

Value-Added in Non-Financial Support: How Evaluations of Venture Philanthropy Practice of Impact Measurement Affect Its Diffusion

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Abstract

Venture philanthropy's primary goal is to help create and grow stronger and more sustainable social enterprises through the provision of financial resources and non-financial support to the social enterprise, including the development of impact measurement practice. Whereas it is clear how much money venture philanthropy organizations invest in social enterprises, there is less clarity in terms of the value they provide through non-financial support. Drawing on prior work in venture capital and institutional logics we produce this conceptual work in progress essay to identify, test and theorize the factors which affect the value added, of the impact measurement practice for social enterprises under conditions of interdependence to contribute to the theory on practice diffusion in organizational theory.

Keywords

Venture philanthropy; Social venture capital; Impact measurement; Social entrepreneurship; Institutional logics; Value added

Introduction

Questions related to the impact measurement practice attract the attention of scholars and practitioners because of the importance of the practice to social entrepreneurship research and the field of practice (e.g., Grimes, 2010; Höchstädter & Scheck, 2015; Mair & Martí, 2006; Nicholls, 2009; Rawhouser, Cummings, & Newbert, 2019). Through our research, we aim to investigate diffusion of the social impact measurement practice in the field of venture philanthropy to better understand the value of the practice to social entrepreneurs. Venture philanthropy provides a combination of financial and non-financial support to help social enterprises become more financially sustainable and organizationally resilient, to generate a greater social impact. Research shows that practice diffusion and adoption depend on various factors, including adopters' perception of how valuable the practice is (Ansari, Fiss, & Zajac, 2010; Green, 2004; Shipilov, Greve, & Rowley, 2010; Strang & Macy, 2001). For example, Gondo and Amis (2013) show that the belief in the value of an adopted practice will affect its level of implementation and the subsequent degree of change in an organization. Thus, understanding the evaluation of a practice is important when conducting research on practice diffusion. However, some practices are harder to evaluate than others.

Social impact measurement is an example of a practice that is difficult to evaluate in monetary terms. Impact measurement is an integral component of venture philanthropy organizations' (VPOs) non-financial support, which they provide alongside with tailored financial resources to their investees, aiming to help create and grow stronger and more sustainable social enterprises (SEs) that address a number of "grand challenges" (Ferraro, Etzion, & Gehman, 2015). Venture philanthropy (VP) is a relatively recent approach to supporting social enterprises through high-engagement that combines practices from philanthropy and venture capital (Mair & Hehenberger, 2014). Whereas the motivation of providing non-financial support in venture capital is connected to financial aspects (Macmillan, Kulow, & Khoylian, 1989), motivations in venture philanthropy are multiple (social, organizational, financial) and reflect the hybrid nature (Battilana & Dorado, 2010) of the VP field of practice. It is usually clear to VPOs how much money they invest (Scarlata & Alemany, 2010), there is less precision in terms of the value they provide through non-financial support, more specifically relating its cost to the impact on investees. Our objective is to identify and theorize about the factors which affect the value added of the impact measurement practice for SEs and by doing so to provide explanations on how the practice diffuses under conditions of interdependency between VPOs and SEs.

To investigate the diffusion of practices in the venture philanthropy field, we use literature on institutional logics (e.g., Thornton, Ocasio, & Lounsbury, 2012) hybrid organizations (e.g., Battilana & Dorado, 2010; Besharov & Smith, 2014; Thornton, 2002) and practice diffusion (e.g., Ansari et al., 2010; Gondo & Amis, 2013). We employ a quantitative research design based on the analysis of survey data of dyads of VPOs and their investee SEs to compare the perceived value of the key VP practice - impact measurement supported by the interviews during the preparatory stage of the investigation. To develop an initial understanding of how to measure the value VPOs add to their investees, we use previous work in venture capital (VC). Empirical studies have shown that the venture capitalists (VCs) involvement in the companies they back consists of providing strategic and operational planning advice, helping with recruiting, and shaping the management team (Gorman & Sahlman, 1989). As documented by Hellmann and Puri (2002), Kaplan and Stromberg (2001), as well as Timmons and Bygrave (1986), VCs play a significant role in the professionalization of the firms they back. In this short article due to the early stage of the investigation, we provide theoretical explanations of practice diffusion and build hypotheses related to the added value of the impact measurement practice

