HOW DO PHILANTHROPIC VENTURE CAPITALISTS CHOOSE THEIR PORTFOLIO COMPANIES? (SUMMARY)

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SUMMARY

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Principal Topic

In recent years, philanthropic venture capital (PhVC) has developed as a new financing model for social entrepreneurship. First presented by Letts et al. in 1997, PhVC is the application of the venture capital (VC) strategies and techniques to the financing of social enterprises (SE). Like venture capitalists (VCs), PhVCs have developed specialized abilities in selecting entrepreneurial projects. However, while VCs select deals in terms of shareholder value maximization (Amit et al., 1998), PhVCs engage in a partnership aiming at maximizing social impact. Because of the few PhVCs and the high engagement philosophy, a limited number of SE receive support after a tough selection process. Despite the growing interest in PhVC, no study has investigated its selection. Specifically, it is unclear: a) which variables are considered; b) their degree of importance; and c) the relationship with VC variables (Kaplan and Stromberg, 2000). Additionally, no research exists on whether different types of PhVCs consider different screening variables and the existence of differences in US and European selection process.

Method

A web-based survey sent to the US and European PhVC population in October 2008 is used. To this respect, 34 US PhVCs and 40 European PhVCs were identified through the US and European Associations (NVCA and EVPA) and other reports. Results are analyzed on a descriptive statistical level and through cluster analysis.

Results and Implications

PhVCs originate and select deals like traditional VCs. However, they also adopt different deal origination criteria, i.e., incubation and direct creation of an organization if a suitable one is not found. Furthermore, selection variables such as “deal terms” and “technology” are not considered to be as important as in the case of venture capital. This research makes several contributions. On an academic level it is the first exploratory study on selection issues, and it aims at building theory on the topic at hand. On a professional level, it provides social entrepreneurs with a guideline when applying for PhVC funds. It also clarifies whether PhVCs behave like VCs in the screening process. The implication of this finding could be of importance as, if this is the case, VCs could transfer their expertise to the social sector.

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