Page Proof Instructions and Queries

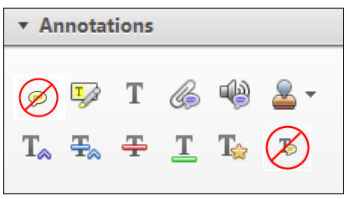
Journal Title: International Small Business Journal

Article Number: 574588

Greetings, and thank you for publishing with SAGE. We have prepared this page proof for your review. Please respond to each of the below queries by digitally marking this PDF using Adobe Reader.

Click "Comment" in the upper right corner of Adobe Reader to access the mark-up tools as follows:

For textual edits, please use the "Annotations" tools. Please refrain from using the two tools crossed out below, as data loss can occur when using these tools.



For formatting requests, questions, or other complicated changes, please insert a comment using "Drawing Markups."

Detailed annotation guidelines can be viewed at: http://www.sagepub.com/repository/binaries/pdfs/AnnotationGuidelines.pdf
Adobe Reader can be downloaded (free) at: http://www.adobe.com/products/reader.html.

No.	Query
	Please review the entire document for typographical errors, mathematical errors and any other necessary corrections, and check headings, tables and figures.
	Please ensure that you have obtained and enclosed all necessary permissions for the reproduction of artistic works (e.g. illustrations, photographs, charts, maps, other visual material, etc.) not owned by yourself. Please refer to your publishing agreement for further information.
	Please note that this proof represents your final opportunity to review your article prior to publication, so please do send all of your changes now.
1	Please check whether the article title is correct as set.
2	Please confirm that all author information, including names, affiliations, sequence and contact details, is correct.
3	'Polayni (1966)' is not listed in the references. Please provide reference details or delete the citation.
4	'Zarutskie (2009)' is not listed in the references. Please provide reference details.
5	Please provide expansion for 'IVs'.
6	Please confirm whether the given funding statement is correct.
7	Please provide publisher location details for 'Alter (2000)'.
8	Please check whether the inserted details are correct for 'Bell et al. (2010)'.
9	Please check whether the inserted details are correct for 'EVPA (2012)'.
10	Please check whether the inserted details are correct for 'Hair and Anderson (2010)'.
11	Please check whether the inserted details are correct for 'Morino (2000)'.

12	Please check whether the inserted details are correct for ‘Mulgan (2007)’
13	Please check whether the inserted details are correct for ‘O’Donohoe et al. (2010)’
14	‘Polyani (1967)’ is not cited in text. Please indicate where a citation should appear or delete the reference
15	Please note that the given URL in ‘Schwab (2009)’ does not lead to the desired web page. Please provide an active URL
16	Please check whether the inserted details are correct for ‘Stevens et al. (2014)’
17	Please check whether the inserted details are correct for ‘Stinchcombe (1965)’
18	Please check whether ‘John H. Muller Jr’ is correct as given

Full Paper

International Small Business Journal
1–19

DOI: 10.1177/0266242615574588
isb.sagepub.com
SAGE

The effect of founder experience on the performance of philanthropic venture capital firms

Mariarosa Scarlata
University of Surrey, UK

Andrew Zacharakis
Babson College, USA

Jennifer Walske
University of San Francisco, USA[AQ: 1][AQ: 2]

Abstract
This article assesses the relationship between the experiences of the philanthropic venture capital firm's founding team and the venture firm's subsequent economic, social, and total performance. Results indicate that commercial and social experiences help economic and social performance, respectively. However, when pursuing the maximization of both social and economic performance, philanthropic venture capital firms perform best when the founding team has high levels of commercial experience and low levels of social experience.

Keywords
experience, performance, philanthropic venture capital, social entrepreneurship

Introduction

Social entrepreneurship is a way of addressing societal needs through the employment of economically *sustainable* market strategies, which facilitate organizational longevity (Austin et al., 2006). However, focus on both social and economic outcomes creates organizational tension (Moss et al., 2011; Santos, 2012). On the one hand, the commercial activity might reduce attention to the firm's social mission, leading to mission-drift. On the other hand, too much emphasis on the social mission might, instead, lead to overlooking the economic factors that ensure financial sustainability.

Corresponding author:
Mariarosa Scarlata, Surrey Business School, University of Surrey, Guildford GU2 7XH, UK.
Email: m.scarlata@surrey.ac.uk

Because of this organizational tension, social entrepreneurship has attracted scholarly attention and evolved into a new field of study (Short et al., 2009).

Philanthropic venture capital (PhVC) is a new and innovative funding approach for social enterprises (SEs). PhVC applies the traditional venture capital (TVC) investment model (Gompers and Lerner, 2001; Tyebjee and Bruno, 1984) to the funding needs of SEs (Letts et al., 1997; Scarlata and Alemany, 2010). PhVC firms seek investments that are efficient, economically sustainable, and have measureable social impact. As such, just like the SEs they fund, PhVC firms are subject to organizational tension between social mission and economic objectives.

Additionally, the PhVC industry is still relatively young and small. Historically, it emerged in the late 1990s during and after the dot-com boom. Dissatisfied with the results obtained by traditional forms of charity to support social causes, many successful high-tech entrepreneurs adopted the principles and discipline of TVC. A report by the European Venture Philanthropy Association ~~(EVPA)~~ (2012) indicates that the total funding available in Europe alone for PhVC investing in 2011 amounts to €3.86 billion, with a median fund size of €11 million. Despite the fact that the PhVC industry has existed for more than 15 years, it is still in its early stages of development, with many firms small and struggling for survival (~~EVPA~~, 2012). Today, across both the United States and Europe, we have identified 70 independent PhVC firms (i.e. firms started by individuals, as opposed to being part of a larger institution, such as a bank or a corporation).

Although the PhVC industry is poised for high growth, it remains largely under-researched. Little is known about what it takes for PhVC firms to become successful, especially in light of the dualistic and competing nature of their organizational objectives. While we know that the knowledge created through experience matters for firm performance, this research has primarily focused on organizations pursuing economic returns, such as TVC firms (Dimov and Shepherd, 2005; Walske and Zacharakis, 2009; Zarutskie, 2010). O'Donohoe et al. (2010) suggest that PhVC firms need to be financially proficient and, at the same time, knowledgeable about the peculiarities of socially driven endeavors. The question, therefore, becomes whether experience in *both* commercial and social endeavors aids PhVC firms that seek dual performance outcomes.

Following the lead of studies in TVC that examine how prior founder experience impacts firm performance (Dimov and Shepherd, 2005; Walske and Zacharakis, 2009; Zarutskie, 2010), this research is one of the first attempts, to our knowledge, to delineate which experiences influence PhVC firm performance using a quantitative approach. Specifically, this article looks at whether the dualistic nature of founder experience, garnered in the commercial sector, social sector, or a combination of the two, leads to better investment performance. By delving into this topic, we inform scholars and practitioners alike about the success factors required to maximize both economic *and* social return in firms with dual objectives.

This article adds to the literature in a number of ways. First, entrepreneurship research on organizations pursuing dual objectives has mainly been conceptual and qualitative (Austin et al., 2006; Dacin et al., 2010; Short et al., 2009). While quantitative studies have analyzed the distinctive elements of social versus commercial ventures (Moss et al., 2011) or, very recently, validated measures of the economic and social component of SE mission (Stevens et al., 2014), our article is one of the first known quantitative studies to assess the *total performance* of dual-objective organizations, using the total performance measure conceptually elaborated by Zahra et al. (2009) and Emerson (2003). Second, beyond including traditional measures of commercial experience, we introduce and build an empirical measure for social experience and assess its effect on economic, social, and total firm performance. Third, given that PhVC is an emerging and fast growing field, it is likely that new firms will be formed in the coming years. As such, we provide early evidence as to which types of experience are most common and which relate to firm success. This is particularly interesting for investors committing capital to PhVC.

