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Assessing Mission and Resources for Social Change: An Organizational Identity Perspective on Social Venture Capitalists' Decision Criteria

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Social venture capitalists (SVCs) have emerged to provide a new source of funding for social entrepreneurs. Building on organizational identity theory, we examine how the dual identity of social ventures grounded within the social and entrepreneurship sectors prompts SVCs to value the resources and goals of both sectors. We use policy capturing to study the decision rules of 44 SVCs, finding that criteria of both sectors influenced SVC assessments, and entrepreneurial sector criteria were relied on most strongly in these assessments. Furthermore, not all SVCs evaluate social ventures similarly; their social investment focus influences their emphasis on social and entrepreneurial sector criteria.

Introduction

The study of entrepreneurship has become a research phenomenon within the study of organizations. Social entrepreneurship has developed as a subfield within entrepreneurship; it focuses on the identification, evaluation, and exploitation of opportunities that yield a social return (Alvord, Brown, & Letts, 2004; Austin, Stevenson, & Wei-Skillern, 2006; Dees, 1998). Possessing characteristics of both commercial ventures and nonprofit organizations, social entrepreneurship is "a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs" (Mair & Martí, 2006, p. 37).

The growth of social entrepreneurship and the needs of social entrepreneurs have spurred the development of social venture capital, a new funding source that has gained

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increased media attention (BusinessWeek, 2007; New York Times, 2006; SmartMoney, 2007). Representing more than 6% of the venture capital (VC) market, this innovative source of funding has transformed the way social entrepreneurs are able to gain resources (Hockerts, 2006; Reis, 1999; RISE, 2003). While prior research has examined VC assessments of profit-seeking ventures (MacMillan, Siegel, & Narasimha, 1985; Riquelme & Watson, 2002; Sandberg & Hofer, 1987; Shepherd, 1999), scholars have called for research to understand the funding behaviors of social venture capitalists (SVCs) who invest in social ventures (Austin, 2006; Certo & Miller, 2008; Randjelovic, O'Rourke, & Orsato, 2003).

The funding decision rules of SVCs are unique because of the dual organizational identities of the ventures that they assess. Organizational identity is defined as the shared and collective sense of an organization and is typically singular in focus (Albert & Whetten, 1985). However, the organizational identity of a social venture is intrinsically dualistic because it borrows distinctive elements from both the social and commercial sector (Pharoah, Scott, & Fisher, 2004; Pratt & Foreman, 2000). Thus, it is unclear whether SVCs value criteria similarly or differently than traditional nonprofit funding agencies or commercial VCs.

This study examines the criteria used by SVCs to assess social ventures. We argue that attributes unique to social ventures such as social mission, an entrepreneur's passion for social change, and community-based network are critical assessment factors. We also assert that SVCs will balance the former attributes with more entrepreneurial and commercial concerns such as business experience, income generation, innovation capabilities, performance measurement, and educational prestige. Using a multilevel model developed under the theoretical context of organizational identity theory (Albert & Whetten, 1985), our analysis reveals that resources and goals associated with the social and entrepreneurial sector are important criteria used by SVCs who fund social ventures. We extend previous research by showing that the investment focus of the SVC organizations may also influence their identification and emphasis on social and entrepreneurial sector criteria.

This research contributes to entrepreneurship literature by empirically examining the VC funding processes of the social venture, and answers the call for additional research into the decision rules of SVCs (Austin et al., 2006; Nicholls, 2006). In addition, this research sheds light on key debates within the area of social entrepreneurship. Researchers have debated the necessity for social ventures to be self-sufficient by generating earned income and having the ability to yield social value with commercial profit (Boschee, 2001; Dees & Anderson, 2003a; Oster, Massarsky, & Beinhacker, 2004). Moreover, scholars continue to debate whether ventures whose social goal is not central to the mission of the organization should be categorized as social entrepreneurship (Dees, 1998; Seelos & Mair, 2005). We attempt to answer this call for more understanding into how earned income and social mission influence perceptions of effectiveness of social entrepreneurship through investigating how SVCs value these characteristics (Austin et al., 2006). We also explore the tension between dual identities in social ventures and how it influences SVC decision heuristics. We examine how SVCs balance the resource needs and goals of both the social and entrepreneurial sectors. Furthermore, we use organizational identity theory to show that not all SVCs are alike but that their emphasis on the social and entrepreneurial sector criteria can be predicted by the degree of their social investment focus. The results should inform researchers on how SVCs' decision criteria compare with those of traditional VCs.

This article proceeds as follows. First, we briefly introduce the phenomena of social entrepreneurship and social venture capital. Next, we develop hypotheses regarding the social sector and entrepreneurial criteria considered by SVCs. We follow with a discussion of the sample and methodology used in the study. Finally, we conclude by reviewing and discussing the results and providing future directions, contributions, and conclusions.

Entrepreneurship and the Social Venture

With its roots in both the fields of entrepreneurship and public organization, social entrepreneurship has gained increased attention among researchers and practitioners (Dees, 1998; Mair & Martí, 2006). It focuses on ventures that address problems innovatively and uses business skills to exploit opportunities for social returns. Moreover, the hybrid nature of such ventures borrows from the social and the entrepreneurial sector and is the hallmark of social entrepreneurship (Thompson, Alvy, & Lees, 2000).

Social entrepreneurship has its core foundation in the field of entrepreneurship and unites traditional views of opportunity exploitation with social mission. In fact, management and entrepreneurship are the top two disciplines that have contributed to the study of social entrepreneurship, representing 30% of the citations and 37% of the publications, the greatest of any discipline (Short, Moss, & Lumpkin, 2009). Venkataraman (1997) suggests that entrepreneurship is about recognizing and exploring entrepreneurial opportunities. Similarly, social entrepreneurs identify opportunities to address an underserved social market or to provide services in a different and/or more efficient manner to affect a community in a positive way. Social entrepreneurs have an acute understanding of social needs (the demand side) and create the supply through creative organization. While there are similarities between traditional and social entrepreneurship, substantial differences separate the two. Traditional entrepreneurial ventures focus upon exploiting opportunities for entrepreneurial rent generation. In social entrepreneurship, opportunity exploitation centers on either generating rents for use in the promotion of a social mission or seeing an opportunity to serve underserved populations to promote a social mission (Dees, 1998). Further, other scholars regard social entrepreneurship as an avenue for social transformation rather than economic reward (Alvord et al., 2004; Mair & Martí, 2006).

Despite their efforts to make changes in society, social entrepreneurs face constant challenges to fund their social ventures (Tracey & Jarvis, 2007). Declining long-term government grants and aid combined with the instability of philanthropic giving forces social ventures to find a solution that allows them consistent cash flow without continuous fund-raising (Boschee, 1995). Thus, social entrepreneurs have turned to an alternative source of capital.

The Role of Social Venture Capital in Social Entrepreneurship

The 1990s marked the beginning of a radical change in funding social ventures through the development of the social venture capital market (Perrini & Vurro, 2006; Reis, 1999). Social venture capital (also called patient capital or venture philanthropy) uses a new model for funding social ventures. Like commercial venture capital, this model allows the entrepreneur to exchange involvement in the operations for continued funding as SVCs often invest through equity in the early stages of social ventures using limited liability corporations or partnerships (Pepin, 2005; RISE, 2003). Also similar to traditional venture capital funding, SVCs earn a rate of return between 21 and 35% for their investment, yet for SVCs the return is also social (Pepin; RISE, p. 28).

As of 2002, more than 40 venture philanthropy organizations existed in the United States, with a capitalization over $400 million including seven that invest more than $1 million annually (Venture Philanthropy Partners, 2002). The National Venture Capital Association recognizes venture philanthropy as a subgroup within its organization. The average SVC investment is around $1 million, invested in a number of industry sectors from healthcare to transportation and in other social and environmental areas (RISE, 2003). SVC organizations such as the Acumen Fund, the Roberts Enterprise Development Fund (REDF), and Venture Philanthropy Partners provide financial resources, consulting, and interorganizational relationships to support social ventures. They fund these ventures because of their desire to become involved in a community and for the opportunity to invest time, money, and resources into promising social ventures. SVCs' support of social ventures usually lasts 3 to 5 years, and fewer exit opportunities are normally available compared with traditional ventures. As a result, great effort goes into the assessment and selection of the social ventures within a portfolio (Jegen, 1998; Pepin, 2005).