diffused from the VPO to the SE in the VPO-SE dyads. We explain the planned method of data collection, and provide preliminary conclusions and possible limitations. This essay should be seen as conceptual work in progress needed to prepare for the further empirical investigation.

Theoretical background and hypotheses

We draw our work on the concept of institutional logics which represent socially constructed, coherent sets of organizing principles and material practices such as values, beliefs, and assumptions which affect organizations' actions and perceptions and provide guidance on how to react and behave in a particular realm of social life (Besharov & Smith, 2014; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Thornton et al., 2012). VP is an institutional field (Mair & Hehenberger, 2014) involving multiple logics because it shares practices and includes actors and ideas from multiple adjacent fields such as VC and traditional philanthropy. This multiplicity enables VP to create practices that combine two or more logics (Battilana & Dorado, 2010; Miller & Wesley II, 2010; Onishi, 2019; Pache & Santos, 2013). However, VP differs from VC and traditional philanthropy in several ways (Frumkin, 2006; Mair & Hehenberger, 2014). The overall objective of VP is social impact, with varying degrees of financial return. Whereas traditional grant-making often distributes grants to a large number of grantees with little control or reporting involved, venture philanthropy is also known as high engagement philanthropy (Letts, Ryan, & Grossman, 1997). VPOs get involved both at the strategic and governance level and, similar to the findings on VC value added research, strategic roles are followed by networking and supporting roles (Scarlata & Alemany, 2012). In contrast with venture capital, the non-financial activities might be implemented internally, through the VPO team, or externally, through their network of partners, pro-bono experts, and volunteers.

Venture philanthropy's main goal is to help create and grow stronger and more sustainable social enterprises (SEs) that solve current social issues. In order to do so, VPOs, similar to traditional (VC), provide the SE with tailored financial resources and non-financial support. Non-financial support is an integral component of the venture philanthropy model that aims to improve the SE's social impact, financial sustainability and organizational resilience (Boiardi & Hehenberger, 2015). According to the VPOs surveyed in a study by Hehenberger et al. (2014), the majority of SEs considers the non-financial support received from the VPO at least as important as the financial support. However, the same study shows that only a minority of VPOs actually measures the value investees place on either type of support.

Placing social impact as their main objective, VP organizations assist their investees with implementation or development of impact measurement and managing practices. Measurement of social impact and its reporting are less standardized practices (Certo & Miller, 2008) and could be conducted in various ways (Nicholls, 2009; Rawhouser et al., 2019). Measuring social impact could help SEs to improve their performance, access additional resources, ensure accountability and transparency towards various stakeholders, and build organizational legitimacy (Arena, Azzone, & Bengo, 2015; Mair & Martí, 2006; Miller & Wesley II, 2010; Nicholls, 2009). For the VPOs, development of an impact measurement system for the investees leads to improvement of the performance information for adjusting investment decisions (Frumkin, 2006; Miller & Wesley II, 2010). Similar to VC (Hellmann & Puri, 2002), one of the benefits of non-financial support and support in implementation of the impact measurement practice is the professionalization of the SE, which might affect the profitability of SE. However, our preliminary interviews suggest that support still needs to be tailored to the specific needs of the social enterprise.

