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Book Review: Social Stock Exchanges: Catalyst for Impact Investing?

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1. Introduction

Part of the Springer Sustainable Finance series, this book aims to fill the gap in research on impact exchanges (IE) or social stock exchanges (SSE), which this reviewer concurs is a "young research field." It also targets "under-researched" institutional investors and the extent to which they can be matched with the alternative asset classes in social entrepreneurship. Employing interviews with members of the European Union High-Level Group, the author, among others, reviews the literature on current taxonomies, the current state of SSEs, considers what it currently does well, what can be improved, and how it impacts capital redirection in the financial market.

With the Malaysian prime minister recently announcing the launch of "Malaysia's first social exchange" fronted by the Securities Commission (SC), and its incoming framework (SC, 2024; Tay, 2024), this book has layered appeal, from impact funders to academicians. In this region, the book acts as a precursor to the concept of SSEs for policymakers, stakeholders, regulatory agencies, impact funders, and even social enterprises, as well as non-governmental organisations exploring more structured alternative financing. As it focuses on IEs and SSEs within the larger context of impact investing, it should also be on the bookshelves of academicians or researchers who are interested in the future direction of the increasingly converging intersection of doing well and doing good, i.e., the comingling of finance and social or environmental goals. A resurgence in adopting SSEs within Asia further

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makes it all the more relevant to regional policymakers, industry players and academicians alike.

2. General Overview

In the impact economy, value creation lies in the intersection of social and economic progress (Barbosa, 2020). Impact investment has its home in this intersection, with investors moving beyond pure financial gain towards social impact, but facing the reality of scant avenues (Muneeza et al., 2024). SSEs are one step toward bridging the gap in attracting capital and investors, or so Wendt (2022) argues. Coalescing elements of crowdfunding, peer-to-peer lending, and philanthropy, this "exchange" is a new operating model aiming to counter societal and economic challenges (Wendt, 2022).

This book is one among other publications that Wendt has authored on SSEs (Wendt, 2017; 2020). Complementing her previous publications, this book more comprehensively considers the current state of SSEs and builds on the author's previous explorations. Some chapters, such as subchapter 3.3 on the blueprinting of traditional stock exchanges, and 4.1 on the prognosis for the development of SSEs, however, mirror the author's previously published chapters (Wendt, 2020, pp. 94, 95, 97, 110-111).

Divided into five chapters, with a lean 103 pages including references, the book is straightforward in its layout. Chapter 1 introduces readers to the idea of SSEs, with Wendt describing the research design to the study that resulted in this book. In Chapter 2, there is an extensive literature review spanning 57 pages. In the chapter, the author considers, among others, the role of taxonomies, differentiates impact investment from environmental, social and governance (ESG) approaches, the need for ISEs and SSEs, and maps the functions of SSEs. Chapter 3 analyses traditional stock exchanges, with the author examining the practice of "blueprinting" for SSEs and briefly addressing its challenges. In the penultimate chapter, the author primarily considers the future direction that SSE research should take and succinctly recommends features and criteria for long-term SSE success. The final chapter concludes the contributions of the book with a short postulation as to the limitations.

3. On Taxonomies, Impact Investment and the Current State of SSEs

In Chapter 2, the densest chapter of the book, the author necessarily sets the stage for impact investment, before diving deep into the development and promise of SSEs. The 13 subchapters have a flow, but do not at first glance appear linear. In the first three subchapters, the author looks into the general foundations of sustainability, taxonomies, and inconsistencies in terminologies, such as impact investing, and then moves towards the

literature on SSE in the subchapters that follow. However, subchapters 2.7 to 2.10 then return to impact investing— investigating, for example, inconsistencies, tools, frameworks, and databases. From subchapters 2.11 to 2.13, the author once again makes a shift by considering social entrepreneurship, social economy finance, green bonds, and social impact bonds.

3.1 Strengths and weaknesses in the examination of taxonomies

3.1.1 Strengths

Subchapter 2.3, being one of the key subchapters, is an edifying view of the role that taxonomies play in the EU region. In this subchapter, the author limits the analysis to the EU and Asian taxonomies. The strength of the subchapters lies in the author's analysis of the EU Taxonomy. For one, it is clear that the author positively views the EU's new strategy of four main pillars (released alongside rules for taxonomy-related reporting for companies), which includes policies and tools to finance transition plans, and improving financial inclusion for both individuals and SMEs. Distinctly, the author goes so far as to suggest that the standardisation borne from the unified classification system creates a foundation for the future of making eco-social dimensions listing criteria for impact stock exchanges. In coming to this suggestion, the author makes a convincing case for standardisation.