While they often have limited deal flow compared with traditional venture capitalists, SVCs have developed decision rules to evaluate the potential effectiveness of social ventures (Jegen, 1998; RISE, 2003). They decide in which opportunity to invest their resources based on several general criteria (MacMillan et al., 1985; Riquelme & Watson, 2002; Sandberg & Hofer, 1987; Shepherd, 1999). For example, REDF's Enterprise Development Manager states that they have amassed knowledge and developed investment rules that have been codified over time through comparing the successes and failures of social ventures (Social Enterprise Reporter, 2008). Similar to traditional venture capitalists, SVCs have little information with which to judge whether organizations have the capacity to reach their goals, so they look to the resources and goals of organizations to assess their attractiveness (Tyebjee & Bruno, 1984). However, the funding decisions of SVCs are even more complex because of the challenges in assessing organizations with dual identities. Dual or pluralistic identity suggests "different conceptualizations exist regarding what is central, distinctive, and enduring about the organization" (Pratt & Foreman, 2000, p. 20). Social entrepreneurship inherently embraces distinctive qualities borrowed from the social and entrepreneurial sector, yet the primary goals and resources of these two sectors are often different (Dees, 1998; Golden-Biddle & Rao, 1997; Pharoah et al., 2004; Tracey & Phillips, 2007). Their goals, resources, and subsequent strategies borrow elements from both sectors (Dees & Anderson, 2003b). Thus, it is often necessary for these organizations to hold a pluralistic identity to maintain legitimacy among its many stakeholders (Pratt & Foreman, 2000). As a result, when assessing social ventures, SVCs may look for signals of identity plurality to provide evidence of resources and organizational missions to address both social sector and entrepreneurial sector needs.

Social Sector Decision Criteria

We suggest that SVCs will come to rely on social sector goals and resources to assess effectiveness. To do this, they evaluate the venture's social mission, the entrepreneur's passion for social change, and his or her community-based social network to judge the venture's potential effectiveness.

Social Mission. Within social entrepreneurship, the social mission is the foundation and catalyst for an organization. An organizational mission embodies the most fundamental signs of an organization's identity and its ultimate goal—who it will serve and how (Bart, Bontis, & Taggar, 2001; Ireland & Hitt, 1992; Perrini & Vurro, 2006). Bart (1996, 1997) found that organizational mission influences organizational innovativeness and performance because it helped motivate workers toward a goal. Moreover, Dees (1998) noted that the dedication to the mission of creating and sustaining social value is what distinguishes organizations in the social sector from those in the commercial and traditional entrepreneurship sector. Embedded in social venturing is a mission to serve society and to create outcomes that benefit others (Dees). The birth of this mission leads to the creation of a social enterprise to support a community need. The virtue of the social mission is linked to a moral legitimacy that justifies the support of a social entrepreneurial venture (Dart, 2004). Organizational identity and goal theory suggest that an organization's self-definition influences its motivation to act, and research has found that mission also influences new venture performance (Bart et al.; O'Gorman & Doran, 1999).

Some debate the degree to which the social mission is important to the social venture in comparison to its economic goals (Dees, 1998; Seelos & Mair, 2005). Yet most scholars recognize that there are different levels of focus on the social mission among social ventures, often capturing social entrepreneurship on a continuum of social and financial goals (Peredo & McLean, 2006). Alter (2006) argues that social ventures may have various levels of focus on a social mission ranging from "mission centric," where the sole purpose of organization is to solve a social need, to "unrelated" to mission, in which profit is the major motive and the social need fulfilled is periphery. Tracey and Phillips (2007, p. 267) suggest that mission-unrelated activities may ". . . create dissonance and interfere with critical processes of organizational identification on which much positive behavior depends." As perceived dissonance between organizational activities and the social mission increases, conflicts will arise over executive roles, allocations of funds, and appropriate strategies (Foreman & Whetten, 2002; Golden-Biddle & Rao, 1997; Voss, Cable, & Voss, 2006). This is particularly important to SVCs who are concerned about "mission drift" or decreasing focus on the social mission (Hockerts, 2006). Since a social mission is an important attribute of a successful social venture, it should affect SVC perceptions.

> **Hypothesis 1:** SVCs' assessments of the probability of effectiveness are positively related to the level of focus on a social mission.

Passion for Social Change. While SVCs are likely to evaluate the mission of a social venture, they are equally likely to judge a social entrepreneur's fervor for social change. As Baum, Locke, and Smith (2001) found, passion is necessary for entrepreneurs to further build on their knowledge and acquire additional skills and competencies. Because social entrepreneurship is mission-related, internal values and motivation largely drive the entrepreneur to achieve the social mission of the venture (Dees, 1998; Handy, 2002; Hemingway, 2005). Boschee (1998) comments that the social entrepreneur's passion, clarity of purpose, and commitment are conditions necessary to create the internal drive and commitment for a cause.

Baum et al. (2001) and Baum and Locke (2004) found that tenacity and passion were positive traits associated with entrepreneurs, and an entrepreneurial vision was significantly associated with entrepreneurial motivation and venture growth. In fact, Charles Handy (2002, p. 122), an organizational behavior scholar who has funded several social organizations, suggests that "passion was a word that cropped up in every interview, a passion for what they were doing, whether it was starting a business, creating a theatre company, or reviving a run-down community." Hemingway (2005) and Boschee (1998) note that individual personal values may drive the entrepreneur to take action. Likewise, the venture capitalist's own morals and ethics may be aligned with the entrepreneur and serve as the impetus for funding the venture. Therefore, social entrepreneurs with high levels of perceived passion should receive higher assessments of probable effectiveness than social entrepreneurs who do not display a high level of passion.

Hypothesis 2: SVCs' assessments of probability of effectiveness are positively related to the social entrepreneur's level of perceived passion for social change.

Community-Based Social Network. Within the area of social entrepreneurship, successful entrepreneurs must use their social network in a community to catalyze change and gain support for their mission (Alvord et al., 2004). Social capital within a network represents the valuable assets embedded in social relationships (Nahapiet & Ghoshal, 1998). It is the sum of social resources embedded in a social relationship, yielding benefits of referral, timing, and information (Burt, 1997; Coleman, 1988). Leadbeater's (1997) theory of social entrepreneurship suggests that social venturing begins as an individual's social network within a community is used to garner resources for the less fortunate in society. Extending this work, Peredo and Chrisman (2006) explain that social capital is a vital ingredient in the emergence of community-based enterprises. Larger networks present greater opportunities to gain resources and survival (Baum & Oliver, 1991; Nahapiet & Ghoshal). Social entrepreneurs may exploit their network to enlist volunteers to devote time and money to the organization, to maintain or fund operations, and to undergird initiatives (Haugh, 2007; Thompson, 2002). In fact, the venture creation process is often socially catalyzed and community-led, making community-based networks a critical resource (Haugh, 2007).

Thus, a social entrepreneur's community network is especially important because the resources needed to create value and support the community are embedded within the community network (Thompson, 2002). An example of social entrepreneurs using their social network to further the mission of their social venture is Jeroo Billimoria's Childline, an emergency hotline for homeless children in India. Billimoria's strategy for building the organization started with forging partnerships with local organizations and community leaders. The REDF (Social Enterprise Reporter, 2008) noted that "a strong community presence gives the executive director awareness of the context in which an organization operates and a network to influence larger change." The REDF's statement about the importance of social networks is consistent with our hypothesis that SVC assessment of effectiveness should be higher for social entrepreneurs with larger community-based social networks.

Hypothesis 3: SVCs' assessments of probability of effectiveness are positively related to the size of the social entrepreneur's community-based social network.