“You need the buy-in from the social enterprise for the non-financial support to work.” (*French VPO*)

Ansari and colleagues (2010) suggest that diffused practices are likely to evolve during the implementation process and depend on the technical, cultural and political fit between the practice and the adopter. Cultural fit represents compatibility of practice characteristics with cultural values, beliefs, and practices of potential adopters as practices embedded into cultural frameworks of socially ordered belief systems (Lounsbury, 2008). Non-financial support and impact measurement are examples of practices that integrate a hybrid logic that combines financial sustainability and social impact (Battilana & Dorado, 2010). In line with VPOs' and SEs' hybrid nature and interest in social value creation (Mair & Martí, 2006; Nicholls, 2009), we propose that both SEs and VPOs will be inclined to support, accept, and see impact measurement as adding value (Besharov & Smith, 2014). Thus, we hypothesize:

Hypothesis 1: Providing non-financial support in the form of impact measurement by VPOs will be (a) perceived by SEs and (b) by VPOs as a value-adding practice.

VPOs could have an effect on the perceptions of their investees by justifying legitimacy and shaping their beliefs through involvement of an ethos rhetoric's elements and appealing to socially accepted norms and mimetic pressures (DiMaggio & Powell, 1983; Gondo & Amis, 2013; Green, 2004; Lawrence, Winn, & Jennings, 2001). Tolbert and Zucker (1983) argue that in contrast with early adopters later adopters are more concerned about conformity of the practice than in its utility for them.

Hypothesis 2: By justifying impact measurement practice as legitimate and widely accepted VPOs positively affect the perceived value of the practice to SEs.

Technological fit represents compatibility of the diffused practice to existing technologies of the organization and its innovativeness and opportunities to learn. Shipilov, Greve, and Rowley (2010) suggest that an organization that is already subscribed to a particular logic is more likely to adopt subsequent practices consistent with the logic. As non-financial support and impact measurement specifically represent practices connected to the hybrid logic of SEs to reach financial sustainability and social impact (Battilana & Dorado, 2010; Pache & Santos, 2013), SEs are inclined to support, accept and see it as adding value (Besharov & Smith, 2014). We assume that this should be true if the SE already tried to build its own impact measurement system by itself and (or) did some research about it. However, the existing knowledge about the practice should decrease the level of uncertainty related to the practice, and the organization can infer the value of practice from personal accumulated knowledge and the knowledge of others (Ansari et al., 2010; Terlaak & Gong, 2008). Therefore, we hypothesize:

Hypothesis 3: (a) Prior use or knowledge of the impact measurement practice by the investees increases the value of impact measurement support and (b) decreases the difference in perception of the value of impact measurement practices between VPO and SE.

According to Green (2004), the logos rhetoric related to justification of a diffused practice as efficient and (or) effective, possibly through clarification of processes and related outcomes (Oliver, 1992), can help build pragmatic legitimacy of the practice and support its acceptance.

Hypothesis 4: Justifying the impact measurement practice as beneficial to the investee, VPOs positively affect the perceived value of the practice to SEs.

Political fit represents compatibility of the practice with the interests and agendas of potential adopters, including aspects of power and resource allocations, including willingness of VPOs to provide non-financial support (Ansari et al., 2010; Besharov & Smith, 2014; Oliver, 1992). Grimes (2010) sees impact measurement as a basis for sensemaking and negotiations between the funding organization and a social entrepreneur for “aligning expectations for what the funded organization does and how that organization conducts its operations” (Grimes, 2010, p. 777). VPOs could push SEs to incorporate impact measurement practices into their activities because SEs depend on the funds of their investors. Besharov and Smith (2014) argue that in the case of resource dependency, actors respond to the demands of the constituency group even if the logic of those demands is misaligned with the logic of the actors (DiMaggio & Powell, 1983; Oliver, 1991) because more powerful actors could influence how practices are received and perceived by adopters (Ansari et al., 2010; Greenwood et al., 2011; Hardy, 1996). However, these relationships rely on the level of dependence (Oliver, 1992). Thus, we hypothesize:

Hypothesis 5: The level of dependence of SE on VPO moderates SPO’s perceptions of value added of the impact measurement practice.