The article is structured as follows. First, we use Human Capital (HC) theory (Becker, 1964) to hypothesize how founder experience impacts firm performance. Second, we present the methodology applied to test these hypotheses, including sources and descriptions of the data. Third, we share the results of our empirical analysis and discuss findings. Finally, opportunities for future research are discussed.

The influence of experience on firm performance

The role of prior individual experience has long been of interest to HC Theory (Becker, 1964). According to Becker (1964), investments in HC – typically conceptualized as education and work experience – drive the formation of knowledge and skillset. The combination of knowledge and skills allows individuals to successfully perform relevant tasks, ultimately improving their economic conditions. Organizational scholars have further argued that HC, accrued through task-specific experiences, helps top managers select the knowledge most relevant for firm success, especially in cases where experience is both firm and industry specific (Kor, 2003). As such, variation in firm performance is driven by differences in the HC stock (Bamford et al., 1999; Beckman and Burton, 2008) and the specific and, often, tacit knowledge base this creates (~~Polayni~~, 1966). **[AQ: 3]**

In the entrepreneurship context, the experience garnered by new firm founders creates knowledge bundles that lead to the identification and exploitation of different entrepreneurial opportunities (Beckman and Burton, 2008; Beckman et al., 2007). Furthermore, the influence of firm founders is especially important in young firms, as these firms are striving to overcome their liability of newness (Stinchcombe, 1965), and such early 'imprints' shape future hiring and strategy (Beckman and Burton, 2008), creating a lasting influence on organizational evolution (Boeker, 1989) and performance (Gimeno et al., 1997).

While investigating experience in TVC firms, Dimov and Shepherd (2005) and Zarutskie (~~2009~~) prove that past work experience creates tacit knowledge and domain familiarity that helps investors develop accurate perceptions of risk, return, and investment opportunities. **[AQ: 4]** This accuracy, in turn, maximizes the TVC firm's economic performance. PhVC firms also follow the investment practices and techniques of TVC firms in that they screen and actively manage their portfolios of investments (Letts et al., 1997; Scarlata and Alemany, 2010). Also similar to TVC, PhVC organizations are 'top heavy', with organizational decisions and strategies being determined by a handful of senior partners and in our case, given the newness of the PhVC industry, founding partners.

In contrast to TVC firms, PhVC firms and the SEs in which they invest are also concerned with value creation, pursuing both social and economic aims (Austin et al., 2006; Santos, 2012). PhVC firms strive to garner a high social return on their investments by backing organizations that develop socially innovative market solutions *and* simultaneously employ economically sustainable market strategies. This is in contrast to TVC firms, which focus on what Santos (2012) defines as value capture (i.e. the appropriation of economic returns only). In other words, PhVC firms invest in social entrepreneurs who combine both social and economic goals when pursuing a particular entrepreneurial opportunity (Zahra et al., 2009), representing a combination of

> *Richard Branson* [serial entrepreneur, founder of Virgin Group, including Virgin Atlantic Airlines and Virgin Records music label] *and Mother Teresa* [Catholic beatified nun who established hospices and homes for the poor and the sick in India, Nobel Prize for Peace in 1997]. (Schwab, 2009)

Research on TVC firms has identified several prior experiences helpful in obtaining superior economic performance. Walske and Zacharakis (2009) and Zarutskie (2010) show that past venture

capital (VC) experience builds knowledge that enhances the firm's ability to raise capital, as the founder can point to prior investment success. Prior VC experience also aids founders in selecting higher quality investments and in knowing how to actively monitor them. Dimov and Shepherd (2005), Walske and Zacharakis (2009), and Zarutskie (2010) further indicate that finance experience facilitates the structuring of VC investments as it offers a rich understanding of market dynamics and financial instruments. Prior VC and finance experience is important in fundraising, deal structuring, and monitoring of investments, as well as negotiating subsequent rounds of investments with future co-investors (Walske and Zacharakis, 2009). In contrast, entrepreneurial experience helps when advising the investee on how to adapt to unexpected market developments. Entrepreneurship experience also potentially mitigates agency risk; investors who are former entrepreneurs are better able to detect opportunistic behavior among their investees. Finally, senior management experience helps VCs counsel their entrepreneurs on how to scale-up their organizations, ultimately resulting in increased portfolio firm value (Walske and Zacharakis, 2009; Zarutskie, 2010).

PhVC firms also want their investments to perform economically, ensuring that they are, at a minimum, economically self-sustaining. As such, commercial experience is helpful when advising portfolio companies on revenue generation strategies, deemed necessary to drive economic sustainability and, ultimately, ensure the SE's survival. Mair and Marti (2009) further stress the importance of economic sustainability, arguing that commercial practices are a necessary condition for the viability of firms that pursue both commercial and social objectives. Therefore, we argue that commercial experience is necessary for the PhVC firm's economic performance, leading to the following hypothesis:

> *Hypothesis 1*. PhVC founders that have higher levels of commercial experience have better economic performance than PhVC founders that have lower levels of commercial experience.

In comparison with TVC, PhVC firm founders have much higher levels of social experience, garnered in socially related endeavors (Scarlata et al., 2011). Such experiences are valuable because they demonstrate the PhVC firm founder commitment to the social mission of the investing activity. This, in turn, builds a PhVC firm's credibility (Moss et al., 2011), creating a narrative through which social progress can be demonstrated over time (Nicholls, 2009). Beyond being consistent with the firm's mission-related investment strategy, social experience creates a better understanding of the motivations and actions necessary to successfully address social problems. As such, experience garnered within government or development agencies enhances the PhVC founder's knowledge of the peculiarities of the sectors which generate positive externalities and improve social welfare (e.g., education and health). Since governments influence the process of societal change, either by dictating the rules of the social sector or by creating an ecosystem that finances it, knowing how governments think and operate is important to investors in the social sector. This experience ultimately helps with gaining knowledge on the ways through which funding for scaling up initiatives with social causes is ultimately deployed.

At the same time, 'governments often do not have enough knowledge to act, even when they have the resources and motivation to do so' (Santos, 2012: 342). Therefore, government experience should be accompanied by other social experiences. King (2004) argues that the management of a non-profit organization offers first-hand experience in the daily challenges that managers have to face while solving social problems. Having such experience allows founders to develop a deeper understanding of the societal challenges and the effectiveness of social programs (Oster, 1995). We extend this thinking to suggest that the founding of an organization with a primary social

aim further builds knowledge of how to address social causes through innovative strategies and solutions. Having these types of experiences may also allow individuals to more aptly mobilize ideas, capacities, and resources that are required in sustainable social transformations (Alvord et al., 2004). This leads to the formulation of the following hypothesis:

Hypothesis 2. PhVC founders that have higher levels of social experience will have better social performance than PhVC founders with lower levels of social experience.

Although PhVC firms seek both economic and social objectives, they do not look at these as separate objectives. PhVC firms, like the SEs they back, pursue *simultaneous* economic and social objectives (Chell, 2007). This requires possessing knowledge derived both from commercial and social environments. While there is scant literature on how commercial and social experiences can be combined into a single measure of performance, our argument is that if commercial experience spurs economic sustainability, and social experience cements a firm's commitment to its chosen social cause, then having both should lead to better total firm performance.

Building on Hypotheses 1 and 2, we expect that social experience, in conjunction with commercial experience, will further improve the PhVC firm's overall performance, as per the following hypothesis:

Hypothesis 3. PhVC founders that have higher levels of commercial and social experiences have better total performance than PhVC founders with lower levels of commercial and social experiences.

