scarce and often allocated by program officers whose own performance is measured by "activities delivered," which incentivizes the fragmented, project-based grant-making observed.

Impact investment capital is, by its very definition, market-based. It structurally requires a financial return and, in most cases, a defined "exit" for the investor (e.g., an acquisition or IPO). This requirement necessitates a business model that is profitable and scalable in a traditional, commercial sense. The "mission compromise" identified in Cohort B is not an anomaly; it is the logical and predictable outcome of applying market-based exit strategies to non-market social problems.

The notable absence of a "perfect hybrid" in our findings is likely because the financial instruments themselves are not truly hybrid. The social capital market has a highly developed infrastructure for grant-making (non-profit logic) and a highly developed infrastructure for venture capital (market logic). It has a critically underdeveloped infrastructure for true hybrid capital instruments that can patiently value a non-paying beneficiary while providing the aggressive growth funding of VC (Pacheco et al., 2025).

The divergence in reporting requirements was identified as a key causal driver. What gets measured gets managed. Cohort A manages qualitative narratives and beneficiary counts for its donors. Cohort B manages cost-per-acquisition and revenue-per-user for its investors. Over time, these distinct reporting demands cease to be a simple administrative task and become the organization's de facto strategic compass, pulling the two cohorts in fundamentally opposite directions.

This qualitative study has provided the "how" and "why" behind the funding dilemma. This framework should now be tested quantitatively. A large-scale, longitudinal study tracking a new cohort of social enterprises from inception over a 10-to-15-year period would be invaluable. Such a study could map their financial and mission evolution as they take on different capital types, confirming the long-term trajectory of the trade-offs identified here.

Research is urgently needed into the development and efficacy of emerging "Third Way" financial instruments that explicitly try to bridge the gap. This includes comparative studies on Revenue-Based Financing (RBF) models, Social Impact Bonds, recoverable grants, and patient-capital funds with "dual-exit" provisions. We must move beyond the philanthropy/VC binary and rigorously study these nascent models to see if they offer a true hybrid solution.

For practice, the findings highlight the critical need for "blended finance" structures at the organizational level, not just at the fund level. Entrepreneurs and funders need to develop frameworks for intelligently blending philanthropic grants (to cover core mission activities, R&D, and service to non-paying users) with impact investment (to scale earned-revenue components) within the same enterprise, creating an internal "firewall" that allows both logics to co-exist.

A fundamental shift is ultimately required in the social capital marketplace itself. This study is a call to action for philanthropists to behave more like patient venture capitalists, providing the long-term, unrestricted "growth" capital needed for scale. Simultaneously, it is a call for impact investors to become more truly "concessionary," developing funds that are willing to accept zero or negative financial returns in exchange for deep, systemic, and non-market-based social impact.

CONCLUSION

This study's most significant finding is the identification of a fundamental trade-off that forces social enterprises into one of two mutually exclusive trajectories. The choice between philanthropic capital and impact investment capital is not a simple financial preference but a deterministic choice of organizational identity. Philanthropic funding enables mission depth and serves non-market public goods, but it systematically inhibits scalability through a model of "mission fragmentation" driven by resource dependency. Impact investing successfully forces scalability and market discipline, but does so by requiring a "mission compromise" that pivots the enterprise away from its original non-paying beneficiaries toward a profitable, market-based logic.

The primary contribution of this research is conceptual, offering a critical refinement of existing theories on hybrid organizations. This study moves beyond the general notion of "mission drift" by identifying its precise mechanism: the strategic pivot from a beneficiary-centric model to a customer-centric model as a requisite for securing market-based returns. Furthermore, it introduces the concept of "mission fragmentation" as a distinct challenge for philanthropy-funded enterprises, differentiating it from traditional "mission creep" by highlighting how grant-dependency diffuses, rather than alters, an organization's core strategic focus, ultimately crippling its capacity for long-term growth.

The conclusions presented here are bounded by the study's qualitative, multiple case-study design, which prioritizes explanatory depth over statistical generalizability (n=12). This limitation necessitates a clear direction for subsequent research. Future studies must test these findings at scale. A large-scale, longitudinal quantitative analysis is required to track the mission and financial trajectories of a larger cohort of social enterprises over time, which would validate the long-term, deterministic impact of these two divergent funding pathways.

AUTHOR CONTRIBUTIONS

Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.

Author 2: Conceptualization; Data curation; In-vestigation.

Author 3: Data curation; Investigation.

CONFLICTS OF INTEREST

The authors declare no conflict of interest.

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