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SOCIAL INVESTING – WHAT MATTERS FROM THE PERSPECTIVE OF SOCIAL ENTERPRISES? (SUMMARY)

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SUMMARY

SOCIAL INVESTING – WHAT MATTERS FROM THE PERSPECTIVE OF SOCIAL ENTERPRISES?

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Principal Topic

In the arena of social investing new investment approaches have emerged, which focus on a double bottom line and have adopted approaches from the venture capital industry towards funding social enterprises. Due to their long-term commitment as well as extensive non-financial support, these investors enter into a close relationship with the social enterprises funded. In addition, investors also claim certain oversight rights. This highlights the importance of a personal and professional fit of investors and investees. Scholars that study the relationship of social investors and social enterprises all focus on the perspective of social investors and how they are selecting their investment targets, although due diligence is a two-way street. Our aim is to take the perspective of social enterprises by analyzing criteria used in order to evaluate investors.

We test criteria that relate to supportive as well as oversight activities of social investors. Support is covered along the criteria network access and business advisory services. Oversight functions refer to information rights and control rights. In addition, we consider reputation of the investor as a potentially relevant factor for evaluating investment offers.

Method

We used conjoint analysis in order detect how the elaborated criteria jointly drive the evaluation of investors by social enterprises. 16 profiles of social investors were presented to participants, who rated their attractiveness. For data analysis we applied Hierarchical Linear Modeling. The experiment has been conducted with 40 founders or chief executives of social enterprises across Europe. In an additional analysis we controlled for the effect of experience by splitting our sample into: novice and experienced entrepreneurs.

Results and Implications

Overall we find, that all criteria besides information rights significantly influence the evaluation of social investors. Reputation is by far the most important criterion and participants attributed a higher importance to supportive aspects as compared to oversight activities. When splitting our sample we observe that experience severely influences the judgment: Novice entrepreneurs perceive supportive aspects as most important, while experienced entrepreneurs do not seem to perceive these as value adding and attach the highest importance towards reputation. We hypothesize that experience with social investors might induce a disillusioning effect.

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