Although the relationship between VPO-SE is based on resource dependence, VP specifically emphasizes the importance of building close relationships between investor and investee (Frumkin, 2006; Letts et al., 1997). De Clerq & Sapienza (2006) identified relational capital between VCs and portfolio companies as a mediating factor, leading to higher levels of perceived performance. Whereas much of the investor-investee relationship in VC has been explained using agency theory, Scarlata & Alemany (2010) find a substitution effect between agency theory and stewardship theory, which seems to better define the relationship between the VPO and the SE. In the case of VP, the investor provides and implements monitoring and measuring systems that are initiated by trust. The aim of these control systems is to improve the performance of the SE and to provide the social entrepreneur with the tools to better manage the business. Trust emerged as a key element from the preparatory interviews we made for this study. Trust is fundamental in generating a good relationship in VP. One VPO went as far as to say that the non-financial support would fail without a strong element of trust.

“One thing that we think is fundamental if the non-financial support is to have an impact, is the quality of the partnership between the VPO and its investee. By that I mean, is there trust between the two. Is the social enterprise transparent (which is a symptom of trust)? Is it sharing bad news, and information in general? That is a critical condition for us.” (UK VPO)

Grimes (2010) highlights that funding organizations could demand from their investees to strictly follow a procedure of impact measurement, developed or used by the funder, or customize the practice following the needs of the investee to better align with the demands of SE. The latter depends on relational trust between the investor and the investee. We hypothesize:

Hypothesis 6: (a) Relational trust is a moderating factor that increases the value of the impact measurement practice, and (b) decreases the difference in perception of the value of impact measurement practice between VPO and SE.

We propose that providing non-financial support in the form of impact measurement by venture philanthropy organizations should positively affect the perceived by SEs value added. We assume that this should happen because the provision of non-financial support should improve the level of professionalization of the SE as measurement and management of social impact is one of the core practices of SEs and should lead to improvement of the activities of the SE for bringing about the social change. However, following this

idea, we see the relation between diffusion of the impact measurement practice and perceived value by the SE could be affected by relational factors between investors and investees and factors of dynamic fit of the diffused practice to SE. Figure 1 provides a summary of the relationships between providing non-financial support in the form of impact measurement, the perceived value by the social entrepreneurs, the adoption of the practice by them and the perceived value added of the SE.

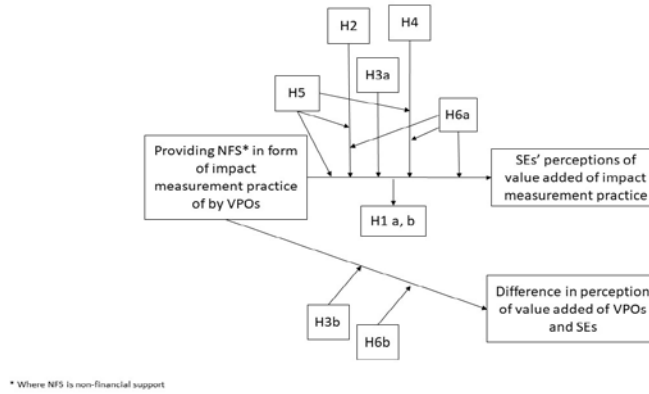


Figure 1. Proposed model of relationships between diffusion of the impact measurement practice and precepted value added

Data collection and analysis

Research contest

Venture philanthropy has established itself as an investment approach that seeks a societal return combined with different degrees of financial return – variations of venture philanthropy are referred to as impact investing, when a financial return is required by investors (Nicholls & Pharaoh, 2008). The European venture philanthropy and impact investing market has grown rapidly in recent years. A recent EVPA survey reports that €767 million had been invested in social enterprises in 2017 by the 110 venture philanthropy (and impact investing) organizations participating in the study to support almost 12 000 SEs (Gianoncelli, Boiardi, & Gaggiotti, 2017).

