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Understanding the Destination of Venture Philanthropy and Social Investment: An Institutional Theory Perspective

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Abstract:

The paper investigates the factors that determine the attractiveness of different sectors, geographies and beneficiaries for venture philanthropy and social investment in Europe. A better understanding of investor choices and decisions is particularly important for resolving significant social problems where the interest from philanthropic investors remains limited. Accounting for investment characteristics; including the length of commitment, investment strategy and the financing instruments, the paper explores the circumstances under which a certain social project is more likely to receive philanthropic investment as well as the factors that determine the amount of this investment.

The paper is using data from a unique survey of venture philanthropy and social investment organizations (VPOs) based in Europe, conducted on an annual basis by the European Venture Philanthropy Association in the period between 2011 and 2016. The survey provides data on demographics and positioning of VPOs, their sources of finance and profile of human resources, as well as their investment processes and strategies.

The paper is embedded within the institutional theory discourse to systematically highlight the underlying regulatory, normative and cognitive factors that are likely to affect investment decisions related to social projects and how these have evolved in response to the changing institutional environments over the years. While an institutional theory perspective is increasingly used in qualitative studies on social entrepreneurship and venture creation, it often proves challenging to operationalize in quantitative empirical studies due to limited data availability, which adds further academic value to our analysis.

Our initial findings indicate that it is normative characteristics that are more likely to affect the investment decisions made by VPOs. For example, certain social issues such as children's education are perceived as more appropriate and thus an easier sell than others that are more controversial such as prostitution or trafficking. We also detect a trend over time of increased sector specialization as VPOs understand where they can add most value. We explore how initial decisions based on normative mechanisms combined with path dependence lead to the crowding out of important, but less popular social issues from philanthropic funding.

Most important references:

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