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"Money, Money, Money... All the Things I Could Do:" Three Essays on Prosocial Venturing and Financial Resource Acquisition

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“MONEY, MONEY, MONEY…..ALL THE THINGS I COULD DO:”

THREE ESSAYS ON PROSOCIAL VENTURING AND FINANCIAL RESOURCE ACQUISITION

by

Koushikee Dutta, B.S., M.B.A.

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ABSTRACT

Prosocial entrepreneurship refers to simultaneously creating profitability and positive impact for others through entrepreneurial venturing. There are many uncertainties regarding how these firms approach financing and resource acquisition. This dissertation addresses mechanisms of financial resource acquisition through three different stages of prosocial venture formation: nascent, early, and growth stage. It is important to understand how these ventures raise capital and what challenges they face in doing so. In commercial capital markets, the key motivation is company profitability and earning an attractive return on investment.

Fewer financial institutions are willing to enter into financial obligations with prosocial entrepreneurial ventures because prosocial ventures often require long-term investment, which increases the opportunity cost of investors. Secondly, prosocial ventures possess added complexity due to their dual objective, which complicates the assessment of their performance and increases investment risk. Nascent firms often acquire a particular type of resource through accelerator programs that substantially aid and accelerate new venture development. A new accelerator called the social impact accelerator (SIA) selects startups that can generate financial returns and social impact. Little is known about how SIAs make admission decisions.

While the entrepreneurship literature has examined prosocial microlending through crowdfunding, little is known about equity crowdfunding for prosocial ventures. Essay 1 addresses this uncertainty by examining signal qualities of prosocial ventures that influence selection into SIAs. Next, early-stage ventures use crowdfunding to attract a diverse set of investors, some following traditional value-optimizing thinking by investing strategically on signals of quality, while others might be more ethically driven and follow altruistic motives.

Lastly, the scope of prosocial venturing encompasses corporate social responsibility (CSR), especially when CSR is seen as going beyond statutory compliance by aligning core business activities with corporate activity. Although CSR fits within the dialogue of prosocial venturing, its examination has been limited to large established firms while remaining underexplored in young entrepreneurial firms. Essay 2 addresses this gap by examining how early-stage prosocial entrepreneurs create favorable impressions to signal venture attractiveness through a linguistic representation of their prosocial objectives and investment potential. Understanding how prosocial ventures in the growth stage raise capital during an initial public offering (IPO) may offer insights into how traditional capital markets react to firms that pursue both social and economic aims.

Essay 3 addresses this gap by examining CSR within young entrepreneurial ventures and their ability to raise financial resources through initial public offerings (IPO).

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DEDICATION

Thank you, Daiya and Mummy for inculcating within me the virtue of tenacity and fortitude. I dedicate this dissertation to you, without your tremendous love, patience and support this journey would not have been possible.

Thank you, Dada, and Boudi, for believing in me throughout this journey and helping me “dream big.” At times, I often believe that you wanted this for me more than I did. I dedicate this dissertation to you for being my source of motivation, strength, and courage.

I dedicate this dissertation to my lovely little nieces Gigi and Aahi. Thank you for keeping it real for me!

I love you all so very much!

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CHAPTER 1

INTRODUCTION

Understanding entrepreneurial actions that address pressing social and environmental challenges has become an emergent, intriguing and important area that has captured the interests of academia and practice (Conger, McMullen, Bergman, and York, 2018; Miller, Grimes, McMullen, and Vogus, 2012; Mair and Marti, 2009; Santos, 2012). Broadly, such entrepreneurial action is considered "prosocial" entrepreneurship, i.e., creating a positive impact on others through entrepreneurial venturing (Grant and Berg, 2011; Grimes, McMullen, Vogus and Miller, 2013; Shepard, 2015) and, in other words, creating lucrative business opportunities while resolving social and environmental issues. Some examples of prosocial entrepreneurial activities satisfy the most basic quality-of-life needs (Parrish, 2010), the bottom of the pyramid (Bruton, Ketchen and Ireland, 2013; Prahalad, 2005), eco-efficiency and environmental sustainability (Dean and McMullen, 2007; Munoz and Dimov, 2015), and community-centric development (Peredo and Chrisman, 2006; Sheperd, Saade and Wincent, 2020).