Data sources and analysis

To investigate the question of the diffusion of practices in the VP field, we build on well-developed methods from the VC literature (e.g, De Clercq & Sapienza, 2006; Sapienza & Gupta, 1994; Sapienza & Timmons, 1989) because the relations between VP investors and SEs assumed to be similar to the relations between VC investors and their investees (Frumkin, 2006). Our study drew on two main sources of data, which are collected during two stages (1) semi-structured telephone interviews (recorded and transcribed) with a sample of 10 dyads (Sapienza & Timmons, 1989) consisting of European-based VPOs and one backed SE each, supported since 2013 or 2014 (allowing for sufficient time to comment on the effects of the non-financial support); (2) survey data of VPOs and their investee SEs to compare the perceived value of impact measurement practice and activities related to it. The data collected by interviews enriched our knowledge about practitioners' evaluations of non-financial support in general and provided suggestions that the impact measurement seems to be the most valuable service provided by VPOs to their investees. The interviews also

helped us refine our hypotheses and improve our understanding of the most relevant measures to employ in order to test them. One SE explained that understanding how to measure impact helped the organization become more social, and thus generate a greater social impact.

The survey data will be collected in the period from August to December 2019. The survey will be sent to the investees of the members of the European Venture Philanthropy Association (EVPA), to which we have privileged access. EVPA currently has over 275 members¹, many of which are VPOs, with an average of 36 total investees in the portfolio (Gianoncelli & Boiardi, 2016). EVPA's members are based in Europe but invest across the Globe. To determine the activities related to the impact measurement practice, we use the methodology proposed by EVPA (Boiardi & Hehenberger, 2015) and include the list of activities related to development of the Theory of Change and Impact Strategy Support dimension and Impact Measurement and Management activities. The Theory of Change (ToC)² is a specific methodology used for planning and evaluation of social impact of an organization by linking the initiatives of the organization with desired outcomes, actual delivery and performance in the particular context (Boiardi & Hehenberger, 2015). Development of ToC intends to improve the understanding of impact generating mechanisms of an investee, and with impact measurement activities aims to improve performance of SEs. The most recent EVPA's industry survey based on the answers of 110 respondents shows that about 72% of VPOs provide non-financial support to develop ToC of their investees and about 71% of VPOs (from the sample size of 103 respondents) measure impact related to the their investments (Gianoncelli et al., 2017).

Similar to Sapienza & Timmons (Sapienza & Timmons, 1989), we study the VPO-SE dyads³, but instead of asking the importance of the activities related to impact measurement, we assess the perceived value of each activity, and are able to test for differences in perception. Important characteristics of the VPO-SE dyad include the stage of development of the SE (Sapienza & Timmons, 1989), and the amount and type of financing offered. Dependent variables for our study include Perceived Value by SEs, Perceived Value by VPOs, and Difference in Value Perceptions by VPO and SE. To obtain Perceived Value by SE and also by VPOs we ask social actors to rate the importance (on a scale from 0 to 6, where 0 = Negative value-add, and 6 = Strong positive value-add) of services provided by the VPO (Sapienza, Manigart, & Vermeir, 1996). This should give us the basis for comparison to assess hypotheses 3b (about the prior knowledge) and 6b (about trust).

Surveying SEs, we aim to understand if the VPO justified the need for implementation of the practice and the ways in which it was done. For these purposes, we include in the survey questions related to the use of benefits of the practice to a SE or its social acceptance (hypotheses 2 and 4). Also, in the survey, we include questions related to the previous knowledge of impact measurement by the SPO (hypothesis 3). The level of dependency for hypothesis 5 is measured through the proportion of the funding provided to the amount of funding needed. Also, we ask social enterprises the type of relationships with the VPO to test hypothesis 6. One of the indicators which could demonstrate the interest and importance of the practice to the SE is the level of VPO engagement into the activities related to the impact measurement practice provision, which we see as a mutually beneficial interaction between VPO and its investee. It is important to notice that we are less interested in time or frequency of the interactions, but we want to access the quality of engagement. Using the idea of measurement of effectiveness of VC involvement by Sapienza (1992) we will measure the level of engagement on a scale from 0 to 6, where 0 = VPO not engaged in activity, and 6 = Very high level of engagement of VPO. The way of delivery of the non-financial support via coaching and mentoring, trainings, workshops, etc. (Boiardi & Hehenberger, 2015) might provide more richness to explanations to the practice