Methodology

To test our hypotheses, we focus on independent PhVC firms (i.e. firms started by individuals) and exclude non-independent firms (i.e. corporate and captive firms), consistent with research on independent TVC (Walske and Zacharakis, 2009). To identify PhVC firms, the following criteria had to be met: (a) investments must be directed toward SEs, (b) both capital and value-added services must be provided to investees, (c) social return measurement must be reported to their investors (as O'Donohoe et al. (2010) indicate, investors often use proprietary social performance measurements), and (d) the investment firm must market itself as addressing social issues.

Because PhVC is still an emerging industry, no official list of firms exists. We scanned several published sources including both US and European PhVC firms. PhVC firms were mainly identified through the US National Venture Capital Association (NVCA, 2012) and the ~~EVPA~~ (2012). To minimize potential under-coverage error, the previously identified PhVC firms were cross-referenced with the Morino Institute (2000) list for the United States and the John (2006) list for Europe. Furthermore, to ensure that we included the fullest possible population of PhVC firms in our dataset, we used a snowball sampling approach, asking those identified in these various lists and directories to identify additional firms that were not listed by these sources.

Through this process, we identified organizations that are clearly engaged with SEs but do not formally invest in them (e.g. consultancy firms and networks) and eliminated these non-investing organizations from our final population. After careful examination, we finalized a dataset of 70 PhVC firms, of which 26 are based in the United States and 44 in Europe. Given the emerging state of the PhVC industry, the population of active PhVC firms coincides with the population of first-time PhVC firms; these are all PhVC firms with first-time funds. While the mean founding year was 2002 for our population of PhVC firms, one firm was started in 1981. This firm has an evergreen fund, meaning that, despite its age, it is still a first-time fund. We ran tests, including and

Table 1. Descriptive statistics of PhVC firms – population and respondents.

	Population						Respondents					
	n	Mean	Median	Minimum	Maximum	SD	*n*	Mean	Median	Minimum	Maximum	SD
Year	70	2002	2003	1981	2011	5.369	43	2003	2004	1981	2011	5.372
Number of founders	70	1.471	1.00	1	4	0.689	43	1.488	1.000	1	3	0.631
Commercial experience	70	2.400	2.000	0	8	2.152	43	2.534	2.000	0	8	2.208
Social experience	70	1.000	1.000	0	5	1.174	43	1.114	1.000	0	5	1.283

PhVC: philanthropic venture capital; SD: standard deviation.

excluding this firm, and results were consistent in both cases. We kept this PhVC in our dataset to ensure the largest possible number of firms.

Due to a lack of public databases on PhVC, data on founders' experience were collected using the PhVC firm's website. We then consulted professional networks (e.g. LinkedIn and ZoomInfo) to further capture PhVC firm founders' prior work experience. Data on performance were collected in 2012 through a questionnaire, which was administered by either phone or email, depending on the interviewee's preference. We asked respondents about the economic and social performance of their portfolio of investments. We obtained 43 complete usable responses, corresponding to 61% response rate. Of these, 13 firms are based in the United States and 30 firms are based in Europe. Descriptive statistics of the population of PhVC firms and respondents are reported in Table 1. The mean founding year of the PhVC firms was 2002 versus 2003 for the respondent sample. Also, 1.471 founders started PhVC firms in the total population of firms, versus 1.488 founders in the respondent sample. For experience, the population of PhVC firms shows 2.4 founders with commercial experience versus 1.0 with social experience. These figures become 2.534 and 1.114 for commercial and social experiences, respectively, for respondents.

We performed different tests to determine potential non-response bias. In our dataset, the variables available for the entire population were the number of founders, the year the firm was created, commercial experience, and social experience. We performed a Chi-square test for difference on means, medians, and proportions for each of these variables. The Chi-square test was statistically insignificant, suggesting that non-respondent PhVC firms do not differ from respondent firms. To address Oppenheim's (1992) concern related to late respondents being similar to non-respondents, we compared early respondents to late respondents on the basis of the variables used to compare respondents and non-respondents. According to Oppenheim (1992), respondents are considered to be late when their response is obtained only after the first reminder. In addition, a test including the experience variables (which were available for both early and late respondents) was also conducted. The results from the Chi-square tests indicate that early respondents do not significantly differ from late respondents.

Measures and analysis

To test our hypotheses, commercial experience is measured at the firm level using the sum of prior work experiences of all firm founders, in keeping with prior management research (Beckman and Burton, 2008; Carpenter et al., 2003; Walske and Zacharakis, 2009). Commercial experience types are those found in published TVC research (Dimov and Shepherd, 2005; Walske and Zacharakis,

2009; Zarutskie, 2010), including VC, entrepreneurial, financial, senior management, and consulting experience. VC experience indicates that the person has previously worked in a TVC firm. Financial experience includes investment banking, options trading, foreign exchange management, commercial banking, and mutual fund portfolio management. Entrepreneurial experience was defined as founding a commercially motivated enterprise. An individual was coded as having senior management experience if he or she had been a Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Strategy Office (CSO), or Chief Financial Officer (CFO). Consulting experience includes prior work in strategic and management consulting firms. Each founder received a '1' for each experience type consistent with prior HC research (Beckman and Burton, 2008; Carpenter et al., 2003).

Social experience, at the firm level, is measured as the sum of the following prior work experiences of all the firm founders: positions within government or government agencies, management of an enterprise with a social aim, and founding of an enterprise with a social aim. An individual is coded as having government experience if he or she worked for a government branch or for international governmental organizations aimed at promoting economic development and social progress. Experience managing an organization with a primary social aim (a non-profit, for-profit, or hybrid) includes individuals who were previously employed by such firms. These experiences are coded as 'management of an enterprise with a primary social aim' akin to the term 'senior management experience' which was used for coding one of the components of the commercial experience construct. Experience founding a non-profit organization or a SE is coded as 'founding of an enterprise with a primary social aim' akin to 'entrepreneurial experience', used in coding commercial experience. The coding process followed that for the measures related to the commercial experience construct, with founders receiving a '1' for each experience type, in keeping with prior research (Beckman and Burton, 2008; Carpenter et al., 2003).

We measure total performance dependent variable (DV) following Zahra et al. (2009) who present a comprehensive framework for evaluating organizations pursuing dual objectives. Zahra et al. (2009) propose the use of a total performance measure, which is captured by summing its economic and social components. This is consistent with Chell's (2007) and Emerson's (2003: 38) blended value concept, based on '*the core nature of investment and return is […] the pursuit of an embedded value proposition composed of both* [economic and social return]'. Our total performance variable is as follows

$$\textit{Total performance} = (\textit{Economic performance} + \textit{Social performance})$$

Consistent with the argument that SEs must become economically sustainable (Letts et al., 1997), we measure economic performance as the extent to which the PhVC investor's portfolio has achieved economic sustainability at the time of the questionnaire. Using such a measure, rather than return on investment (as typically done in TVC research), allowed us to collect data from the entire spectrum of the PhVC value proposition, including those seeking a high economic return, as well as those seeking no economic return. However, all PhVC firms want their investments in SEs to be economically sustainable. For both for-profit and non-profit organizations, economic sustainability relates to reallocating assets and resources in order to seize opportunities and react to unexpected threats while maintaining general operations of the organization (Bowman, 2011). As such, economic sustainability refers to having economic conditions that allow SEs to survive over the long term.