Blending market-based logics and social welfare logics, prosocial entrepreneurial ventures have given rise to a new market; those "business environments in an early stage of formation" (Santos and Eisenhardt, 2009, p. 644). In spite, opening up new opportunity spaces for entrepreneurial ventures (Battilana and Lee, 2014; McMullen and Bergman, 2017), it is fraught with many uncertainties. These uncertainties may stem

from, unclear and unknown product definition (Tushman and Anderson, 1986; Hargadon and Douglas, 2001), a nascent market category that is ambiguous or ill-structured (Santos and Eisenhardt, 2005), and or resource acquisition (Zhao and Lounsbury, 2016).

Founding a new venture is risky under any conditions (Stinchcombe, 1965). The risks concerning uncertainty are compounded when entrepreneurial firms operate in new markets (Navis and Glynn, 2010). Consequently, the achievement of legitimacy can enable them to acquire resources and create wealth (Aldrich and Fiol, 1994; Lounsbury and Glynn, 2001; Santos and Eisenhardt, 2005), which can be a particularly acute challenge for new ventures operating in new market categories. Prosocial ventures particularly face difficulties tapping into the same capital markets as commercial ventures (Austin, Stevenson, Wei-Skillern, 2006). In the commercial capital markets, the key motivation for all players involved is to build a profitable company and earn an attractive return on investment. At the same time, fewer financial institutions are willing to enter into financial obligations with prosocial entrepreneurial ventures. First, prosocial ventures often require long-term investment (Bacq and Lumpkin, 2014); this makes the opportunity costs for investors to increase instead of investing in commercial ventures, which allows the quicker realization of financial returns (Austin et al., 2006).

Secondly, by its very nature, prosocial ventures possess an added complexity owning to the demand to meet dual objectives, i.e., social and economic in tandem. This complexity may make the assessment of its performance complicated (Austin et al., 2006). Lack of an appropriate measurement with clear and quantifiable performance objectives may cause investors to perceive a highly risky investment in a prosocial venture. Despite the many challenges, research has shown that there has been significant

growth within the market category of prosocial venturing. An additional problem that prosocial ventures face is their limited ability to change and adapt. During the startup process, money-motivated entrepreneurs learn from their customers and are free to adapt their products, services, markets, and missions. They often adapt to make the biggest profit. Since prosocial ventures start with their mission as a core of their existence, they have less ability to change to optimize their financial performance (Austin et al., 2006). By having a specific social mission, prosocial ventures may not be attractive to some potential investors who do not share the common vision with the enterprise. Therefore, prosocial ventures have inherent strategic rigidities and face more constraints, which may hinder their ability to receive necessary resources to achieve their missions.

Prosocial venturing can take many forms, which are explicated through varying degrees of prosocial motivations. If viewed on a scale, the highest form of prosocial venturing can be seen through organizations registered as non-profits because they do not have a bottom line (Drucker, 1989). An immensely popular and obvious manifestation of prosocial ventures has been social enterprises (Dees, 1998). Social ventures are hybrid organizations that straddle the well-established categories of business and charity (Austin et al., 2006; Mair and Marti, 2006). Social ventures aim to chase the agenda of fulfilling a double bottom line by serving two categories of constituents: the customers of their commercial activities and the beneficiaries of their social activities (Battalina, Sengul, Pache and Model, 2015). Other forms of prosocial venturing are B-corps that receive third-party certifications for their commitments to positive environmental, social, and governance (ESG) practices (Gehman and Grimes, 2017). However, the scope of prosocial venturing has been prevalent ever since the idea of corporate social

responsibility (CSR) has been in existence. Especially, when CSR becomes a corporate activity that goes above and beyond the mere fulfillment of statutory compliance (Peredo, Haugh, & Mclean, 2018). Many of the initiatives undertaken since 2004 under the umbrella of the United Nations Global Compact similarly embody a push for a prosocial business impact (Wang, Tong, Tekeuchi, & George, 2016).