Entrepreneurial Sector Criterion

In addition to social sector criteria, SVCs will also value the goals and resources of the traditional entrepreneurial sector. A social venture's potential effectiveness and impact is often judged by the following five criteria: (1) the venture's innovation capabilities; (2) the business experience of the entrepreneur; (3) earned income or sustainability goals; (4) the elite education level of the social entrepreneur; and (5) the methodology used to measure the social venture's performance.

Innovation Capabilities. At the heart of the entrepreneurship is innovation, which is instrumental in the firm's ability to capitalize on knowledge to create new products or services and generate economic returns (Schumpeter, 1934). As a result, past research has linked innovativeness of the organization and its products or services to the success of entrepreneurial organizations (Lumpkin & Dess, 1996; Zahra & Covin, 1995).

Like commercial entrepreneurship, innovation is also a fundamental capability of social ventures (Roberts & Woods, 2005; Short et al., 2009). For example, Dees (1998,

p. 4) suggests that social entrepreneurs "play the role of change agents in the social sector by . . . engaging in a process of continuous innovation, adaptation, and learning." Innovations in the social sector may occur at the product, service, or process level. For example, the social venture Better World Books developed an innovative process for reselling donated books online to fund social programs for literacy.

Social entrepreneurship emerged because of an unfulfilled need by traditional social organizations; therefore, the replication of practices and processes of existing organizations is inadequate to address social ills unless the best practices and the most innovative solutions are imported from existing organizations (Austin, 2006). An exploratory study by Alvord et al. (2004) tied the most recent and noteworthy social entrepreneurial ventures striving for societal transformation to the innovative capacities of its founders and the organizations they led. Randjelovic et al. (2003) found that SVCs viewed the lack of innovativeness or market breakthroughs as the major reason some eco-ventures failed to receive funding. Entrepreneurs that are radically innovative in their approach often produce ventures that generate social value by creating ways to solve problems that throughout time have been unsolvable (Young, 2006). Therefore, high innovation capabilities are a desired trait among social entrepreneurs and they influence assessments of a venture's likelihood of effectiveness.

> **Hypothesis 4:** SVCs' assessments of probability of effectiveness are positively related to the social venture's innovation capabilities.

Management Experience. A key characteristic of social entrepreneurship borrowed from the entrepreneurship sector is its emphasis on the business knowledge and skills of the firm's workforce (Dees, 1998). An entrepreneur's management experience is often a signal of knowledge and know-how, and experience has also been an important predictor variable in traditional VC funding (Becker, 1964; Cooper, Gimeno-Gascon, & Woo; 1994; Hitt, Bierman, Shimizu, & Kochhar, 2001). Past scholars have also shown how entrepreneurial and management experience is linked to perceptions of the likelihood of success by investors and is positively associated with new venture growth and survival (see Barringer, Jones, & Neubaum, 2005, for a review; MacMillan et al., 1985; Shepherd, 1999).

Because social entrepreneurship has been characterized by the application of business skills (Boschee, 1998; Dees, 1998; Leadbeater, 1997) and the strategic use of resources (Dees; Mair & Martí, 2006; Thompson et al., 2000) to provide solutions to societal needs, management experience is likely of high importance to SVCs. Management experience may signal entrepreneurial intent, success, decision quality, and capacity to meet both economic and social goals (Perrini & Vurro, 2006). For example, Acumen, a New York based social venture capital organization, states that their investment criterion focuses on established management experience that would enable an entrepreneur to carry out their vision and grow the venture (Acumen Fund, 2008). Because successful social entrepreneurs need to deftly apply business principles, their management skills are desirable to SVCs.

> **Hypothesis 5:** SVCs' assessments of probability of effectiveness are positively related to the social entrepreneur's level of business experience.

Earned Income Goals. In the entrepreneurial sector, the ability to create and sustain income is normally the hallmark of a venture capitalist's assessment for funding a new commercial venture (Hall & Hofer, 1993; Shepherd, 1999). These resources can help entrepreneurs manage doubt in the early stages of the venture and are positively related to venture growth (Cooper et al., 1994; Lussier & Pfeifer, 2000; McQueen, 1989). While income generation is not an assumed goal of many social ventures, a social venture's ability to exist with minimal external funding through earned income is often a required characteristic or a critical objective of SVCs (Alter, 2006; Boschee, 2006; Boschee & McClurg, 2003; Dart, 2004).

Some argue that having both social value and profitability is important for social entrepreneurs because it lessens their dependence on outside sources of funding and allows the profit-generating segment to fund nonprofit social activities (Boschee, 2001; Emerson & Twersky, 1996; Weisbrod, 1998). However, others suggest that economic value should be a limited concern for social entrepreneurs because earned income introduces tension that may affect decision making (Foster & Bradach, 2005; Pharoah et al., 2004; Seelos & Mair, 2005).

Nevertheless, SVCs may inherently value the capacity of an organization to create profits because it provides an easier exit strategy and demonstrates self-sufficiency. The Acumen Fund (2008) states that it requires "a clear business model that shows potential for financial sustainability within a 5- to 7-year period, including the ability to cover operating expenses with operating revenues." As a result, a social venture that generates profit will align itself with a VC's cognitive perception of a legitimate new venture and be perceived as more effective (Dart, 2004).

> **Hypothesis 6:** SVCs' assessments of the probability of effectiveness are positively related to the social venture's goal to generate earned income.

Educational Prestige. Venture capitalists often assess the potential of a new venture by evaluating the personal attributes of its founders (Barringer et al., 2005). Human capital represents the knowledge and skills of an individual (Hitt, Bierman, et al., 2001) and can develop into an entrepreneur's competitive advantage by facilitating the identification of entrepreneurial opportunities and development of innovative ideas (Hitt, Ireland, Camp, & Sexton, 2001). Education is viewed as part of an individual entrepreneur's human capital and can be used to acquire resources for the new venture (Dimov & Shepherd, 2005).

The source of education can play a major role in the perceptions by the venture capitalists of the social entrepreneur. Education affiliation with an elite university may provide a signal to the VC that the entrepreneur is a person of high caliber and can provide a meaningful basis for social categorization (Bigley & Wiersema, 2002; Useem & Karabel, 1986; Westphal & Bednar, 2005). Thus an important prestige base for professionals is prior attendance at elite institutions as attendance at such universities confers positive status and reputational effects upon the individual (D'Aveni & Kesner, 1993). Positive social stereotypes may form (D'Aveni; Domhoff, 2002) and may lead to favoritism in selection processes (Useem & Karabel; Westphal & Bednar) for the acquisition and distribution of resources.

Entrepreneurs who are alumni of elite schools can leverage an additional source of human capital based on their educational affiliation (which may be unavailable to others) to assist in conducting the necessary entrepreneurial activities for the new venture (Dimov & Shepherd, 2005). Like traditional ventures, social ventures also require the use of human capital to facilitate social entrepreneurial activity. From fund-raising to operations, an entrepreneur's human capital facilitates the proper execution of the actions necessary for the survival and development of the social venture. For instance, social entrepreneurs can leverage their elite education affiliation to solicit other alumni to fund their social venture and base their interactions on belonging to the same social group (Domhoff, 2002). Likewise, a social entrepreneur can leverage the reputation and social status of an elite education affiliation to solicit for resources from people with whom they do not share the same affiliation. The elite educational institution's reputation for producing graduates of high caliber signals to the resource provider that an entrepreneur with such a background has a higher likelihood of being successful than people who lack such a background. Therefore,

> **Hypothesis 7:** SVCs' assessments of the probability of effectiveness are positively related to the social entrepreneur's levels of elite education.

Performance Measurement. The business model of VCs is to reap a significant return on investment through the firm's growth and financial performance in order to compensate for the extraordinary risk involved in venture capital funding. With only 35–55% of new ventures receiving VC funding meeting VC success criteria, VCs are forced to invest in a portfolio of high-risk ventures that have extraordinary potential to produce great entrepreneurial rents (Zacharakis & Meyer, 1998). Thus, traditional VCs must be keenly aware of performance of firms in their portfolio as this influences the portfolio of their own organization. Each individual firm in the portfolio must be monitored and provide evidence of continued organizational performance. The use of financial benchmarks (e.g., return on assets, return on equity, and book value, among others) is the bedrock of economic organization (Baruch & Ramalho, 2006; Walton & Dawson, 2002) and for the VC, these performance indicators provide the information necessary for judging whether their investment is (or will be) profitable. Such measures used to measure performance include metrics tied to profitability, financial success, production efficiency, sales, market share growth, and quality (Baruch & Ramalho). Thus, performance measurement is crucial to traditional entrepreneurship (as well as to established for-profit ventures) and for the venture capital community.