The social entrepreneurship literature suggests that SEs can undertake both the non-profit and for-profit organizational forms (Austin et al., 2006; Dees, 1998). In the case of non-profit SEs, we define economic sustainability as a non-profit's ability to earn income by selling products

or providing services to communities in need, rather than by relying on grants alone. Economic sustainability is thereby represented by the relative percentage of income that is garnered by such activities, typically unrestricted, as opposed to the income earned through grants, which are typically restricted (Alter, 2000; Bell et al., 2010; Gras and Mendoza, 2014). This is consistent with Sontag-Padilla et al. (2012) who find that one of the major challenges for non-profits is a total reliance on external project funding. Grants often have considerable restrictions on how funds can be utilized and rarely support general operations and administration. They are also often granted for a relatively short period of time, such as 1 or 2 years (Letts et al., 1997). Therefore, a dependency on grants alone can create organizational vulnerability and increase its likelihood of failure. If the SE undertakes a for-profit or hybrid organizational form, we define economic sustainability as the ability of the investee to generate a positive cash flow (McMullen and Dimov, 2013).

Consistent with prior research, SEs combine existing resources in new and/or different ways to address social causes (Alvord et al., 2004; Bornstein, 2004; Brinkerhoff, 2001; Dees, 1998; Mair and Marti, 2006; Reis, 1999). Therefore, we measure social performance as the extent to which the portfolio SEs have been able to spur social innovation (Alvord et al., 2004; Austin et al., 2006; Leadbeater, 2007; Luke and Chu, 2013; Mulgan, 2007; Shaw and De Bruin, 2013). Social innovation is defined as the SE's ability to create and bring to market new products and services that benefit society at large (Alvord et al., 2004). For both our economic and social performance indicators, investors were asked to rate their current investments using a seven-point Likert scale. Both these measures were collected through the questionnaire sent to founders and executives of PhVC firms.

We control for four variables available for all respondents. First, we control for the size of the PhVC firm (measured as natural logarithm of number of portfolio companies). Second, given that ecology theorists suggest that older and larger firms have a greater chance of survivorship (Freeman et al., 1983), we control for firm age. Third, we control for whether the firm has its headquarters in Europe or the United States. Finally, we control for the PhVC firm's value proposition – defined as the extent of the firm's pursuit of social and economic return. This is consistent with prior research that shows that PhVC firms' value proposition ranges across a continuum of social and economic return (Scarlata et al., 2012). Some PhVC firms are 'social first' and measure success purely by social returns. An example of such a firm is the New Schools Venture Fund, a US-based PhVC firm that aims to transform the public education system for low-income children (New Schools Venture Fund, 2013). Other PhVC firms emphasize the need for the redistribution of economic returns to their investors, over their fund's social return. An example of such a firm is Lift Investment Partners, a US-based PhVC firm, which invests in ventures to grow them to scale and return capital, alongside any appreciation, to its investors (Lift Investment Partners, 2013). In the middle lie firms such as Acumen Fund, a US-based PhVC firm that aims to create both social impact and an economic return, using all investment proceeds to fund future investments (Acumen Fund, 2013).

In the questionnaire, value proposition was measured as an ordinal variable ranging from 1 to 3, with 1 = Economic return is our priority, 2 = Social and economic return are equally important, and 3 = Social return is our priority. Respondents were therefore asked to indicate what value proposition best described their activity. Results (reported in Table 2) indicate that respondents are in the blended performance spectrum, which equally emphasizes economic and social return (mean of respondent sample = 2.302).

We then ran ordinary least squares (OLS) regressions to test our hypotheses. We treated the Likert scale of the DVs as continuous variables, consistent with prior research (Carifio and Perla, 2007; Jamieson, 2004). Tests indicate the absence of multicollinearity across all models reported. The value of the Variance Inflation Factors across the different models presented in the next section

Table 2. Descriptive statistics and correlations.

	n	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1 Economic performance	43	4.698	.320	1.000										
2 Social performance	43	6.000	.199	−.228	1.000									
3 Total performance	43	10.698	2.199	.820***	.369*	1.000								
4 Commercial experience	43	2.534	2.208	.163	.099	.098	1.000							
5 Social experience	43	1.114	1.283	−.288	−.042	−.331**	.049	1.000						
6 Ln Portfolio size	43	3.006	1.583	−.031	.167	.068	−.191	−.076	1.000					
7 Firm age	43	2003	5.374	.175	−.223	.036	.024	−.001	−.701***	1.000				
8 Value proposition	43	2.302	.558	.141	−.066	.096	.059	.106	.074	.103	1.000			
9 Ln Number of founders	43	.397	.392	.256	.068	.160	.485**	.014	−.057	.063	−.136	1.000		
10 Location	43	.674	.474	.138	−.078	.086	−.194	−.002	−.140	.194	.111	.023	1.000	
11 Ln Size (Capital)	38	16.083	2.448	−.123	.210	.011	−.236	−.162	.423**	−138	.022	.206	−.199	1.000

SD: standard deviation.
***$p < .01$; **$p < .05$; *$p < .1$.

ranges between 1.5 (for the model including control variables only) and 1.9 (for the full model), well below the cutoff value of 5 or 10 suggested in prior research (Hair and Anderson, 2010).

We performed several robustness checks of our results. First, we addressed endogeneity, which could affect our analysis and lead to biased OLS estimates. In our context, the question is whether the effect of experience on performance might be due to a 'selection' effect, where founders with greater levels of commercial experience might be more likely to report higher economic performance in their portfolio of investments, for example. By doing so, they would send a signal that their lower levels of experience in the social sector, as shown in Table 2, do not negatively impact their investment performance. If non-random, it is possible that the independent variable, commercial experience, is correlated with the regression error term, leading to biased OLS estimates. We therefore implemented a two-stage least squares (2SLS) instrumental variable regression, which requires using an instrument that is not correlated with the error term, but that is correlated with the independent, endogenous variable to be instrumented. Consistent with prior research and the argument that the higher the number of founders with commercial experience, the higher the firm's economic performance (Adams et al., 2003, 2005; Bruton et al., 2009), we used the number of founders as an instrument for commercial experience. This is consistent with results by Beckman and Burton (2008) and Patzeltz (2010) showing a positive significant correlation between number of founders and commercial experience.

The first stage of 2SLS provides an estimate for the endogenous variable and indicates the strength of the instrument being used. Based on Stock et al., (2002), strength can be measured by the F statistic which should be higher than 10 for strong instruments. In our case, the F statistic from the first-stage regression of 2SLS used to instrument commercial experience through number of founders showed a value of $F = 11.31$, $p < .05$. This indicates that the number of founders is a strong instrument.

Second, to deal with a potential concern related to performance being influenced by the extent to which the investor can add value to their portfolio companies (Cumming, 2006; Cumming and Johan, 2007; Kanniainen and Keuschnigg, 2004), we used average number of portfolio SEs per founder as control variable. Third, to alleviate concerns related to the presence of one outlier in our respondent sample, we (a) ran a quantile regression and (b) winsorized the variable 'Age' (i.e. the variable characterized by the presence of the firm started in 1981). Across these robustness checks, results were consistent with those reported in Table 3.

Results

Table 2 provides the descriptive statistics and correlations for the variables used, specifying the mean and standard deviations. Results show that both commercial and social experiences are present among PhVC firms' founders. However, founders in our sample have more commercial than social experience (mean of 2.534 vs 1.114, respectively). In addition, seven of these firms had founders with no commercial experience versus eight firms with founders showing no social experience. However, T-tests indicate that the difference between respondent firms whose founders have neither social nor commercial experience, compared to respondent firms with founders having both, is not statistically significant.