New venture formation requires a significant investment and experiential insights (Park & Tzabbar, 2016). The resource requirements are different throughout the stages of new venture ideation (gestation), creation (operational), and success (revenue generation). Research has shown that during the nascent stage, organizing activities such as writing a business plan, acquiring resources, and networking help create the foundation of the new firm (Gartner & Carter, 2003). Previous studies suggest that the more these organizing activities are enacted, the more likely a firm will emerge (Honig & Samuelsson, 2001; Lichtenstein, Carter, Dooley, & Gartner, 2007). Accelerators are short-term, limited-duration, cohort-based educational programs for nascent ventures, that apart from providing seed funding, often utilize extensive consultation with mentors, program directors, customers, guest speakers, alumni, and peers, that helps solidify the value proposition of nascent ventures (Cohen, Bingham & Hallen, 2019). Research has shown that being part of accelerators programs substantially aid and accelerate venture development (Hallen, Cohen, & Bingham, 2020). In that sense, being selected into an accelerator program can lead to the acquisition of initial financial capital and guidance on developing a business model and expanding the network. Because accelerators are a nascent phenomenon in entrepreneurship (Cohen, 2013b), much of the recent research has sought to understand what they are, what they do, and whether they deliver on the

promise to accelerate ventures (Goswami, Mitchell & Bhavagatula, 2018; Hallen, Bingham & Cohen, 2014). Although research on traditional accelerators has proliferated, little is known about social impact accelerators (SIA), which seek to select startups that can generate financial returns and social impact (Lall, Bowles & Baird, 2013), especially how SIAs make cohort admission decisions (Yang, Kher & Newbert, 2019). Essay 1 will address this gap by examining factors that may influence a prosocial venture's selection into an SIA.

Many entrepreneurial ventures remain unfunded, partly because of a lack of sufficient value that can be pledged to financial investors and partly because of unsuccessful attempts to convince 'in-crowd investors, such as banks, angels, and venture capital (Burgelman & Hitt 2007; Casamatta & Haritchabalet, 2011; Chen, Yao & Kotha, 2009; De Clercq, Fried, Lehtonen, & Sapienza, 2006; Polzin, Toxopeous & Stam, 2018). Instead, new ventures must pursue alternative 'out crowd' (Polzin et al., 2018) financing options such as crowdfunding. Crowdfunding allows entrepreneurs to raise funding through an open call on the Internet by registering campaigns to raise capital in crowdfunding portals (Belleflamme, Lambert & Schwienbacher, 2014). Crowdfunding platforms create financial opportunities for early-stage entrepreneurial ventures with a little track record or little available data (Mollick, 2014). Crowdfunding platforms vary with crowdfunding forms, ranging from an equity-based model, profit-sharing scheme, and lending to outright donations.

Owing to the non-distributive restrictions on the surplus of prosocial ventures and the embedded 'purpose of rising above self,' prosocial ventures are unable to access the same capital markets as commercial or profit ventures (Austin et al., 2006; Calic &

Mosakowski, 2016), making them turn towards other alternative sources of finance such as crowdfunding. Crowdfunding attracts a diverse set of individuals who possess different motivations to fund a venture (Allison, Davis, Short & Webb, 2015; Short, Ketchen, McKenny, Allison & Ireland, 2017). Part of the crowd may be more inclined to follow the traditional value-optimizing thinking by investing strategically in quality signals. In contrast, others may be more ethically driven and follow altruistic motives. (Berns, Figueroa-Armijos, Veiga, & Dunne,2020). Research suggests that people support crowdfunding projects financially when they believe their contribution will impact them (Kuppuswamy & Bavus, 2017). Therefore, drawing a set of crowds attracted by the prosocial aspect of the venture, who invest in the firm perceiving the firm's ability to fulfill its prosocial value proposition. Similarly, funders invest in a campaign because of financial motives and are attracted by the commercial ability of the prosocial venture to generate earned income (Ahlers, Cumming, Günther, & Schweizer,2015; Cholakova & Clarysse, 2015). In other words, perceiving an opportunity for financial gain and viability within the value proposition of the prosocial venture.