While the venture capital community has institutionalized benchmarks that are used to judge the viability of new ventures that solicit their resource support, social ventures struggle with quantifying their impact upon the community. Historically, social ventures have been slow to adopt robust and strong metrics for measuring performance, and these measures have been less standardized and more idiosyncratic to the particular organization, leading to more uncertainty as to the value created. Pepin (2005) notes that SVCs are results oriented and have a strong performance orientation; consequently, they are likely to ask for business plans and performance projections from those social ventures soliciting resource support. Consequently, social entrepreneurs have an increasing responsibility to communicate their current and future performance results to stakeholders such as VCs supporting their social venture. As a result, today's social entrepreneurs are borrowing concepts from the business world and now present a more systematic approach in order to make stakeholders more confident, informed, and educated on the value produced by the venture. In fact, Oster et al. (2004) suggests that there is a new market consciousness for social ventures whereby the value proposition and theory of making a social change is important; an understanding of the desire impact and the incorporation of a means of measurement of that impact are equally crucial. Boschee (1998) implores social ventures to ensure that they plan and robustly measure social and financial performance to ensure the continued success of the social venture. Social entrepreneurs who develop strong performance measurement methodologies are more likely to establish their venture as legitimate with stakeholders such as venture capitalists (Mair & Martí, 2006).

> **Hypothesis 8:** SVCs' assessments of the probability of effectiveness are positively related to the strength of the venture's performance management methodology.

The Impact of SVC Investment Focus upon SVC Assessments

Although normatively all SVCs will draw from both social and entrepreneurial sectors, we believe that they will not all assess social ventures in the same manner. The venture capital organization may have its own identity that influences the extent to which its SVCs emphasize decision criteria. Thus, identity plurality is not solely a characteristic of the social entrepreneur. In fact, their hybrid investing model can also characterize SVCs since they borrow tools from the entrepreneur sector and merge them with social sector goals (Jegen, 1998; Perrini & Vurro, 2006; Reis, 1999). However, the dual identity of SVCs creates a tension that may only be alleviated by strengthening identification with one sector or the other. As Jegen (p. 189) writes, "inevitably there will be a tension between social and financial goals, and at some point every SVC will have to choose between higher financial returns and the fund's social agenda."

Researchers have suggested that the difficulty of managing multiple identities often prompts organizations to choose a dominant identity and discard organizational attributes that are unnecessary for organizational functions (Pratt & Foreman, 2000; Whetten & Godfrey, 1998). Similarly, social venture capital organizations may ease decision making by creating a more dominant identification with either the social or entrepreneurial sector. For instance, Young (2006) found that funding agencies for social ventures had distinct identities whereby some are more altruistic toward social ventures and others enact more entrepreneurial strategies and desire a tangible economic or social return on investment. As a result, SVCs may value various criteria based upon their conscious or unconscious identification with the accepted funding models of the social or entrepreneurial sectors. In fact, past research shows that the experiences and cognitive orientation of VCs do influence funding decisions (Franke, Gruber, Harhoff, & Henkel, 2008; Shepherd, Zacharakis, & Baron, 2003).

Therefore, we also investigate how SVC identification based upon their investment focus impacts their assessment of venture effectiveness. The National Venture Capital Organization (2008) suggests that VCs may have an investment focus that specializes in industries or sectors. This is often the case with SVCs, as some may only fund social ventures and others may have portfolios that are more heterogeneous. SVCs that focus investments solely in social ventures may identify themselves differently from organizations that have more diverse investment funds.

We anticipate that the greater investment focus of an SVC on social ventures, the more emphasis the SVC will place on social sector criteria: social mission, passion for social change, and community-based networks. A survey of the entrepreneurship literature reveals that focus on mission is rarely cited as one of the three most important criteria of traditional VCs assessing venture proposals. This suggests that SVCs that evaluate commercial ventures more often will value the social mission of the venture less (Franke et al., 2008). However, in the eyes of an SVC who solely funds social ventures, social mission is the foundation that will drive and sustain the social venture and is thus of greater concern than profitability. The SVC's own morals and ethics may also align with the social sector and serve as the impetus for funding the venture. Thus, it may influence the SVC's emphasis on ventures that are purely socially focused. One would expect VCs who have a history of funding social ventures to value more highly an entrepreneur's passion for social change than would a traditional VC. In addition, SVCs who specialize in funding social ventures are often focused on making an impact in their communities (Pepin, 2005) and are more likely to emphasize community-based networks. Therefore,

Hypothesis 9: The greater the SVC investment focus on social ventures, the higher the venture capitalists' assessments of the probability of effectiveness as related to the level of (a) the venture's focus on a social mission, (b) the social entrepreneur's level of perceived passion for social change, and (c) the size of the social entrepreneur's community-based networks.

SVCs that solely fund social ventures are also less likely than their counterparts to value entrepreneurial sector criteria: management experience, innovation capabilities, earned income, educational prestige, and performance measurement. The experience of deal flows outside the social sector gives SVCs with more heterogeneous funds more affinity for entrepreneurial sector criteria. Therefore, these SVCs will value entrepreneurial sector criteria more than SVCs with a great focus on social ventures only.

On the other hand, those SVCs with greater investment focus on social ventures should value the entrepreneurial sector less than their traditional VC counterparts. In the entrepreneurial sector, innovation is often associated with whether a venture capitalist will fund a new venture because it may predict economic returns (Baum & Silverman, 2004; MacMillan et al., 1985). However, while social entrepreneurship's hallmark may be the innovative manner in which social problems are addressed, the social sector's primary concern is solving social ills and not deriving entrepreneurial rent from innovation. Therefore, SVCs may emphasize innovation capabilities less. While SVCs use management experience and educational prestige as a proxy for the quality of the entrepreneur, they may be more lenient with respect to such experience and education as it may be industry-specific or differ significantly from experiences and education specific to the social venture. Instead, these SVCs may be more drawn to experiences that provide the internal motivation to set up a new venture. Thus, their emphasis on management experience and educational prestige should be less. In addition, we would also expect that the greater the social investment focus of the SVC is, the less likely he or she will view a profit motive that exists alongside a social motive as favorable because of the potential for conflicting priorities and mission drift. Moreover, their insistence upon a social entrepreneur having a predefined method to measure organizational performance may lessen based upon the SVC's increased experience of supporting social ventures. Therefore, we suggest that,

Hypothesis 10: The greater the SVC investment focus on social ventures, the lower the venture capitalists' assessments of the probability of effectiveness as related to (a) the social venture's innovation capabilities, (b) the social entrepreneur's management experience, (c) the social venture's goal to generate earned income, (d) the social entrepreneur's educational prestige, and (e) the social venture's performance measurement methodology.

Method

Research Design and Sample

To analyze the data, this study employed policy capturing, a regression-based, quantitative method used to evaluate decision making by individuals, an instrument often employed in marketing, psychology, and organizational behavior disciplines (Aiman-Smith, Scullen, & Barr, 2002; Green & Srinivasan, 1990). In a policy-capturing study, a decision maker evaluates several profiles. Each profile has many variables—or cues—that are manipulated at various levels. Multiple regression is used to decompose the decision rules of respondents. Management and entrepreneurship scholars have used this method to evaluate characteristics that influence the strategic actions and decisions of corporate executives, venture capitalists, and other managers because it is considered an especially informative method (Alhorr, Moore, & Payne, 2008; Bruns, Holland, Shepherd, & Wiklund, 2008; Douglas & Shepherd, 2002; Priem, 1992; Shepherd, 1999; Zacharakis & Meyer, 1998). Therefore, because this research explores how decisions are made using information, policy capturing is used to evaluate the hypotheses.