In Table 3, we provide the results of the OLS and 2SLS full-model estimation for economic, social, and total performance. Results across OLS and 2SLS methods are consistent with one another. Results indicate that commercial experience is positively and significantly affecting economic performance ($\beta = .337$, $p < .05$). A 1 standard deviation increase in commercial experience causes a .337 increase in the economic sustainability of the PhVC firm's portfolio of investments.

Table 3. OLS regressions for economic, social, and total performance (full models).

	Economic performance		Social performance		Total performance	
	OLS	2SLS	OLS	2SLS	OLS	2SLS
Commercial experience	.337**	1.155**	.298*	.383*	.599**	1.483**
	(.199)	(.544)	(.098)	(.218)	(.196)	(.604)
Social experience	−.144	.526	.313*	.488**	.058	.852
	(.357)	(.596)	(.167)	(.244)	(.353)	(.667)
Commercial experience × Social experience	−.012	−359	−087**	−.139**	−203**	−474**
	(.091)	(.183)	(.041)	(.068)	(.089)	(.204)
Ln Portfolio size	.316	.001	.218	.244	.279	.429
	(.283)	(.001)	(.129)	(.124)	(.287)	(.375)
Firm age	.126	.140	−.045	−.007	.047	.057
	(.084)	(.091)	(.039)	(.037)	(.087)	(.109)
Value proposition	.352	.391	−.141	−.103	.118	−.020
	(.575)	(.609)	(.292)	(.277)	(.571)	(.726)
Location	.541	1.171	−.056	.103	.502	1.134
	(.710)	(.853)	(.343)	(.364)	(.699)	(.968)
Constant	−251.223	−280.716	14.019	17.080	−87.032	−108.553
	(168.633)	(181.492)	(78.669)	(73.692)	(174.277)	(220.808)
N	43		43		43	
R^2	.241		.209		.312	
Adjusted R^2	.089		.073		.169	

OLS: ordinary least squares; 2SLS: two-stage least squares.
***$p < .01$; **$p < .05$; *$p < .10$.

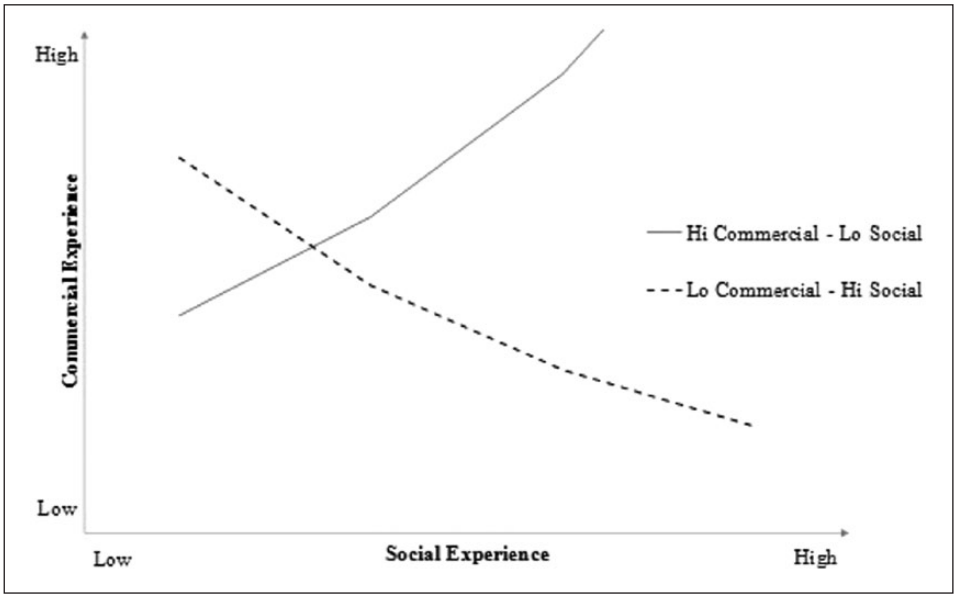


Figure 1. Interaction effect of commercial and social experiences on total performance.

This provides support for Hypothesis 1 which predicts that commercial experience leads to higher economic performance.

For social performance, results indicate a positive effect of social experience ($\beta = .313$, $p < .1$), consistent with Hypothesis 2. One standard deviation increase in social experience causes a .313 increase in the social performance of the PhVC firm's portfolio of investments in SEs.

When firms pursue the simultaneous maximization of economic *and* social return, or total performance, our results indicate that *social experience is both a significant and negative moderator for total performance* ($\beta = -.203$, $p < .05$), providing no support to Hypothesis 3. As such, a 1 standard deviation increase in both commercial and social experiences causes a .203 decrease in the total performance of the PhVC firm. Results are consistent across OLS and 2SLS tests, indicating that our results are not affected by endogeneity. This strengthens the view that when PhVC firm founders pair commercial and social experiences, total performance suffers. This is counterintuitive and the opposite of what was predicted by Hypothesis 3.

To further understand why the combination of social and commercial experiences negatively influence total performance, we parsed out the main effect of commercial and social experiences, and their interaction, on total performance, as shown in Figure 1. The effect of social experience on total performance was plotted considering two different combinations of commercial and social experiences: high commercial–low social and low commercial–high social. This further analysis explains the variation in our correlation tables as *the relationship between experience and total performance is positive when commercial experience is high and social experience is low*. On the contrary, *total performance is significantly lower when social experience is high and commercial experience is low*. This leads to a novel and nuanced finding: *commercial and social experiences are both positively correlated with PhVC total performance, but only when commercial experience is high and social experience is low*.

Discussion and implications

This study examines the effects of founder experience on firm-level economic, social, and total performance within organizations pursuing both economic *and* social returns. It addresses the following research question: *what types of founder's experiences in firms pursuing economic and social objectives best aid total firm performance?* To answer this question, we analyze performance factors in the context of PhVC firms, whose primary activity lies in investing capital and providing strategic advice to SEs. We also ask which experiences, garnered prior to founding a PhVC firm, most aid firm performance. To do so, we ran our empirical analysis using European and American investing PhVC firms, which invest across the entire socio-economic performance spectrum.

We find that individuals who start a PhVC firm tend to have more experience in the commercial (i.e. TVC, finance, senior management, consulting, and entrepreneurship experience), rather than the social sector (i.e. government experience, the management/creation of an organization with a primary social aim). By aggregating a range of founder experiences, based on their commercial or social nature, we find that experience is indeed a strong predictor of economic performance, consistent with prior TVC work by Dimov and Shepherd (2005), Walske and Zacharakis (2009), and Zarutskie (2010). Specifically, we find that PhVC firms started by individuals with more commercial experience are more likely to hold a portfolio of investments in SEs that are more economically sustainable. This provides support for Hypothesis 1.

Empirical results also suggest that social experience alone strongly predicts the performance of firms when they seek to maximize social performance, consistent with Hypothesis 2. This indicates that the tacit knowledge developed through social sector experiences are of key importance for the

performance of firms active in such contexts. Although not formally hypothesized, results in Table 3 also suggest that commercial experience alone indeed improves social performance. However, coupling social with commercial experience significantly decreases the social performance of the PhVC firm's portfolio. Perhaps, the challenges of translating and integrating, simultaneously, knowledge accrued through both commercial and social experiences into projects purely focused on social returns are insurmountable. This is in line with Ancona and Caldwell (1992) who argue that the heterogeneity of experiences may impede the exchange and understanding of relevant information, which relate to the use of different narratives, vocabularies, and objectives.

