WHERE MONEY AND MEANING INTERSECT FOR SOCIAL ENTREPRENEURS AND INVESTORS: AN ECONOMETRIC APPROACH TO UNDERSTANDING INVESTOR DECISIONS (SUMMARY)

Jill R. Kickul  
*New York University - Stern School of Business, jkickul@stern.nyu.edu*

Mark Griffiths  
*New York University, Stern School of Business*

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SUMMARY

WHERE MONEY AND MEANING INTERSECT FOR SOCIAL ENTREPRENEURS AND INVESTORS: AN ECONOMETRIC APPROACH TO UNDERSTANDING INVESTOR DECISIONS

Jill R. Kickul, New York University, Stern School of Business, USA
Mark Griffiths, New York University, Stern School of Business, USA

Principal Topic

“Where money and meaning intersect” is becoming the mantra for a new generation of many entrepreneurs and investors. With an estimated $6 trillion expected to be directed toward social enterprise organizations by 2052, entrepreneurs and venture philanthropists are experimenting with hybrid forms of social ventures that generate economic, social, and/or environmental benefits. The purpose of our paper is to provide a new perspective in understanding how best to segment and manage both the supply of and demand for capital by those ventures pursuing such hybrid models. With a theoretical foundation (Beach, 1990) in conjunction with an economic lens focusing on how social investors screen and invest, our study makes three important contributions:

1. Identify which decision criteria are most important in both the screening and decision stages of investment choice across a spectrum of social investors seeking to maximize their social gains, financial returns, or both.
2. Identify important different decision criteria for determining the final investment choice for different types of social investors.
3. Identify segments of social investors that make investment decisions in different ways.

Method

From earlier research, we have identified a rich array of decision criteria that comprise facets of the social venture. To examine the process by which social investors screen and make their final choices, a selective group of two hundred were surveyed. We then use Discrete Choice Modeling (DCM) to examine the importance of each choice attribute in the final investment decision. We provide the social investors with stylized scenarios that focus on the remaining attributes identified in the second selection phase. We use the LIMDEP, an econometric software program to estimate (Multinomial Logit) MNL choice models to reveal which attributes differ between social investor groups seeking to maximize their social and financial returns, or both.

Results and Implications

By utilizing a two-stage research design and methodological framework, we have the opportunity to uncover important differences in how investment criteria are considered, selected, and then used by social investors. This information can then be utilized to design strategies for social entrepreneurs seeking equity funding, tailored to how investors select and ultimately choose to invest in social firms - selection and choices that can impart invaluable information and have significant implications on how social entrepreneurs tactically pursue such funding for the development and continued growth and scalability of their ventures.

CONTACT: Jill R. Kickul; jkickul@stern.nyu.edu; (T): 212-998-0079; 44 W. 4th Street, NYU-Stern School of Business, New York, New York 10012.