3.1.2 Weaknesses

The same cannot be said for the consideration of Asian taxonomies in subchapter 2.3, where the approach the author takes is largely peripheral. To start with, the author clumps together China, Malaysia, Singapore, and other nations such as Bangladesh. Beyond this sweeping categorisation, the actual examination of Asian taxonomies is cloistered. For one, though deceptively housed under the umbrella of "Asia," the author only truly analyses the taxonomies of China and Malaysia. Even so, the exercise is perfunctory. In the case of Malaysia, for example, there is considerable inspection, with the author keenly analysing Bank Negara Malaysia (BNM)'s *Climate Change and Principle-Based Taxonomy*, even providing visualisation of the classification system from categories C1 to C5—C1 being climate supporting, and the lowest benchmarks C4 and C5 being watchlist. However, the author fails to include the guiding principles that these classifications are based on. For instance, Guiding Principle 1 is climate change mitigation and Guiding Principle 2 is climate change adaptation (BNM, 2021).

3.2 Strengths and weaknesses of the author's examination in distinguishing between impact investment and ESG

3.2.1 Strengths

In this subchapter, the author begins by distinguishing between impact investment and ESG, and then moves towards the role impact investing plays in SSEs and ISEs. The author first establishes to readers that the present opacity in impact investing negatively influences IEs and SSEs, resulting in a fractured impact investing map, with, among others, stock exchanges cherry-picking listing criteria, and ultimately precluding a transparent market (Wendt, 2022, p. 18). Moving to differentiate the two, the author contends that impact investments incorporate environmental and social "dimensions" in business models and strategy "ex-ante," whereas ESG focuses on ex-post reporting and measurement (Wendt, 2022, pp. 18-19). What this subchapter does well is confirming, without question, the importance of clarifying impact investing and the need to distinguish it from ESG.

3.2.2 Weaknesses

Although subchapter 2.3 ostensibly has a focal point on making this distinction, its bulk involves the author being critical of the lack of clarity in impact investment definitions. Despite raising compelling points on the importance of clarifying impact investing within the context of IEs and SSEs, these points are not fleshed out, with the author instead investing in an extensive consideration of the present lack of clarity. This is particularly apparent in the author's consideration of how the lack of opacity in impact investing affects IEs and SSEs, and results in "cherry-picking" of listing criteria (Wendt, 2022). Readers may benefit from more context here on how the lack of clarity in impact investment results in said "cherry picking." Without this link drawn, the author's reasoning has a speculative tone.

3.3 Strengths and weaknesses of the author's discussion in establishing the need for and the current state of SSEs

3.3.1 Strengths

Chapter 2.4 lays the foundation for the need for SSEs and does so with insightful findings from a pre-study conducted by the author. From this pre-study, the author sets the main challenges identified by institutional investors as hindering the success of SSE or ISE. Among the challenges are a lack of a design blueprint that draws from conventional exchanges, the

peer-to-peer nature of the platforms that do not allow for market-making, and no global standard or harmonisation of listing criteria (Wendt, 2022, p. 22). These findings have practical value in understanding what would work better in designing SSEs, such as framing a global standard for listing criteria.

3.3.2 Weaknesses

The foregoing subchapter on the current state of SSEs is interspersed with the contents of subchapter 3.4, with the author raising the debate on whether ISEs and SSEs should exist as an alternative or be integrated into existing stock exchanges. This question remains a question—with the author abruptly moving on to argue that there is no inclusion of "institutional investors view and experience," and once again stressing that the listing requirements should be harmonised, adding that the general design of stock exchanges should be further investigated.