The empirical evidence indicates that when firms pursue singular objectives, either economic or social, context-specific experience helps (i.e. strong commercial experience leads to better economic performance and strong social experience leads to better social performance). However, contrary to our expectations, coupling commercial with social experience actually undermines total performance. Although relevant knowledge in both commercial and social domains accentuates the PhVC firm pursuit of dual objectives, having too much social experience makes investments less economically sustainable and, in turn, less successful. Investments that are not economically viable do not survive in the long run, thus limiting the SE's social impact (Letts et al., 1997; Morino, 2000). As Morino (2000) states, too much social experience creates firms more focused on the pursuit of social objectives, at the expense of their own survivorship. Furthermore, too much of a social focus may result in non-economically sustainable organizations that cannot scale, thus limiting their efficiency and efficacy both at an economic *and* social level (Letts et al., 1997). Finally, it is important to remember that PhVC firms are investment vehicles, making the economic and social performance of their funds of utmost important to their financial backers. Indeed, our results indicate that total performance (i.e. blended economic and social performance) is driven more by its economic component and by context-specific commercial experience.

These results support HC theory, in that context-specific experience is key to firm success (Becker, 1964) when PhVC firms pursue economic returns. However, we challenge the assumption that firms pursuing dual objectives need to possess dual types of experiences with equal amounts of both commercial and social experiences. As reported by prior studies, different experiences increase the firm's ability to take actions and respond to change (Chen and MacMillan, 1992). This is consistent with Eisenhardt (1989) in that differing knowledge stocks can impede a firm's responsiveness to environmental factors, negatively impacting firm performance. Applying these arguments to the context of PhVC firms, our results show that equal amounts of both commercial and social experiences do not improve total performance. Furthermore, our work suggests that the tacit knowledge gained by PhVC firm founders in the social sector alone, while relevant for maximization of social performance, does not increase a firm's total performance. In essence, more social experience is not better; however, some social experience, coupled with higher levels of commercial experience, leads to superior total performance within PhVC firms.

Implications and suggestions for further research

Extant research has focused on investing firms that pursue an economic return on investments (Dimov and Shepherd, 2005; Walske and Zacharakis, 2009; Zarutskie, 2010). Another stream of literature has examined organizations that pursue a social objective, mainly in the non-profit domain, which has implicitly assumed that economic indicators can measure social performance (e.g. Forbes, 1998; Ritchie and Kolodinsky, 2003). In the entrepreneurship literature, research on social entrepreneurship has been mainly conceptual (Emerson, 2003; Emerson and Twersky, 1996; Zahra et al., 2009) or qualitative (cf.Dacin, et al., 2010; Short, et al., 2009). Our work is, to our knowledge, one of the first known quantitative research that conceptualizes and measures social

experience. We then perform the challenging task of measuring *total* performance, when firms have the dual objective of economic and social return maximization. Building on prior conceptual work in the entrepreneurship literature, we empirically measure and implement, for the first time, a total performance indicator that includes both economic and social parameters.

While we find that PhVC firms are started by few individuals with relatively low commercial and social experiences, the knowledge they gained through such experience indeed leads to better economic, social, and total firm performance. Our data further reveal caveats around combining commercial and social experiences. Firms whose founders possess both commercial and social experiences, in equal amounts, fail to deliver when performance expectation blends both economic and social performance. These results are due to the challenges associated with integrating knowledge stocks developed in two different and, often, mutually exclusive endeavors (i.e. commercial and social) which are characterized by their own narratives, language, and practices. Given that total PhVC performance is driven by economic rather than the social component, we suggest that high levels of commercial experience is critical to the success of PhVC firms. Also, because SEs do not rely solely on grants or donations to fund their operations, but instead implement market-based approaches to solve social problems, investors need to have knowledge on how these operations should be designed and implemented. Investors should also be able to advise SE's on how to improve or modify their business model, if necessary. Therefore, SEs that fail to achieve economic sustainability are more likely to be unsuccessful portfolio firms, in turn, leading to less successful PhVC firms. However, PhVC firms need a little social experience to understand and support the mission of the SEs in which they invest. In sum, higher commercial mixed with lower social experience leads to the higher total performance of PhVC firms.

With respect to total performance, we find that a small level of social experience is quite beneficial. As such, the knowledge created through social experience must be evaluated more deeply so that we can, first, understand what types and amount of social experience are most correlated with high total performance; second, identify which social experiences are best coupled with commercial experiences; third, evaluate the extent to which alternative explanations could drive the negative effects of social experience on total performance (e.g. entrenched founders who 'hire' prominent persons with a high social profile to attract fund inflows, but are not prepared to identify, invest, and advise the best SEs); and fourth, gain a better understanding of what types of commercial experience best aid firm performance. Future research could, therefore, tease out which commercial experiences drive firm performance at the economic, social, and total level. Finally, further analysis could determine whether all experiences included in the social experience construct negatively influence overall performance. Considering that the current population and sample is small, it is difficult to empirically test these sub-components. Qualitative research could lead to a more nuanced understanding of which social and commercial experiences are most essential in dual-objective firms.

Our findings also indicate that while extant research focuses on identifying differences and similarities between dual- and single-objective organizations (Austin et al., 2006; Miller and Wesley, 2010; Moss, et al., 2011), we need a better understanding of how economic and social experiences relate and influence total organizational performance. As such, studying organizations that simultaneously pursue economic *and* social objectives is a fertile ground to test and improve upon well-known entrepreneurship and management theories (Santos, 2012). While dual-purpose organizations put equal emphasis on commercial factors and social factors (Miller and Wesley, 2010; Moss, et al., 2011), our research shows that pursuing dual organizational objectives does not require equal stocks of knowledge (Dierickx and Cool, 1989). This could create new areas of study for researchers interested in identifying efficient ways to allocate both human and financial resources for social causes. Our results are also relevant for practitioners. If their objective is to put financial resources into the best performing PhVC investment vehicles, they would have to look

for those firms where founders have high commercial but low social experience. For prospective PhVC firms' founders, instead, individuals should be looking to create founding teams who hold more experience in the commercial sector. Those interested in creating a PhVC firm should also be wary of having a dominant level of founder experience in the social sector.

The findings suggest that a higher balance of commercial experience versus social experience is essential for PhVC firm success, challenging the assumption that to be successful in PhVC, social experience is more important than commercial experience. Typically, there is an emphasis on social experience, as it is commonly thought that such experience creates an understanding of the dynamics, narratives, and challenges within the social sector. While possessing some social knowledge is helpful, and likely motivates a person to work in PhVC, commercial experience is *essential* to achieving total performance returns. A better understanding of who are the founding partners of PhVC firms is additionally beneficial to those social entrepreneurs seeking capital. Typically, entrepreneurs do better when backed by higher performing investment entities, as successful investors become a source for capital in future fundraising rounds (Walske et al., 2007).

Aside from contributing to the emerging field of PhVC, there are some limitations to our study that need to be considered. First, the population of PhVC firms is very small and has limited operating histories. Although our sample includes 61% of the PhVC population, it does not allow for fine-grained analysis of all ~~IVs~~ that we would have preferred to test. For example, we could have divided firms based upon their expectations around social and economic return, focusing only on a particular investor category (i.e. finance first, social first, or equally weighted finance and social return emphasis).**[AQ: 5]** Given the small population of PhVC firms in each investment category, it is difficult to quantitatively test each of the three firm categories. Second, while we have strived to identify all active PhVC firms, our dataset might not be complete. We conducted several Internet searches and reached out to industry associations and networks to ensure as complete a sample as possible. Third, our measurement of experience variables is subject to self-reporting bias. It may be that the difference at the commercial and social experience level is affected by the decision of the founder to report only those experiences deemed to be relevant. For example, philanthropic activity may be under-reported by founders at PhVC firms if they view this as unpaid, volunteer work, and not a legitimate part of their work history. Fourth, while we capture the different types of experience that founders possess, we cannot capture how many years of each type of experience each founder holds. Similar to past work in TVC HC (Dimov and Shepherd, 2005; Walske and Zacharakis, 2009; Zarutskie, 2010), we are limited to types of experience possessed and not the relative strength (as measured in years) for each experience type. Considering that 42% of the PhVC sample consists of firms started by one founder, the overall sample has relatively lower experience counts in both commercial and social experiences. It may be that the optimal strategy for PhVC success is to have multiple founders with complementary experience. Future qualitative research could clarify this issue further.

