SOCIAL VENTURE CAPITAL FIRM STRATEGY: SOCIALNESS OF INVESTMENTS AND PERFORMANCE (SUMMARY)

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VENTURE CAPITAL

ADING

SUMMARY

SOCIAL VENTURE CAPITAL FIRM STRATEGY: SOCIALNESS OF INVESTMENTS AND PERFORMANCE

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Principal Topic

Social innovations are solutions related to humanistic needs and the betterment of mankind with the intent of creating social value and eventual societal level changes. This research examines venture capital firms engaging in social innovation i.e., through the adoption of socially oriented missions, strategies, and values. Our main research question is: What is the relationship between the mission of social venture capital firms, the socialness of portfolio companies they invest in, and firm performance? The VC firms included in the sample have voluntarily selected a blended value based mission for the betterment of society, and are salient examples of social innovation. Our research contributes to the understanding of a relatively new phenomenon of social investing in the capital markets sector by venture capital firms.

Method

The sample consists of VC firms that have been identified as being social through external categorization or self-selection. These sources include the National Venture Capital Association categorization, the Research Initiative in Social Entrepreneurship (RISE) publication on double-bottom line VCs, and the U.S. Sustainable Investing Foundation’s (USSIF) list of social VC funds. Data sources included VC and portfolio company websites, and performance information from the ThomsonOne Private Equity Database. The PE database is based on both self-reported information as well as secondary data (i.e., press-releases and other news media).

We tested hypotheses on the effects of the socialness of the mission statement of the social VC firm, the socialness of the portfolio company mission statement being invested in, the moderating effects of the specificity of the social VC mission statement, and the overall performance of the VC firm. Content analysis was be used to measure the degree of socialness and specificity.

Results and Implications

Results indicate that the socialness of the VC mission statement does influence on the socialness of the portfolio companies being invested in. Additionally, the specificity of the VC mission statement does influence the VC-portfolio company relationship. This research has several implications. First, by its integrating social innovation with existing theoretical frameworks, we further theoretical development of social innovation. Second, this investigation contributes to the venture capital research stream by adding to the limited work on social VCs. Finally, this investigation demonstrates alternate methodological approaches that may be useful for sample validation, such as content analysis. The findings may be useful in future research on social VC firms and help in understanding the social orientation of entrepreneurial firms.

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