In the author's seeming preoccupation with reiterating findings from the pre-study, there is one stark omission: there has already been a protracted consideration on whether SSEs benefit from being freestanding or modular—freestanding being a model that stands on its own, and modular being a model that attaches itself to an existing stock exchange. In a 2014 chapter co-authored by the board members of the IIX Foundation that the author herself cites (Wendt, 2022; IIX, n.d.), it is observed that the most successful SSEs take the modular approach. The IIX Foundation stresses that advantages range from accelerating the start-up process to cost reduction, on the condition that SSEs have distinct listing criteria and operational rules (Shahnaz et al., 2014).

More recent active SSEs are a practical example. For instance, India's SSE, which takes a modular approach, is regulated by the Securities and Exchange Board of India (SEBI) and incorporated as a segment of the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) (Nasihin et al., 2024; NSE, 2023; BSE, 2023). Though the author does consider, albeit sparingly, the literature on the structure that fits best, practical examples of SSEs that have successfully taken on the modular approach are wanting. Regrettably, the author also does not take an unyielding stance in weighing the freestanding and modular structure, rather resorting to a tepid, even ambiguous tone, especially when noting the possible reluctance of impact companies in a modular structure, vaguely alluding to the "culture and governance" of traditional stock exchanges that may be "unacceptable" (Wendt, 2022).

In subchapter 2.6, the author generalises SSEs as "incubation" or "crowdfunding" platforms in a tangible omission of more mature models. From the review of scientific literature and academicians' views on SSEs, the author deduces that most SSEs do not function as "real" social stock exchanges. In the review, focusing on the United Kingdom, Singapore

and Spain, the author, in an oversimplification, views SSEs as akin to mere "incubation" or "crowdfunding" platforms. This generalisation is made without the author analysing the more mature Canadian model. The exclusion of the Canadian SSE model is palpable considering its launch in 2013 and of its full-service platform in 2017 (SVC, n.d.). Although the author mentions this model in passing in Chapter 1, and in subchapters 2.3 and 4.4, it is merely in corollary, vaguely stating its "upcoming launch" as having a future potential of being studied in connection with its relationship to the "broader field of impact entrepreneurship and investing," an observation that is identical to the author's previous published work on SSEs (Wendt, 2017, p. 37; 2020, p. 110; 2022, p. 77). However, as noted above, the SVX was launched in 2013 as an online database for impact investment, with a new full-service SVX platform launched thereafter. Unlike the author, other scholars have already examined the Canadian model. For instance, the exempt market dealer (EMD) status granted is viewed positively as it, among others, allows eligible entities to raise capital without incurring expenses in preparing a prospectus (Muneeza et al., 2024, p. 130).

4. Inconsistencies in Impact Investment

4.1 Strengths and weaknesses in the author's examination of inconsistencies in impact investment

4.1.1 Strengths

Chapters 2.7 to 2.8 then turn to impact investment and its inconsistencies. In chapter 2.7, the author first outlines, based on Brest and Born (2013), what impact investing needs to deliver—additionality, intentionality and evidence-based approach using impact data. The author then stresses the importance of impact measurement and reporting, distinguishing between impact evaluation, outcome evaluation and output reporting (Wendt, 2022, p. 37). In subchapter 2.8, the author builds on this thesis and admits that a plethora of frameworks exist for impact design, management monitoring, and reporting tools, such as social impact investment (SIA) and social return on investment (SROI). The author also considers the variety of databases, e.g., B Corp, FTSE4Good, and Global Impact (Wendt, 2022, pp. 38–39). In analysing these databases, the author finds that they cannot be compared in most terms, such as type of asset and scoring. In other words, the databases are fragmented. These subchapters would prove illuminating for readers struggling to understand the particularities of the challenges that the impact investment miasma poses in practical terms, as the author takes the readers through impact investment frameworks and databases that exist, and reveals, in no uncertain terms, why their inherent fragmentation creates a flawed system.

Subchapter 2.9, on a concluding note, confirms that the "incompatibility" of existing databases magnifies opacity, and the lack of a "consensus" methodology in, for instance, managing and measuring outputs, outcomes and impact (Wendt, 2022). In the author's view, the lack of a unifying framework, and consensus tools makes cross-referencing impossible. This observation is astute and makes clear the need for a unifying framework and better transparency linking well with the issues identified in subchapter 2.8.