Alternatively, ventures that register their campaigns are often early-stage ventures (Cholakova & Clarysse, 2015; Gafni, Marom & Sade, 2019; Vulkan, Åstebro & Sierra, 2016), as such the campaigns may present an early opportunity for prosocial ventures to test their value proposition (i.e., products or services) and business model on a larger audience. Achievement of crowdfunding goal may reflect its potential quality while giving an early indication of its eventual market acceptability and success. Persuasion, through the entrepreneurial narrative, is a key element that influences funders, have greater ability and greater motivation to make a careful evaluation (Allison, Davis, Webb

& Short, 2017) i.e. funders interested in securing a financial benefit. Similarly, the entrepreneurial narrative is key in acquiring prosocial microlending in crowdfunded microfinance (Allison et al., 2015). While entrepreneurship literature has examined prosocial microlending through crowdfunding, little is known about equity crowdfunding for prosocial ventures (Allison et al., 2015; Calic & Moskowski, 2016). Essay 2 will address this gap by examining the entrepreneurial message framing strategy that the entrepreneurs use to draw the diverse crowd's attention, which articulates a venture's prosocial nature while also drawing attention to its capability to generate an earned income.

Corporate social responsibility (CSR) is defined as "contexts-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance" (Auguinis, 2011: 858). The common explanation for why firms invest in CSR is that doing so creates a competitive advantage which enhances its profitability and value; a relationship often referred to as "doing well by doing good" (e.g., Orlitzky, Schmidt, & Rynes, 2003; Flammer, 2015; Krueger 2015; Ferrell, Liang & Renneboog, 2016). Other studies question whether it is only the well-performing firms that can afford to invest in CSR (Peloza, 2009). In other words, CSR has been considered as a strategic initiative that only large and mature firms can undertake because they possess the financial ability to tackle such societal and environmental initiatives. Although CSR fits within the dialogue of prosocial organizing, its examination has been limited to large established firms (Jenkins, 2004, Wang & Bansal, 2012), while unexplored in young entrepreneurial firms. Essay 3

will address this gap in the literature by examining CSR within young entrepreneurial ventures and its ability to raise financial resources through an initial public offering.

Consequently, of late, literature has called for examining the concept of "shared value" creation that stems from business activities (Donaldson & Walsh, 2015; Peredo et al., 2018) which recognizes "societal needs, not just conventional economic needs, define markets" (Porter & Kramer, 2011, p. 5). Prosocial ventures that closely align CSR activities with the core business activities of the firm, such that CSR becomes an integral part of the firm's value proposition, can maximize profits for shareholders and benefit stakeholders (Kaul & Luo, 2018). For prosocial ventures to create widespread benefits to stakeholders, it is essential to scale and grow the venture, which would require additional resources and financial capital. From the perspective of entrepreneurial firms, initial public offerings (IPOs) are an important way of raising capital for high-growth ventures. This capital is necessary to help grow the firm at a pivotal point in its development, transitioning from private to public (Blevins, Ragozzino, & Reuer, 2017; Gulati & Higgins, 2003). IPO enables firms to sell equity shares to public investors, allowing them access to considerable financial resources that prosocial ventures can use to finance growth (Certo, Holcomb, & Holmes, 2009). Ventures that declare their initial public offering are at a vulnerable growth point in their development. Because of novelty and new market, these firms suffer a liability of market newness, as they have yet to demonstrate that they can cope effectively with the pressures of public trading (Certo, 2003). Therefore, understanding how prosocial ventures raise capital during IPO performance may offer insights into how the market reacts to firms that pursue both social and economic aims.