Construct validity is often a concern in policy-capturing studies. To ensure the construct validity of the policies captured, three steps were taken. First, two SVCs were invited to participate in semi-structured interviews to determine their understanding of the constructs and to establish realism in the profiles. During these interviews, they were asked about the decision criteria used to fund social ventures, and several control variables were identified. Next, the scaling of the cues and definitions were created and shared with graduate students and a VC to assess the clarity of the profiles. This information was used to create the questionnaire.

Because of the number of cues, a fractional factorial design was used to avoid fatigue (Karren & Barringer, 2002; Neter, Kutner, Nachtsheim, & Wasserman, 1996). This design ensures orthogonal cues and yields "the most stable and unambiguous estimates of the regression coefficients" (Aiman-Smith et al., 2002, p. 397). In addition, fractional factorial designs have been shown to be as reliable as fully factorial designs (Graham & Cable, 2001). Nevertheless, Aiman-Smith et al. note that there are often "start-up" effects associated with making decisions using a profile whereby respondents become more consistent in their decision-making process over time. Therefore, a practice profile was used to familiarize the process. In addition, five duplicate profiles were attached at the end of the survey to assess test–retest reliability but were not included in the analysis (Aiman-Smith et al.; Cable & Judge, 1994).

Forming the proper sample is important for obtaining accurate information on decision rules (Aiman-Smith et al., 2002). To assess the decision rules of SVCs, a sample of SVCs self-identified from membership lists of the National Venture Capital Association and SVCs identified in the Research Initiative in Social Entrepreneurship (RISE) publication on double-bottom line venture capital (RISE, 2003) was selected. For inclusion in the sample, organizations had to meet the following criteria. First, each organization must directly fund ventures on a competitive basis, which suggests that decision making on the ideal use of funds was necessary. Organizations that fund ventures through operation as an individual, angel investor, or foundation were excluded. Second, the organization must dedicate at least 10% of its assets to social ventures through equity. This is to ensure that responses of SVCs are informed from experience with social ventures. In addition, this investment must be used toward early-stage investing, another characteristic of venture capital funding. Finally, executives in these organizations must have experience and some decision-making authority in evaluating ventures for funding decisions. These criteria identified 274 program analysts and executives who made funding decisions on social ventures.

The SVCs in the sample were asked to participate in an experiment in which they were to evaluate profiles on social ventures and assess their probability of effectiveness. Their responses were used to identify the decision rules in assessing social ventures. Zacharakis, McMullen, and Shepherd (2007) note that "it is notoriously difficult to secure VC participation in academic research" (p. 697). As such, we took the following steps to solicit responses. First, we contacted each participant via voicemail to introduce ourselves and left a message outlining the purpose of the study and the anticipated time commitment. This method was chosen to minimize the intrusiveness of our solicitation for participation in the study. Next, questionnaires including a cover letter were sent to these individuals with instructions to evaluate each case for the probability of effectiveness of the venture based on the cues in each profile. We also allowed for response via an online survey instrument and emphasized that this was the preferred response method. To further increase SVC participation, gift cards of nominal value were promised to those that completed a usable survey (Dillman, 1991). Finally, follow-up emails and voicemails were left with nonrespondents after two weeks (Dillman).

Of the 274 SVCs we requested to engage in the study, 57 individuals began the survey, representing 20.7% response rate. Our response rate is similar to other studies using VCs as survey subjects. Response rates were 24% for Choi and Shepherd (2004), and 19% for Shepherd (1999), Shepherd, Ettenson, & Crouch (2000), and Shepherd et al. (2003). Of the 57 survey respondents, 44 completed usable surveys with the help of follow-up telephone calls from the authors to drive survey completion. Within the survey instrument, background information on the respondents was collected. Overall, the average respondent worked at venture firms that dedicated 79.5% of their funding to social ventures (standard deviation [SD] = 29.56), had an average budget of $61.36 million (SD = 121.05), was 38 years old (SD = 14.21), and had 6.03 years of experience evaluating social ventures (SD = 6.59).

Dependent Variable

Because mere "survival or growth of a social enterprise is not proof of its efficiency or effectiveness in improving social ventures" (Dees, 1998, p. 3), the dependent variable "probability of venture effectiveness" was used in this study. Effectiveness suggests that the venture will exist, become more autonomous, and deliver social value within 10 years (Dees). The variable was assessed using a seven-point scale, ranging from low probability of effectiveness to high probability of effectiveness. The variable was created and defined with the assistance of the aforementioned pilot SVC interviews.

Independent Variables

The independent variables of the study consisted of several cues related to the social venture. Each cue was scaled and consisted of three levels that reflected the standard deviation of the population. Each level was coded as a dummy variable.

The social sector criteria variables were:

1. **Focus on the Social Goal**. *High*—A social goal is very central to the organization and its business activities. *Moderate*—Business activities related to a social goal are moderately related to the organization's social mission. *Low*—The business is not intended to advance a social goal other than generating income for the organization's social programs and operating costs.
2. **Passion for Social Change**. *Strong*—Entrepreneur demonstrates a *strong* personal mission, commitment, and enthusiastic desire to change society. *Moderate*—Entrepreneur demonstrates a *moderate* degree of personal mission, commitment, and desire to change society. *Low*—Entrepreneur demonstrates very little personal mission, commitment, and desire to change society.
3. **Community-Based Network Size**. *Large*—Entrepreneur has a large network of professionals (lawyers, accountants, community leaders, public officials, and involvement in professional associations). *Medium*—Entrepreneur has a moderate network of some professionals (lawyers, accountants, community leaders, public officials, or involvement in professional associations). *Small*—Entrepreneur has a very small network with few professionals (lawyers, accountants, community leaders, public officials, or involvement in professional associations).

The entrepreneurial sector criteria variables were:

1. **Innovation Capabilities**. The literature on innovation capabilities and differences between the level of innovation was used to establish appropriate levels of innovation capabilities (Burgelman, 1996; Burgelman, Christensen, & Wheelwright, 2004). *High*—The product or service produces fundamental changes in the activities currently addressing this issue and represents a substantial departure from existing practices. *Moderate*—The product or service represents a small to moderate degree of departure from existing practices to address this issue. *Low/None*—The product or service does not depart from existing practices to address social issues.
2. **Management Experience**. *High*—The entrepreneur has worked in a high-level management or public sector position (VP and above). *Moderate*—The entrepreneur has worked in a mid-level management or public sector position. *None*—The entrepreneur has no management or public sector experience.
3. **Earned Income**. The mean percentage of earned income for social ventures was used as the midpoint for the cues (Boschee, 1998; Social Enterprise Alliance, 2008). *High*—More than 31% of the venture's revenue will be gained from earned income. *Medium*—Between 11 and 30% of the venture's revenue will be gained from earned income. *Weak*—Less than 10% of the venture's revenue will be gained from earned income.
4. **Educational Prestige**. *High*—The entrepreneur's undergraduate and postgraduate education is elite. *Medium*—The entrepreneur's undergraduate or postgraduate education is elite. *None*—Neither the entrepreneur's undergraduate nor postgraduate education is elite, or no higher education.
5. **Performance Measurement Method**. *Strong*—The venture uses established and tested methodologies for measuring social return that capture economic, social, and environmental returns (examples include but are not limited to Social Return on Investment, Triple Bottom Line Reporting, and Blended Value). *Moderate*—The venture uses qualitative and a few quantitative measures to measure their performance (e.g., number of people serviced, change in crime statistics). *Weak/None*—The venture offers little data to measure impact, past or present.
6. **Social Investment Focus**. To understand the investment focus and organizational identification of each SVC, we measured the percentage of the venture capital fund's investment portfolio that supports social ventures.