4.1.2 Weaknesses

Subchapter 2.8, though having strength in revealing the inherent fragmentation in impact investment databases, leaves some manifest aspects unaddressed. The author does not, for instance, consider the reality of output, outcome and impact measurement for existing impact design frameworks, management monitoring and reporting tools such as SIA and SROI.

Despite the concluding tone of subchapter 2.9, in subchapter 2.10, the author again revisits the definitional and terminological inconsistencies of impact investment. This subchapter reads like an afterthought, with the second half of the subchapter more suitable for inclusion in subchapters 2.11 to 2.13, as it reviews a chapter on the embeddedness into finance markets of social entrepreneurship, green bonds, and social bonds, among others.

Aside from the tonally anomalous subchapter 2.10, subchapters 2.7 to 2.9 are thematically focused on the need for a harmonised framework and criteria, particularly for impact measurement. Lucid as this theme is, it is unclear as to why the author chooses to place this subchapter separately from subchapter 2.3. Readers would have benefitted from a literature review on impact investment and its inconsistencies in one swift motion before venturing into the current state of SSEs.

5. Social Entrepreneurship, Green Bonds, and Social Impact Bonds

5.1 Strengths and weaknesses in the author's discussion of social entrepreneurship, green bonds and social impact bonds

5.1.1 Strengths

Chapters 2.11 to 2.13 then move on to social entrepreneurship, green bonds, and social impact bonds. To readers, these subchapters may initially seem incongruous to the rest of the book. However, the author, in fact, frequently draws parallels to SSEs. In chapter 2.11, it is observed that the private equity and venture capital markets social entrepreneurs use will benefit from SSE listing due to increased visibility of the social impact asset. On

the other hand, in chapter 2.12, the author distinguishes between green bonds and assets on SSEs. Green bonds here are described as merely adding a theme-like element to the "plain vanilla" bond, and unlike SSEs, are capital markets-produced bonds (Wendt, 2022). Similarly, in chapter 2.13, the author establishes that social bonds do not need the SSE scheme as it enters the conventional financial market, but with an added layer of social entrepreneurship promise. Collectively, these subchapters are insightful towards making sense of the multifarious nature of hybrid finance bonds and where these bonds stand in contrast with SSEs.

5.1.2 Weaknesses

Though the author contextualises social entrepreneurship, green bonds and social impact bonds, a more focused comparison with SSEs would have added value for readers. In chapter 2.11, for instance, the author only briefly considers SSEs, suggesting that the private equity market and venture capital markets social entrepreneurs rely on could have the benefit of added visibility through the SSE listing process while highlighting potential challenges such as liquidity and survivor bias (Wendt, 2022, p. 51). However, this is ultimately underexplored, as the author does not sufficiently establish how the listing process may add visibility.

6. SSEs and ISEs vs. conventional stock exchange

6.1 Strengths and weaknesses in the author's examination of SSEs and ISEs vs. conventional stock exchanges

6.1.1 Strengths

In Chapter 3, the author does well in comparing conventional stock exchanges with SSEs and considering how far SSEs blueprint or should blueprint the conventional design. Subchapter 3.1 first sets out what conventional stock exchanges do well, particularly, the liquidity that ensures price consistency of securities. In drawing comparisons between SSEs and ISEs with conventional stock exchanges in subchapter 3.2, the author notes that ISEs and SSEs do not have "market making," lack liquidity, are only partially transparent due to the direct matching nature with valuations hidden and have information inefficiency. Where subchapters 3.1 and 3.2 consider the characteristics of conventional stock exchanges in contrast with SSEs and ISSEs, subchapter 3.3 weighs how SSEs and ISEs mimic the structure of conventional stock exchanges.

Chapter 3 ends on a high note, with the author succinctly identifying factors for the long-term success of SSEs. This subchapter deftly interweaves

the challenges in SSEs and, incidentally, what the author considers as building blocks for resilient SSEs becomes apparent. Crucially, the author suggests diversity in securities without being boxed in any particular area (e.g., healthcare), capacity building, secondary trading, a universal underlying framework based on the United Nations' Sustainable Development Goals (SDGs) to avoid the fallout from different valuations of "success" across stakeholders, and finally, effective regulation balancing adherence to existing rules and regulations and its innovative nature calling for self-regulatory flexibility (Wendt, 2022, pp. 73–74).