¹ The European Venture Philanthropy Association, retrieved May 28, 2019 from: {<https://evpa.eu.com/about-us/about-evpa>}

² Center for Theory of Change, retrieved May 28, 2019, from {<https://www.theoryofchange.org/what-is-theory-of-change/>}

³ Important characteristics of the VPO-SE dyad include the stage of development of the SE (Sapienza & Timmons, 1989) and the amount and type of financing offered.

diffusion and evaluation. One social enterprise mentioned that they attended regular training courses organized by the VPO and that some of those were not that helpful in terms of content, because they were already an experienced SE and the content was too basic. However, they also saw the importance of “giving back” to newer organizations by sharing their experience as a more mature organization. Indeed, the concept of having an “alumni” group of exited investees is fairly common in VP. Indeed, a Norwegian VPO emphasized that the non-financial support provided needs to be different at different stages. On a related note, some investees indicated that the support is most needed at a start-up stage.

“It [the non-financial support] has been enormously valuable, but mainly because we hadn’t been going for very long. It’s hard to say where the organization would have been if they hadn’t come along.” (UK SE)

We also plan to collect data about SEs and VPOs. We ask SPOs to provide us information about countries and sectors where SPO operates, SPOs stage of initial investment, year of setting up, amount and type of funding, amount of external funding, financial performance. In VC, equity is the main financing instrument used, but in VP, a number of instruments are used, ranging from grants, debt, equity to guarantees and convertible instruments (Scarlata & Alemany, 2010). Non-equity instruments can be used to put pressure on the investee to achieve certain milestones. The non-financial support is therefore designed to help the social enterprise achieve those. For VPOs we plan to collect the data about the portfolio of the fund, the amount of capital it manages, investment priorities (whether the VPO is seeking “economic returns first” or “social impact first”) and other related to the cost of the impact measurement and its organization.

Preliminary conclusion

By conducting this research project, we aim to contribute to the theory and practice by refining our understanding of under which circumstances it is more efficient to provide non-financial support in the form of impact measurement practice as well as to help VPOs in estimating the added value of the non-financial service they provide. Our interviews show, although VPOs clearly understood the importance of measuring the value of the non-financial support, that it was less clear to the investees.

“I can see why this study can be useful for the VPO, to better understand how they are adding value. It is interesting for me to think it through. It forces me to think about where they really influenced. We absolutely loved working with them.” (UK SE)

We believe our study can improve the knowledge about impact measurement and the process of practice diffusion under the conditions of resource-dependence. However, we should acknowledge that our study in its current mode is limited by the practices which were already successfully diffused in the VP-SE dyads. Thus, the study could not explain the factors which limits diffusion or adoption of the practice. This limitation could be overcome by qualitative research methods, for example, via interviews with VPOs and SEs where the focus of the questions will be on unsuccessful examples of diffusion and factors which prevents the provision of impact measurement support. The other limitation of our study is related to the sample. It might be that VPO will provide us with the information about their investees with higher performance and which fully or easier adopted the impact measurement practice. In this case, this selection bias might be a threat to the validity of our study. One of the possibilities to alleviate this potential bias is through asking VPOs to provide us with data for several cases of providing non-financial support in a form of impact measurement of both successful and less successful cases to have a clearer picture. That should help us to contribute to the theory on practice diffusion in organizational theory as specified in the hypothesis development.

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