Control Variables

We included several control variables to account for effects on SVC. First, we control for VC characteristics. Previous studies have established that experience, position, and education of VCs may influence their decisions. Therefore, we controlled for "number of years of experience, level of job position" (1-Analyst/Senior Analyst; 2-Manager/Senior Manager; 3-Director; 4-CEO/President; 5-Partner), and "education" (0-High School; 1-Associate's degree or some college; 2-Bachelor's degree; 3-Master's degree; 4-Ph.D., JD, or equivalent). We also control for "VC gender" (1-Woman; 0-Man). In addition, our initial exploratory interviews with SVCs revealed that a weakness of many social ventures is their inability to quantitatively measure the social value they create, thus limiting their ability to communicate the quality of the venture. Ventures that quantify both economic and social returns for investors lessen the information asymmetries that exist between investors and entrepreneurs, thus increasing their chances of funding (Boschee, 2006; Young, 2006).

Analysis and Results

Because the data included multiple responses for each respondent, hierarchical linear modeling (HLM) was used (Aiman-Smith et al., 2002; Raudenbush & Bryk, 2002). HLM is recommended for policy-capturing studies because it allows analysis of data at the within-subjects level of analysis (Level 1) and between-subjects level of analysis (Level 2). In this study, Level 1 analysis focused on the slopes and intercepts for each SVC's ratings of venture effectiveness given the cues. Using this information, Level 2 analysis explores the effects SVC characteristics have upon these slopes and intercepts. The control variables associated with the new venture (a venture's performance measurement method and the prestige of the entrepreneur's education) is included in Level 1 of our model while the control variables associated with the SVC (SVC experience, education, and gender) were included as control variables in Level 2 of our model.

The reliability of SVC rating was analyzed using five repeated profiles. The reliability coefficient was .73. An ANOVA model was conducted on the dependent variable and the null hypothesis of no difference between SVC raters was rejected. The intraclass correlation reveals that 16% of variance in ratings occurs between raters. Thus, two levels of analysis are used.

The result of the HLM regression analysis in Table 1 shows the effects of Levels 1 and 2 control and independent variables on probability of venture effectiveness. Model 1 displays the effects of social sector criteria and controls. This model is used as a baseline to compare the variance explained between social sector criteria and entrepreneurial sector criteria, which are added in Model 2. Cross-level interaction effects are included in Model 3.

Hypotheses 1–3 predicted that social sector criteria, social mission, the passion for social change, and community-based network positively affect venture evaluations. Model 2 shows that a venture's focus on a social mission is positive and significantly related to probability of venture effectiveness (coefficient = .269, $p < .001$), supporting hypothesis 1. The entrepreneur's passion for social change is positively and significantly related to probability of venture effectiveness (coefficient = .202, $p < .001$). Therefore, hypothesis 2 is supported. Model 2 also shows that the entrepreneur's community-based network size is positively and significantly related to the probability of venture effectiveness (coefficient = .162, $p < .001$). Therefore, hypothesis 3 is supported.

Hypotheses 4–8 posited that SVCs use entrepreneurial sector criteria to evaluate social ventures. The results from Model 2 in Table 1 show that when innovation capabilities, management experience, earned income goals, performance measurement methodology, and educational prestige are added to the model, they explain an additional 47% of variance over social sector criteria. Hypothesis 4 proposed a positive relationship between the venture's innovation capabilities and the probability of venture effectiveness. Supporting Hypothesis 4, a positive and significant relationship between innovation capabilities and venture effectiveness was found (coefficient = .441, $p < .001$). Hypothesis 5 posited a positive relationship between the social entrepreneur's management experience and the probability of venture effectiveness. This hypothesis was supported (coefficient = .559, $p < .001$). Hypothesis 6 suggested that a venture's earned income is positively related to the probability of venture effectiveness. A significant and positive relationship was found in Model 2, supporting hypothesis 6 (coefficient = .428, $p < .001$). Hypothesis 7 proposed a positive relationship between the venture's performance management methodology and the SVC's probability of venture effectiveness. Model 2 shows that the social entrepreneur's educational prestige is

Table 1

Summary of Hierarchical Linear Models Predicting SVC Assessments of Probability of Venture Effectiveness

	Main effects model		Full model
	Baseline (model 1)	Both sectors (model 2)	Cross-level interactions (model 3)
Intercept	3.403 (.092)***	3.403 (.091)***	3.403 (.091)***
Focus on social mission	.251 (.050)***	.269 (.049)***	.269 (.047)***
Passion for social change	.162 (.046)**	.202 (.046)***	.202 (.041)***
Community-based network size	.181 (.045)***	.163 (.037)***	.162 (.037)***
Innovation capabilities		.441 (.038)***	.441 (.039)***
Management experience		.559 (.061)***	.559 (.055)***
Earned income		.428 (.060)***	.428 (.059)***
Performance management methodology		.286 (.046)***	.286 (.045)***
Educational prestige		.078 (.038)*	.078 (.039)†
SVC experience	−.003 (.016)	−.003 (.058)	−.003 (.004)
SVC job position	−.226 (.102)*	−.232 (.101)*	−.232 (.101)*
SVC gender	−.234 (.199)	−.308 (.197)	−.310 (.197)
SVC education	.067 (.163)	.013 (.162)	.014 (.162)
SVC investment focus	.001 (.004)	.002 (.004)	−.003 (.004)
SVC investment focus × focus on social mission			.003 (.002)*
SVC investment focus × passion			.005 (.001)**
SVC investment focus × network size			−.0004 (.001)
SVC investment focus × innovation capabilities			−.000002 (.001)
SVC investment focus × management experience			−.006 (.002)**
SVC investment focus × earned income			−.004 (.002)†
SVC investment focus × performance management methodology			.002 (.002)
SVC investment focus × educational prestige			−.0003 (.001)
R^2	.052	.52	.78

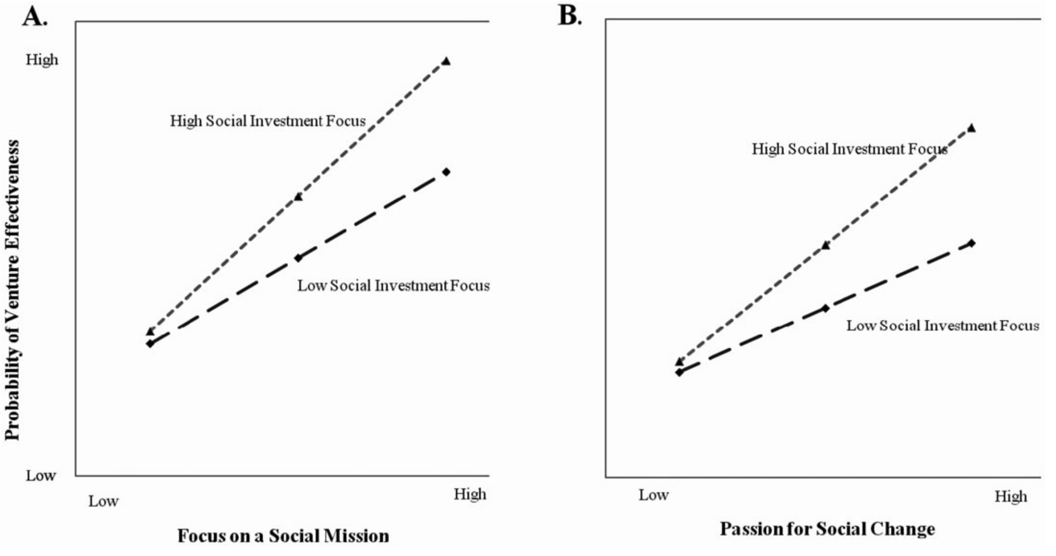
N = 1408.
* $p < .05$; ** $p < .01$; *** $p < .001$; † $p < .1$
DV, probability of venture effectiveness.

positively related to probability of venture effectiveness. Hypothesis 7 is supported (coefficient = .078, $p < .05$). The coefficient for performance measurement methodology is positive and significant (.286, $p < .001$), supporting hypothesis 8.