Figure 2. Determinants of Long-term SSE Success

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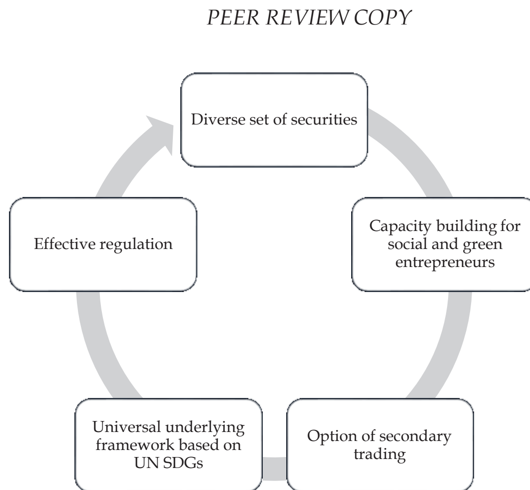

Note: Adapted from Wendt (2022)

6.1.2 Weaknesses

While the author does examine "blueprinting" in Chapter 3, the analysis omits criticisms against it. Most notably, the author references the term "blueprint" and seemingly relies on Dadush's (2015) reasoning that "systematic imitation" is instrumental in mainstreaming impact investment (Wendt, 2022, p. 64). This analysis, however, is selective. In softening the criticisms, the warning against overt reliance on blueprinting leading to the risk of mission drift alluded to by Dadush (2015) is omitted. This is contrary to recent research castigating "blind blueprinting" (Parekh et al., 2021).

In discussing the challenges of current and future SSEs, the author seems to take a Eurocentric tone. Towards the latter end of subchapter 3.3, there is an overview of early SSEs, such as the now-defunct Brazilian BOVESPA

SSE, and UK SSX as well as "future" SSEs in countries like India (Logue & Grimes, 2022; Muneeza et al., 2024). The author notes the possibility of fresh SSEs globally. Yet, the allusion is clear: countries mulling SSEs rarely go further than the initial idea (Wendt, 2022, p. 70).

As this book was published before India's SSE framework was rolled out in September 2022, its lack of inclusion as an existing SSE is conceivable (SEBI, 2022). Even the reference to it as a "future" SSE is understandable. The pessimistic stand, nonetheless, is not. An Indian SSE was already publicly proposed by the country's finance minister in the Union Budget 2019–2020, far predating the book (Balachandran & Kumari, 2022). In contrast, the author views the London-based SSX positively, even referring to it as the "most highly developed and active SSE" (Wendt, 2022, p. 76). Other researchers, however, disprove this, with the closure of SSX in 2018 sourced to, among others, a lack of social or material proof to live up to its initial hype (Logue & Grimes, 2022).

7. Future Direction of SSEs

7.1 Strengths and weaknesses mapping out the future direction of SSEs

7.1.1 Strengths

In subchapter 4.2, the author offers a fresh insight—an "ecosystems" approach to SSEs that primarily involves collaboration towards a common listing process. The approach is twofold: harmonise listing criteria across all SSEs, and create a special segment on the traditional stock exchange. The argument is that through this "ecosystems" approach, unknown variables, such as survivor bias, are made transparent (Wendt, 2022, p. 79). Where Chapter 3 suggested determinants of SSE success, subchapters 4.2 and 4.3 complement this by recommending the overall structural harmony in SSEs. In short, the author believes SSEs will aid markets through transparency, traceability and harmonised impact investing, reporting and measurement, among others. The recommendations read well alongside Chapter 3 in both understanding the important aspects of a successful SSE and how it can be structured towards uniformity across jurisdictions.

7.1.2 Weaknesses

Chapter 4.1 deftly asks but rarely answers questions on the future direction of SSEs. In the chapter, the author, for the most part, raises unique questions such as the driving factor of investors attracted to SSE-like platforms, the profiles of SSE-listed ventures and the regulatory, legal and policy implications (Wendt, 2022, p. 74). With a broad range from linking sociology

and economics to the legal and regulatory implications of SSEs, it appears as though the author is ticking all the boxes. The questions, however, have no single scope-driven direction, leaving readers in a lurch (Wendt, 2022, pp. 77–78). What is more, they are left unanswered, framed as areas needing future research.

