FINANCING SOCIAL ENTREPRENEURS: PHILANTHROPIC VENTURE CAPITAL vs. FOUNDATIONS (SUMMARY)

Mariarosa Scarlata  
ESADE – URL, Spain, mariarosa.scarlata@esade.edu

Luisa Alemany  
ESADE – URL, Spain

Recommended Citation
Scarlata, Mariarosa and Alemany, Luisa (2008) "FINANCING SOCIAL ENTREPRENEURS: PHILANTHROPIC VENTURE CAPITAL vs. FOUNDATIONS (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 28: Iss. 21, Article 8.  
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss21/8

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SUMMARY

FINANCING SOCIAL ENTREPRENEURS: PHILANTHROPIC VENTURE CAPITAL vs. FOUNDATIONS

Mariarosa Scarlata, ESADE – URL, Spain
Luisa Alemany, ESADE – URL, Spain

Principal Topic

In recent years, philanthropic venture capital (PhVC), a new way of financing social entrepreneurs, has captured a great interest within the philanthropic and venture capital (VC) communities. Triggered by the work of Letts, Ryan, and Grossmann (1997), PhVC started to emerge as an attempt to apply the strategies and techniques developed within the VC industry to social purpose enterprises. In this context, philanthropic venture capitalists (PhVCs) act as intermediaries who raise funds from wealthy individuals, enterprises, and/or foundations, to be invested in operating activities with a potentially high social impact.

Although debate on this topic may be found in the VC and philanthropic communities, academics have yet paid little attention to it. As such, no common definition of PhVC exists and no clear boundaries of PhVC financing have been drawn. The key aims of the paper are a) to define PhVC and philanthropic venture capitalists (PhVCs); b) to formulate four hypotheses aiming to test whether, how, and to what extent the typical for-profit venture capital (VC) model, as described by Gompers and Lerner (2001), can be applied to PhVC as well.

Method

This study focuses on the investment model adopted by US and European PhVCs. In order to identify the focal point organizations, we consult the respective venture philanthropic associations, i.e., NVCA in the case of the US and EVPA for Europe, Morino Report (2001), and John (2006). By analyzing secondary sources we report preliminary results concerning how the VC model is applied to PhVC.

Results and Implications

Our research shows that we fail to reject the hypotheses that PhVCs do not behave like VCs during the screening and the monitoring phases of investment. However, we were not able to examine how much control rights PhVCs retain in the social enterprises they support or to analyze the exit strategies and the latter’s performance.

CONTACT: Mariarosa Scarlata; mariarosa.scarlata@esade.edu; (T): +34 625 991 409; ESADE – URL, Barcelona, Spain.