Hypothesis 9 stated that the SVC social investment focus positively moderates the relationship between (1) focus on a social mission, (2) passion for social change, and (3) community-based network size. These cross-level interactions were explored in HLM using an intercept and slopes-as-outcomes model. As shown in Model 3, the interaction between focus on a social mission and social investment focus is significant (coefficient = .003, $p < .05$). Figure 1A shows that when the SVC's social investment focus is high, the effect of focus on a social mission on the probability of venture effectiveness is strongly positive. However, when the SVC's social investment focus is low, the positive effect of focus on a social mission on the VC's evaluation is weakened. Therefore, hypothesis 9a is supported. The cross-level interaction between SVC investment focus on

Figure 1

Interaction of Percentage of Social VC FUNDS with (A) Focus on a Social Mission and (B) Passion for Social Change

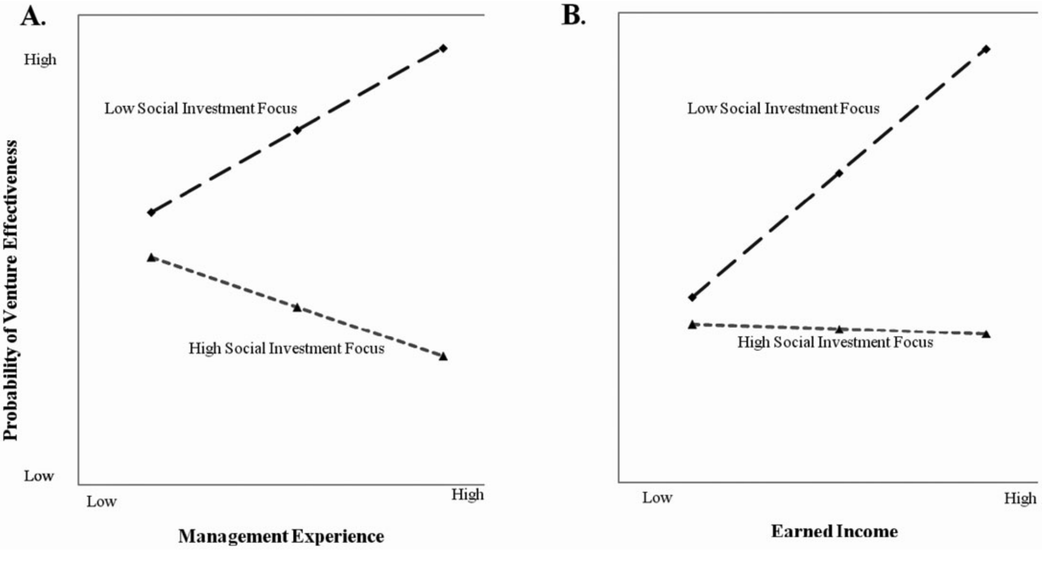


social ventures and passion for social change is significant (coefficient = .005, $p < .01$). Figure 1B shows that the SVC's social investment focus strengthens the positive relationship between passion for social change and probability of venture effectiveness. Thus hypothesis 9b is supported. The interaction between social investment focus and community-based network size was not significant. Therefore hypothesis 9c was not supported (coefficient = −.0004, $p > .10$).

Hypothesis 10 stated that the SVC's investment focus on social ventures negatively moderates the relationship between (1) innovation capabilities, (2) management experience, (3) earned income, (4) educational prestige, and (5) performance measurement methodology. Model 3 shows that the interaction of innovation capabilities and social investment focus is not significant (coefficient = .000002, $p > .10$). Therefore, hypothesis 10a is not supported. Some support was found for a significant cross-level interaction of social investment focus with management experience and with earned income (coefficient = −.006, $p < .01$; coefficient = −.004, $p < .10$, respectively). Figure 2A shows that when SVC social investment focus is low, the slope of management experience on the probability of venture effectiveness is positive. However, when SVC social investment focus is high, the slope between management experience and probability of venture is negative. Therefore, hypothesis 10b is supported. Figure 2B shows that SVC social investment focus weakens the positive relationship between earned income and the probability of VC effectiveness. Thus, there is some support for hypothesis 10c. No significant interaction was found for a cross-level interaction between SVC social investment focus and educational prestige or with performance measurement methodology (coefficients = −.0003, .002, respectively, $p > .10$). Therefore, hypotheses 10d and 10e are not supported.

Figure 2

Interaction of Percentage of Social VC Funds with (A) Management Experience and (B) Earned Income



Discussion

This study contributes to the entrepreneurship literature by exploring how social entrepreneurs receive funding and support through venture capital channels. An underlying assumption of our model is that a SVC's assessment of a new venture is based on decision criteria linked to successful characteristics of entrepreneurs and their ventures in both the social sector and entrepreneurial sectors. Specifically, we showed that both social and traditional entrepreneurial criteria are used by SVCs. We also explored whether the SVC's organizational identification influences the emphasis they place on social and entrepreneurial sector criteria.

This research examined the role of social sector criteria, social mission, passion for social change, and community-based networks on the venture evaluations of SVCs. We found the assessment of a new venture's social mission to be an important predictor of the probability of venture effectiveness as judged by SVCs. A social venture's mission defines the organization and the customers it serves, and reveals an organization's identity and goals. SVCs are also charged with assessing the efficacy of a social venture's mission to meet the needs of a community. As expected, ventures that mixed social and commercial goals in their mission were not viewed as favorably as those ventures whose social mission was the primary goal of the venture. In addition, those SVCs with a high social investment focus felt more strongly about the importance of the link between social mission and venture effectiveness. This suggests that not all social ventures were viewed equally based on their mission, and those organizations with peripheral social missions may be viewed as less effective.

In addition, we found that the passion for social change is an important characteristic of social entrepreneurs for SVCs. Passion for social issues drives the motivation to act and prompts entrepreneurs to work fervently toward a goal that addresses a societal need. Our findings suggest that SVCs favorably judge entrepreneurs who possess a strong passion for social change that reflects the SVC's identification to social issues and dedication to social change. In addition, the higher the SVC's social investment focus, the more the SVC emphasized the importance of a strongly passionate entrepreneur to have an effective social venture.

Finally, we also found evidence that community-based social networks influence SVC decisions. As expected, the social network of the entrepreneur was viewed as important to SVCs because of its role in catalyzing volunteers, managing public and private interest and support, and understanding and forming stakeholder relationships to address social problems (Leadbeater, 1997; Thornton, 1999). The size of an entrepreneur's network reflects the resources available to be leveraged for the venture. As expected, we found a strong positive relationship between community-based network size and venture effectiveness. However, when taking into account the investment focus of SVCs, we found that there was no difference between SVCs with high and low levels of social investment focus. This finding was unexpected and may show that the importance of community networks is recognized as equally important among all SVCs.

This research also studied the importance of traditional entrepreneurial sector criteria, such as management experience, innovation capabilities, earned income goals, educational prestige, and performance measurement methodology. First, we found that innovation capabilities are strongly associated with the probability of venture effectiveness. This is consistent with previous studies of entrepreneurship that have linked innovative use of assets and technology to the success of new ventures (Allen & Hevert, 2007; Florida & Kenney, 1988). Moreover, innovation capabilities are a resource most often associated with entrepreneurship and are strongly linked to funding decisions by venture capitalists (Baum et al., 2001; Lumpkin & Dess, 1996; Zahra & Covin, 1995). However, we hypothesized that the greater the SVC's social investment focus is, the less emphasis they would place on innovation capabilities. However, this was found not to be the case as it appeared that the SVC's investment focus had a statistically insignificant impact upon the importance of innovation in the assessment of the social ventures. This result is most likely due to the fact that innovation is the "hallmark" of entrepreneurship. A successful entrepreneur is a *de facto* innovator and this type of innovator transcends the investment orientation of the venture capitalist.

Our study also found that management experience positively influences SVC evaluations. Management experience has been shown in previous studies to be a strong indicator of new venture success and survival (Baum & Silverman, 2004; Hall & Hofer, 1993; Shepherd, 1999; Shepherd et al., 2000). Our results are consistent with research suggesting that the greater the entrepreneur's management experience is, the less likely the venture capitalist is to perceive the venture as uncertain. We also hypothesized—and found—that a high SVC social investment focus negatively moderated the relationship between management experience and new venture effectiveness. Consistent with organizational identity theory, an experienced manager may not identify with social causes as much as a less tenured manager, or they may have a dissonance between their own identity and that of the SVC. Thus, managers with a high level of experience may have attributes that are deemed less favorable by SVCs compared to those with less management experience. Workers in the social sector possess strong values and altruistic motivations related to their work as compared to managers in the for-profit sector. As a result, SVCs who have strong identities with the social sector may view individuals with many years of experience in managing for-profit firms as incompatible with the values, skills, and experience needed to manage a social venture.

