INSTITUTIONAL ENVIRONMENT AND INSTITUTIONAL INNOVATION IN SOCIAL ENTREPRENEURSHIP: EVIDENCE FROM THE INVESTMENTS OF EUROPEAN VENTURE PHILANTHROPY FUNDS (SUMMARY)

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INSTITUTIONAL ENVIRONMENT AND INSTITUTIONAL INNOVATION IN SOCIAL ENTREPRENEURSHIP: EVIDENCE FROM THE INVESTMENTS OF EUROPEAN VENTURE PHILANTHROPY FUNDS

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Principal Topic
All forms of social entrepreneurship need to achieve their social missions through well-defined solution models, and the literature has underscored the institution-building dimension of solution models adopted by social purpose organizations (Austin et al. 2006; Mair and Marti, 2006; Zahra, 2008). The notion of institutional innovation, however, gives rise to a theoretical puzzle, defined as the paradox of embedded agency (Holm, 1995; Seo and Creed, 2002). That is, while the hostility or inadequacy of institutional environment justifies the creation of institution-building social ventures, unfriendly or resource-constraint institutional environment may threaten the very survival and growth of those change agents. The question then becomes how social investors, particularly the emerging venture philanthropy funds, make investment decisions on institutional innovations. Do they follow the same logic of business investors to prefer investments in institution-building organizations only in supportive contexts? Do different dimensions of institutional environment have different impacts on investment choices?

Method
We collected data from a unique database containing 410 investments made by 22 leading European venture philanthropy funds from 1995-2009. To identify institutional innovations, we developed a coding scheme to conduct content analysis on the investment documents and other supporting materials. We define institutional innovation as a planned change on the rules of the game that involves field-wide stakeholders. More specifically, changes in four areas—law and policy, public service infrastructure, financing and loan system, and international trading system—are treated as institutional innovations. For institutional factors, we obtained data from the World Bank database, the World Value Survey, the CIVICUS Civil Society Index and the United Nations Human Development Index.

Results and Implications
Venture philanthropy funds in our sample preferred to invest in institution-building organizations in countries where it is difficult to start a business and difficult to enforce contracts. Meanwhile, following the intuitional support logic, institutional innovations appear to attract more social investors where there is more public spending and the voluntary culture is more established. By developing and empirically testing the notion of intuitional innovation, our study indicates that venture philanthropy funds seem to follow a different logic from that of business investors.

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