A final limitation of our work lies in a somewhat subjective measurement of social and economic performance, given that the data are self-reported. Future research might look into social and economic performance by employing quantifiable and objective measures of social return. Since there is no industry or academic standard to measure social performance, we had investors rate their portfolio firm performance using Likert scales. The use of external measures can be incorporated into follow-on research, once they are developed and implemented more widely and consistently in the field of social finance and social entrepreneurship.

Conclusion

In closing, our results indicate that PhVC firm total performance is influenced mainly by its economic component which, in turn, is driven by commercial experience; PhVC firm founders with

high levels of commercial experience improve total PhVC performance. Finally, combining *both* commercial *and* social experiences is detrimental to a PhVC firm's total performance, if founders hold high levels of both experience types. Instead, our arguments indicate that when commercial experience is high, and social experience is low, total performance for PhVC firms is the highest. Through this research, we delineate the experiences that best correlate with firm performance in dual-objective organizations. These findings are a significant contribution to the knowledge base around PhVC, not only for academicians but also for the investor in PhVC firms, for the founders of PhVC firms, and for social entrepreneurs seeking capital from PhVC firms.

Funding

This research received no specific funding from any funding agency in the public, commercial or not-for-profit sectors. [AQ: 6]

References

Acumen Fund (2013) http://www.acumenfund.org/knowledge-center.html?document=56 (accessed 10 May 2013).

Adams RB, Almeida H and Ferreira D (2003) Understanding the relationship between founder–CEOs and firm performance. *Journal of Empirical Finance* 16(1): 136–150.

Adams RB, Almeida H and Ferreira D (2005) Powerful CEOs and their impact on corporate performance. *The Review of Financial Studies* 18(4): 1403–1432.

Alter K (2000) *Managing the Double Bottom Line: A Business Planning Guide for Social Enterprises*. Virtue Ventures Publishing. [AQ: 7]

Alvord SH, Brown DL and Letts CW (2004) Social entrepreneurship and societal transformation: An exploratory study. *Journal of Applied Behavioral Science* 40(3): 260–282.

Ancona DG and Caldwell DF (1992) Bridging the boundary: External activity and performance in organizational teams. *Administrative Science Quarterly* 37(4): 634–655.

Austin J, Stevenson H and Wei-Skillern J (2006) Social and commercial entrepreneurship: Same, different, or both? *Entrepreneurship: Theory and Practice* 30(1): 1–22.

Bamford CE, Dean T and McDougall PP (1999) An examination of the impact of initial founding conditions and decisions upon the performance of new bank startups. *Journal of Business Venturing* 15(3): 253–277.

Becker GS (1964) *Human Capital*. Chicago, IL: The University of Chicago Press.

Beckman CM and Burton MD (2008) Founding the future: Path dependence in the evolution of top management teams from founding to IPO. *Organization Science* 19(1): 3–24.

Beckman CM, Burton D and O'Reilly C (2007) Early teams: The impact of team demography on VC financing and going public. *Journal of Business Venturing* 22(2): 147–273.

Bell J, Masaoka J and Zimmerman S (2010) *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*. Hoboken, NJ: John Wiley & Sons. [AQ: 8]

Boeker W (1989) Strategic change: The effects of founding and history. *Academy of Management Journal* 32(3): 489–515.

Bornstein D (2004) *How to Change the World: Social Entrepreneurs and the Power of New Ideas*. Oxford: Oxford University Press.

Bowman W (2011) Financial capacity and sustainability of ordinary nonprofits. *Nonprofit Management & Leadership* 22(1): 37–51.

Brinkerhoff P (2001) Why you need to be more entrepreneurial – An how to get started. *Nonprofit World* 19(6): 12–15.

Bruton GD, Chahine S and Filatotchev I (2009) Founders, private equity investors, and underpricing in entrepreneurial IPOs. *Entrepreneurship Theory and Practice* 33(4): 909–928.

Carifio J and Perla R (2007) Ten common misunderstandings, misconceptions, persistent myths and urban legends about Likert scales and Likert response formats and their antidotes. *Journal of Social Sciences* 2: 106–116.

Carpenter MA, Pollock TG and Leary MM (2003) Testing a model of reasoned risk-taking: Governance, the experience of principals and agents, and global strategy in high-technology IPO firms. *Strategic Management Journal* 24(9): 802–820.

Chell E (2007) Social enterprise and entrepreneurship towards a convergent theory of the entrepreneurial process. *International Small Business Journal* 25(1): 5–26.

Chen MJ and MacMillan IC (1992) Nonresponse and delayed response to competitive moves: The role of competitor dependence and action irreversibility. *Academy of Management Journal* 35(3): 539–570.

Cumming DJ (2006) The determinants of venture capital portfolio size: Empirical evidence. *Journal of Business* 79: 1083–1126.

Cumming DJ and Johan S (2007) Advice and monitoring in venture capital finance. *Financial Markets and Portfolio Management* 21: 3–43.

Dacin PA, Dacin MT and Matear M (2010) Social entrepreneurship: Why we don't need a new theory and how we move forward from here. *Academy of Management Perspectives* 24(3): 37–57.

Dees JG (1998) Enterprising nonprofits. *Harvard Business Review* 76(1): 55–66.

Dierickx I and Cool K (1989) Asset stock accumulation and sustainability of competitive advantage. *Management Science* 34(12): 1504–1511.

Dimov DP and Shepherd DA (2005) Human capital theory and venture capital firms: Exploring 'Home Runs' and 'Strike Outs'. *Journal of Business Venturing* 20(1): 1–21.

Eisenhardt KM (1989) Speed and strategic choice: How managers accelerate decision making. *California Management Review* 32(3): 39–54.

Emerson J (2003) The blended value proposition: Integrating social and financial returns. *California Management Review* 45(4): 35–51.

Emerson J and Twersky F (1996) *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation*. San Francisco, CA: The Roberts Foundation.

European Venture Philanthropy Association ~~(EVPA)~~ (2012) *European Venture Philanthropy Directory 2012*. Brussels: EVPA Publications.**[AQ: 9]**

Forbes P (1998) Measuring the unmeasurable: Empirical studies on nonprofit organization effectiveness from 1977 to 1997. *Nonprofit and Voluntary Sector Quarterly* 27(2): 183–202.

Freeman J, Carroll R and Hannan MT (1983) The liability of newness: Age dependence in organizational death rates. *American Sociological Review* 48(5): 692–710.

Gimeno J, Folta TB, Cooper AC, et al. (1997) Survival of the fittest? Entrepreneurial human capital and the persistence of underperforming firms. *Administrative Science Quarterly* 42(4): 750–783.

Gompers PA and Lerner J (2001) *The Venture Capital Cycle*. Cambridge: MIT Press.

Gras D and Mendoza K (2014) Risky business? The survival implications of exploiting commercial opportunities by nonprofits? *Journal of Business Venturing* 29(3): 392–404.

~~Hair J and Anderson R~~ (2010) *Multivariate Data Analysis*. Upper Saddle River, NJ: Prentice Hall Higher Education.**[AQ: 10]**

Jamieson S (2004) Likert scales: How to (ab)use them. *Medical Education* 38: 1212–1218.