In addition, while the importance and usefulness of earned income has been widely debated, studies show that earned income is a significant predictor of the probability of venture effectiveness for SVCs (Boschee, 2001; Emerson & Twersky, 1996; Foster & Bradach, 2005; Pharoah et al., 2004). Venture capitalists often judge the level of financial resources as a critical factor in deciding whether to fund a new venture as this is often the primary indicator of new venture growth (Shepherd, 1999). Many venture capitalists expect and often implement financial and operational benchmarks upon their portfolio companies in order to drive organization performance (Hall & Hofer, 1993; Shepherd; Shepherd et al., 2000). The result of the interaction between SVC's social investment focus and the utility of earned income are consistent with the traditional view of VCs and aligns with organizational identity theory. The greater the SVC social investment focus is, the less emphasis is placed on earned income for venture effectiveness. These differences among SVCs may also be illustrative of the debate on the usefulness of earned income within the social entrepreneurship literature.

Consistent with emerging research suggesting the importance of the perceived skill of the entrepreneur and robust performance metrics (Mair & Martí, 2006; Young, 2006), we found that both educational prestige and performance measurement methodology positively affect SVCs' evaluation of venture effectiveness. SVCs are influenced by the educational prestige of the entrepreneur, which likely signals a level of human skill and network contacts. It also appears that the ability to demonstrate results in a robust and detailed format increases the SVC's evaluation of venture effectiveness. While we hypothesized that SVC social investment focus would negatively moderate the relationship between both educational prestige and performance measurement methodology with the probability of venture effectiveness, there was no support for these hypotheses. It appears that there is no difference in both relationships in terms of emphasis on these by SVC investment focus. Thus, it may be that both sectors place an emphasis on the quality of a social entrepreneur's education and measuring a social venture's performance. This may be because of the considerable influence that prestige has on careers in all disciplines. In addition, because performance metrics have been institutionalized in the business world, its utilization may be taken for granted by SVCs that have more blended portfolios.

It is also interesting to note that entrepreneurial sector criteria accounted for 47% more of the variance in SVC decisions than for social sector criteria. This is important for researchers in the area of social entrepreneurship. While all criteria were significant predictors, it appears that an SVC's view of social entrepreneurship is strongly influenced by traditional commercial entrepreneurship. Nevertheless, 26% of the remaining variance in SVC decisions was accounted for by investigating the influence of the social investment focus upon the main effect model. This suggests that not only are the relationships contingent upon the investment focus of the SVC fund, but a social entrepreneur should target their venture capital solicitations based on how the venture aligns with social and entrepreneurial sector criteria.

Contributions, Future Directions, and Conclusion

The core contribution of this research is the insight it provides into the decision-making heuristics of venture capitalists funding social ventures with respect to the dual organizational identification of both social and entrepreneurial sectors. First, this research contributes to the social entrepreneurship literature by highlighting the tensions inherent in the dual organizational identity of social ventures (Albert & Whetten, 1985; Pratt & Foreman, 2000). A social entrepreneurship venture is by nature a hybrid organization, fusing identities drawn from both the social and entrepreneurship sectors. This research shows that SVCs acknowledge both sectors and use both criteria to evaluate social ventures. However, SVCs rely more on entrepreneurial sector criteria in their decision making. This finding also adds legitimacy to academic research, which has connected the field of entrepreneurship and public administration. Yet it also points to the need to bridge disciplines to answer important questions about social entrepreneurship (Alvord et al., 2004; Dees & Elias, 1998).

In addition, this research shows that SVCs may identify more closely with one sector, and this may influence their decision criteria. Our results support research on venture capitalists and how their cognitive orientations, experience, or identifications affect their decision making (Shepherd et al., 2003). In support of past research, we find that SVCs with greater percentages of social VC funds within their investment portfolios place more emphasis on social sector criteria and less emphasis on traditional entrepreneurial sector criteria.

Furthermore, this research sheds light on important debates within the area of social entrepreneurship. While some scholars have suggested that earned income is not an important aspect of social entrepreneurship (Foster & Bradach, 2005; Pharoah et al., 2004; Seelos & Mair, 2005), others have argued that as a core component of entrepreneurship, earned income cannot be ignored in the social sector (Boschee, 2001; Emerson & Twersky, 1996). Our findings are consistent with the latter argument. In addition, we show how the identification of decision makers influences the extent to which they value earned income, possibly explaining the extensive debate in the field around this subject. Another debate in the literature concerns the degree of focus needed on a social mission. While some organizations focus only on goals related to fulfilling a social need, others only address it secondarily. However, both are often conceptually classified as social entrepreneurship. This research shows that while VCs may be motivated by the returns of traditional ventures, they evaluate a venture's probable effectiveness more favorably when its focus is on a social goal. The greater the VC funds dedicated to social ventures are, the more important that mission is to the SVC's perception of social venture effectiveness. Again, we find that the identification of decision makers influences the extent to which they value the social mission.

Lastly, this research makes a related contribution to the expanding area of social entrepreneurship by answering calls for more empirical research and for more attention to be devoted to unresolved conceptual debates and issues (Nicholls, 2006). Most research on social entrepreneurship has been case-based studies (e.g, Alvord et al., 2004; Boschee, 2001; Emerson & Twersky, 1996; Thompson, 2002; Weerawardena & Mort, 2006), with a few exceptions (Shaw & Carter, 2007). The lack of empirical studies places limits on our understanding of important antecedents and outcomes of social entrepreneurship. Thus, this research provides empirical results and conclusions that can serve as impetus for further empirical work on funding processes in social entrepreneurship (Certo & Miller, 2008). Our empirical results also answer many questions on SVCs that have often been ignored in the traditional entrepreneurship literature. We hope that this research initiates a fruitful line of inquiry into social entrepreneurship funding via venture capital markets.

Future Directions and Conclusion

Future directions of inquiry based on this study might investigate whether SVC theories on social venture effectiveness have validity. Our study links entrepreneur and social venture attributes to the probability of effectiveness. However, a study might compare the criteria deemed important by SVCs with performance measures of social ventures. Future research might link such qualities to the success and survival of the social venture.

In addition, future research might examine how SVCs identify and handle underperforming ventures, which have traditionally been viewed as "living dead" investments (Ruhnka, Feldman, & Dean, 1992). SVCs do not feel that they are able to "walk away" from underperforming ventures because of their dedication to social issues (RISE, 2003). Therefore, research might also explore whether the increased accountability from venture capitalist funding affects performance both in the short term (during funding) and long term (after funding).

Future research may also explore the long-term performance and strategic implications of SVC funding. One limit on the use of this study is that we measure SVCs' opinions of venture effectiveness. Moreover, even with the support of venture capital, a new venture is not guaranteed to survive or much less be effective in its social mission. For example, Florin (2005) found that venture capital involvement did not improve post-IPO organization performance. Thus, further examining the implications of SVC funding is an important area of research. Further, SVCs' evaluations are perhaps a two-stage approach whereby SVCs first evaluate social sector criteria and then, when the threshold of adequacy is met on social criteria, they evaluate for entrepreneurial sector criteria. There are inherent limitations in our methodology for capturing this. However, future case studies might examine the structure and timing of how these decisions are made.

In conclusion, this study contributes to the entrepreneurship literature by investigating the often-ignored phenomena of social entrepreneurship. Through empirical examination of SVCs' evaluations, our results extend previous research on entrepreneurship and venture finance by focusing on the beliefs and heuristics used by venture capitalists to judge the effectiveness of entrepreneurial ventures seeking resource support. It is our hope that this study furthers the understanding of social entrepreneurship and that it may prompt new research directions.

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