Instead of bringing together holistically the possible direction of SSE research, the author escapes into recommending an "ecosystems" approach to SSEs, resulting in a stark juxtaposition. Instructive as they are, the recommendations come across as abrupt and haste. Readers would have had better clarity in appreciating the recommendations in Chapters 3 and 4 as one seamless idea. For example, in suggesting a unifying underlying framework based on the UN SDGs, the author could have linked this with the ecosystems approach of harmonising listing criteria. The ideas ring sonorously as one whole but are unfortunately explored in parallel.

In the final chapter, the author pens down the main contributions of her work. The author first insists that SSEs have great growth potential, particularly for social enterprises, and are a useful instrument for private investors, but caveats that SSEs are still at an early stage, among others. Her contribution, she argues, has implications for the overall impact investment marketplace, which is only achievable through fully understanding the landscape, secondary markets and related investment opportunities. Readers can only conjecture that this book fits in this receptacle, though perhaps not quite as neatly as the author assumes.

8. Conclusion and Concluding Remarks

In conclusion, the strengths of this book lie in setting the context of SSEs in the EU region, differentiating SSEs from their conventional counterpart, as well as mapping the future of SSEs. In the initial chapters, the author establishes a clear narrative of how the current EU Taxonomy lays a strong foundation for SSEs due to the standardisation borne from the unified classification system. The author then reveals the weaknesses in the current impact investment frameworks and standards and builds the case for SSEs. Towards the latter chapters, the author coherently draws comparisons with conventional stock exchange and works towards recommending the determinants for long-term success and recommending an ecosystems approach. The progression of these chapters reasonably ensures that readers grasp the role of SSEs in the impact investment space. Equally important, in setting out the determinants of success such as a universal underlying framework based on UN SDGs and recommending an ecosystems approach, the author offers a well-articulated roadmap for the future of SSEs.

Be that as it may, throughout the book, the author appears to take a Eurocentric tone, makes sweeping observations and lacks depth in some

portions. In the early chapters, the appraisal of Asian taxonomies pales in comparison to the depth in which the author examined the EU Taxonomy. A similar tone is seen in the latter chapters when the author compared current and "future" SSEs, seeming to view the UK SSX model more positively and dismissing the now-prominent Indian SSE. Some chapters, on the other hand, appear rushed and underdeveloped. In chapter 2.11, for example, the author misses an opportunity to expand on the premise of added visibility that SSEs give to social entrepreneurs. Other chapters have noticeable oversights, such as the omission of criticisms against the "blueprinting" of conventional stock exchanges to structure SSEs. As for the latter pages on determinants of long-term success and recommendations, the author could have better linked the ideas and more expansively fleshed them out.

The book, despite its gaps and missed opportunities, proves a useful introduction to SSEs for its target audience. The author's choice of examining SSEs specifically and housing the analysis within the larger context of impact investment, ESG and the changing landscape of finance, is novel and more importantly, effective in context-building for readers who are less familiar with the role of SSEs. On a micro-level, the book helps understand the difference between key concepts such as impact investment versus ESG. On a macro-level, for the larger finance industry and stakeholders, the findings in this book aid in understanding the development of SSEs as a social finance innovation. More particularly, regulatory agencies, for instance, would be able to distinguish SSEs from other alternative financing mechanisms. As for impact funders, NGOs and social enterprises, the book, with its short length, provides a friendly but comprehensive view of the need for SSEs in future. In practice, the challenges identified in the current SSEs and recommendations would prove useful in the framing and design of unique SSE frameworks and potentially creating a unified framework, be it regionally or globally. For academicians whose research interests this book meets, the book helps gain a preliminary but moderately comprehensive perspective on SSEs and provides an opportunity for future research in areas such as the regulatory, legal and policy implications of SSEs and the wider context of impact investing. Broadly, the book caters to all its potential readership in equal measure.

Overall, as the only identifiable source of its kind on SSEs, the book gives a wide-lens view that would appeal to a large readership. In less than 100 crisp pages, the author implores readers to take a dimensional view of SSEs, beyond the purely financial fixation of stock exchanges and the disparate nature of current social finance solutions. Encouraging interdisciplinary inquiry—finance, social welfare and law—this book is a unique addition to the social finance literature with a broad appeal globally and now in Malaysia.

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