John R (2006) *Venture Philanthropy: The Evolution of High Engagement Philanthropy in Europe*. Oxford: Saïd Business School Publications.

Kanniainen V and Keuschnigg C (2004) Start-up investment with scarce venture capital support. *Journal of Banking & Finance* 28(8): 1935–1959.

King NK (2004) Social capital and nonprofit leaders. *Nonprofit Management & Leadership* 14(4): 471–486.

Kor YY (2003) Experience-based top management team competence and sustained growth. *Organization Science* 14(6): 707–719.

Leadbeater C (2007) *SE and Social Innovation: Strategies for the Next Ten Years*. London, UK: Cabinet Office: Office of the Third Sector Publications.

Letts C, Ryan W and Grossman A (1997) Virtuous capital: What foundations can learn from venture capitalists. *Harvard Business Review* 75(2): 36–44.

Lift Investment Partners (2013) Available at: http://www.liftinvestments.org (accessed 10 June 2013).

Luke B and Chu V (2013) Social enterprise versus social entrepreneurship: An examination of the 'why' and 'how' in pursuing social change. *International Small Business Journal* 31(7): 764–788.

McMullen JS and Dimov D (2013) Time and the entrepreneurial journey: The problems and promise of studying entrepreneurship as a process. *Journal of Management Studies* 50(8): 1481–1512.

Mair J and Marti I (2006) Social entrepreneurship research: A source of explanation, prediction, and delight. *Journal of World Business* 41(1): 36–44.

Mair J and Marti I (2009) Entrepreneurship in and around institutional voids: A case study from Bangladesh. *Journal of Business Venturing* 24(5): 419–435.

Miller TL and Wesley CL (2010) Assessing mission and resources for social change: An organizational identity perspective on social venture capitalists' decision criteria. *Entrepreneurship: Theory and Practice* 34(4): 705–733.

Morino Institute (2000) *Venture Philanthropy 2000: Landscape and Expectations*. Washington, DC: VPP Publications.

Morino M (2000) Venture philanthropy: Leveraging compassion with capacity in the national capital region. In: *Washington regional association of grantmakers annual meeting*, Rocky River, OH, 21 June. [AQ: 11]

Moss T, Short JC, Payne GT, et al. (2011) Dual identities in social ventures: An exploratory study. *Entrepreneurship Theory and Practice* 35(4): 805–830.

~~Mulgan G~~ (2007) Social innovation: What it is, why it matters and how it can be accelerated. *Skoll Centre for Social Entrepreneurship* Working Paper, Skoll Centre for Social Entrepreneurship, University of Oxford, Oxford. [AQ: 12]

National Venture Capital Association (NVCA) (2012) Available at: http://www.nvca.com (accessed 30 October 2012).

New Schools Venture Fund (2013) Available at: http://www.newschools.org (accessed 10 May 2013).

Nicholls A (2009) 'We do good things, don't we?': 'Blended value accounting' in social entrepreneurship. *Accounting, Organizations, and Society* 34(6): 755–769.

O'Donohoe N, Leijonhufvud C, Saltuk Y, et al. (2010) *Impact Investments: An Emerging Asset Class*. New York: J.P. Morgan Publications. [AQ: 13]

Oppenheim AN (1992) *Questionnaire Design, Interviewing, and Attitude Measurement*. New York: Pinter Publishers.

Oster S (1995) *Strategic Management for Nonprofits Organizations: Theory and Cases*. Oxford: Oxford University Press.

Patzeltz H (2010) CEO human capital, top management teams, and the acquisition of venture capital in new technology ventures: An empirical analysis. *Journal of Engineering and Technology Management* 27(3): 131–147.

~~Polyani~~ M (1967) *The Tacit Dimension*. Garden City, NY: Anchor Books. [AQ: 14]

Reis T (1999) *Unleashing the New Resources and Entrepreneurship for the Common Good: A Scan, Synthesis and Scenario for Action*. Battle Creek, MI: W.K. Kellogg Foundation.

Ritchie WJ and Kolodinsky WJ (2003) Nonprofit organization financial performance measurement: An evaluation of new and existing financial performance measures. *Nonprofit Management & Leadership* 13(4): 367–381.

Santos FM (2012) A positive theory of social entrepreneurship. *Journal of Business Ethics* 111(3): 335–351.

Scarlata MR and Alemany L (2010) Deal structuring in philanthropic venture capital investments: Financing instrument, valuation and covenants. *Journal of Business Ethics* 95(1): 121–145.

Scarlata MR, Alemany L and Zacharakis A (2012) Philanthropic venture capital: Venture capital for social entrepreneurs? *Foundations and Trends in Entrepreneurship* 8(4): 279–342.

Scarlata MR, Zacharakis A and Walske J (2011) Venture capitalists' vs. philanthropic venture capitalists' human capital: An exploratory study. *Frontiers of Entrepreneurship Research* 31(2): 62–75.

Schwab (2009) ~~http://www.schwabfound.org/content/what-social-entrepreneurhttp?~~ (accessed 27 November 2013). [AQ: 15]

Shaw E and De Bruin A (2013) Reconsidering capitalism: The promise of social innovation and social entrepreneurship? *International Small Business Journal* 31(7): 737–746.

Short JC, Moss T and Lumpkin T (2009) Research in social entrepreneurship: Past contributions and future opportunities. *Strategic Entrepreneurship Journal* 3(2): 161–194.

Sontag-Padilla L, Staplefoote B and Gonzalez Morganti K (2012) *Financial Sustainability for Nonprofit Organizations: A Review of the Literature*. Santa Monica, CA: RAND.

Stevens R, Moray N and Bruneel J (2014) The social and economic mission of social enterprises: Dimensions, measurement, validation, and relation. *Entrepreneurship Theory and Practice*. Epub ahead of print 4 February. DOI: 10.1111/etap.12091. **[AQ: 16]**

Stinchcombe AL (1965) Social structure and organizations. In: March JG (ed.), *Handbook of Organizations*. Chicago, IL: Rand McNally, pp.142–196. **[AQ: 17]**

Stock JH, Wright JH and Yogo M (2002) A survey of weak instruments and weak identification in generalized method of moments. *Journal of Business and Economic Statistics* 20: 518–529.

Tyebjee T and Bruno A (1984) A model of venture capitalist investment activity. *Management Science* 30(9): 1051–1066.

Walske JM and Zacharakis A (2009) Genetically engineered: Why some venture capital firms are more successful than others. *Entrepreneurship: Theory and Practice* 33(1): 297–318.

Walske JM, Zacharakis A and Smith-Doerr L (2007) Effect of venture capital syndication networks on entrepreneurial success. *Frontiers of Entrepreneurship Research* 27: 38–52.

Zahra SA, Gedajlovic E, Neubaum DO, et al. (2009) A typology of social entrepreneurs: Motives, search processes and ethical challenges. *Journal of Business Venturing* 24: 519–532.

Zarutskie R (2010) The role of top management team human capital in venture capital markets: Evidence from first-time funds. *Journal of Business Venturing* 25(1): 155–172.

Author biographies

Mariarosa Scarlata is assistant professor in Entrepreneurship at the University of Surrey. Her research interests are in the social entrepreneurship domain, particularly on the outcomes of social investment firms that pursue both economic and social objectives.

Andrew Zacharakis is the John H. Muller Jr Chaired Professor in Entrepreneurship at Babson College. His research interests focus around entrepreneurial finance. **[AQ: 18]**

Jennifer Walske is an assistant professor in Entrepreneurship and Strategy and a Program Director within University of San Francisco's School of Management. She is also a Social Impact Fellow at the Haas School of Business, University of California, Berkeley.