Frontiers of Entrepreneurship Research

Volume 35 | Issue 15
CHAPTER XV. SOCIAL ENTREPRENEURSHIP

Article 7

6-13-2015

FINANCING SOCIAL ENTREPRENEURSHIP: EVIDENCE FROM THE PANEL STUDY OF ENTREPRENEURIAL DYNAMICS (SUMMARY)

Diana M. Hechavarría
University of South Florida, USA, dianah@usf.edu

Maija Renko
University of Illinois –Chicago, USA

Jill Kickul
New York University, USA

SUMMARY

FINANCING SOCIAL ENTREPRENEURSHIP: EVIDENCE FROM THE PANEL STUDY OF ENTREPRENEURIAL DYNAMICS

Diana M. Hechavarría, University of South Florida, USA
Maija Renko, University of Illinois –Chicago, USA
Jill Kickul, New York University, USA

Principal Topic

With an estimated $6 trillion expected to be directed toward social enterprise organizations by 2052, entrepreneurs and venture philanthropists are experimenting with a variety of forms of social ventures that generate economic, social, and/or environmental benefits (Fulkerson & Thompson, 2008). Research has highlighted critical issues surrounding financing of social enterprises (Shaw and Carter, 2007) and concluded that traditional financial theories do not provide an adequate framework to understand the financing of social ventures. Thus, there is a real gap in our understanding of how social entrepreneurs are actually financing their nascent ventures. The traditional approach to financing non-profit social ventures is through grants, fundraising and limited use of debt, while for-profit ventures get funding through market-rate private equity and debt (Emerson et al., 2007). However, while Tiku (2008) and Fulkerson & Thompson (2008) highlight that more institutional sources are beginning to provide debt and equity investments to social entrepreneurs. Accordingly, we aim to investigate what kinds of funding entrepreneurs exploiting socially driven opportunities versus financially driven opportunities are using. Building upon research that investigates entrepreneurial founding teams (Ruef et al., 2003), we draw on the concept of the entrepreneurial group (Ruef, 2010). An entrepreneurial group can be described as the set of actors who actively support the creation of a new organization (Ruef, 2010). By applying an inductive framework and the entrepreneurial group perspective, this study examines how various attributes of the start-up impact the funding choices executed at the earliest stages of venturing. In sum, we investigate the following research questions:

1. Does the kind of opportunity (socially driven versus financially driven) relate to the kinds of financing utilized by start-ups?;

2. Do entrepreneurial group characteristics affect the kinds of financing utilized by start-ups?;

3. And finally, does the kind of opportunity (social versus financial) modify the relationship between entrepreneurial group characteristics and start-up financing?

Method

Data for this study is taken from the Panel Study of Entrepreneurial Dynamics I and II (PSED I/PSED II). We examine the start-up capital structures by comparing socially motivated entrepreneurs to financially motivated entrepreneurs and entrepreneurial group characteristics. We follow Renko (2013) and distinguish social start-ups and financial start-ups based on the first response to "why do you want to start this business?" Altogether, we identified 86 cases where the first response was socially motivated and 294 financially motivated cases (total n = 380). We also include several independent variables capturing team dynamics in line with the entrepreneurial group perspective, as well as control variables linked to firm characteristics and strategy. Our main dependent variable is the use of debt/equity in early funding.

Results and Implications

Using robust regression, our study finds that ownership structure significantly impacts the capital choices of start-ups. Particularly, female majority owned start-ups are significantly more likely to use equity than debt when venturing than debt to finance the early start-up stage However, when female majority owned start-ups pursue socially oriented opportunities, they are more likely to use debt than equity. Moreover, start-up teams with higher levels of industry experience and start-up experience are considerably more likely to use debt than equity to finance their start-ups when they are pursuing socially oriented ventures, compared to financially oriented ventures. Overall, we find that compared to financially motivated entrepreneurs, social entrepreneurs are more likely to use leverage debt at the earliest stages of venture development. Together with emergent theorizing, these empirical results provide a basis for a theoretical model on social venture seed funding. Social entrepreneurship finance is an exciting new frontier and research in this area can assist social entrepreneurs succeed and scale their ventures.

CONTACT: Diana Hechavarria; dianah@usf.edu; (T) +1-513-417-5850; Muma College of Business, University of South Florida; 4202 E. Fowler Ave, Tampa, FL 33620.