Through the three essays we intend to add to the rich and growing literature that speaks to the challenges of prosocial venturing (Wry and Haugh, 2018), acquire resources (Cobb, Wry, & Zhao, 2016; Moss, Renko, Block, & Meyskens, 2018; York, Hargrave, & Pacheco, 2016; Zhao & Wry, 2016) and scale (Andre & Pache, 2016; Seelos & Mair, 2017). By shedding light on mechanisms through which prosocial ventures acquire financial resources at the different stages of their venture – nascent stage, early stage, and growth stage—we add to the ongoing conversation of how various facets of the venture may be eminence in propelling it forward at different stages. This research will inform prosocial entrepreneurs on mechanisms and avenues to establish legitimacy for seeking additional resources.

CHAPTER 2

CAPITAL STRUCTURE SIGNALING AND SOCIAL IMPACT ACCELERATOR SELECTION DECISION

Introduction

Given that entrepreneurs are constantly struggling to acquire resources, new ventures often rely on external resources to survive and grow (Aldrich, 1999). Beginning with the establishment of Y Combinator in 2005, accelerators represent another emerging form of external resource supply that can play a transformative role in the development of new ventures (Cohen & Hochberg, 2014; Gonzalez-Uribe & Leatherbee, 2015; Pauwels, Clarysse, Wright, & Hove, 2016). Accelerators are defined as "fixed-term, cohort-based programs, including mentorship and educational components, that culminate in a public pitch event, often referred to as a 'demo-day' (Cohen & Hochberg, 2014, p. 4). Despite the recent proliferation of accelerator research (Cohen et al., 2019; Drover, Busenitz, Matusik, Townsend, Anglin, & Dushnitsky, 2017; Kanbach & Stubner, 2016), research on Social impact accelerators (SIA)s has been limited. SIA is a new form of accelerator that selects prosocial ventures, which display the potential to generate financial returns and social impact into their cohort-based programs (Cohen, 2013; Pandey, Lall, Pandey, & Alhawat, 2017; Yang et al., 2020). Accelerators being a nascent phenomenon in entrepreneurship

(Cohen, 2013), specifically SIAs, more is needed to be known about how SIAs process external information to make cohort admission decisions (Cohen et al., 2019; Yang et al., 2020), including entrepreneurial behaviors about capital structure decisions of the prosocial venture (Siqueria, Guenster, Vanacker, & Crucke, 2018).

Prosocial venturing refers to entrepreneurial action that positively impacts others (Grant & Berg, 2011; Miller, McMullen, Grimes, & Vogus, 2012; Shepherd, 2015)—in other words, creating lucrative business opportunities while resolving social and environmental issues. Some examples of prosocial entrepreneurial activities satisfy the most basic quality-of-life needs (Parrish, 2010), the bottom of the pyramid (Bruton, Ketchen & Ireland, 2013; Prahalad, 2005), eco-efficiency and environmental sustainability (Dean & McMullen, 2007; Munoz & Dimov, 2015), and community-centric development (Peredo & Chrisman, 2006; Shepard, Saade & Wincent, 2019). Founding a new venture is risky under any conditions (Stinchcombe, 1965). The risks concerning uncertainty are compounded when entrepreneurial firms operate in new markets (Navis & Glynn, 2010), such as prosocial venturing that requires the blending of market-based logic and social welfare logic (Moroz, Branzei, Parker, & Gamble, 2018), giving rise to a new market; those "business environments in an early stage of formation" (Santos & Eisenhardt, 2009: 644). Despite opening new opportunity spaces for entrepreneurial ventures (Battilana & Lee, 2014; McMullen & Bergman, 2017), prosocial venturing is fraught with many uncertainties, one of them being resource acquisition (Zhao & Lounsbury, 2016).

Be it commercial or prosocial, new venture formation requires significant investment and experiential insights (Park & Tzabbar, 2016). The resource requirements

are different throughout the different stages of new venture ideation (gestation), creation (operational), and success (revenue generation). Research has shown that during the nascent stage, organizing activities such as writing a business plan, acquiring resources, networking help create the foundation of the new enterprise (Gartner & Carter, 2003). Previous studies suggest that the more these organizing activities are enacted, the more likely a firm will emerge (Honig & Samuelsson, 2001; Lichtenstein et al., 2007). Accelerators are short-term, limited-duration, cohort-based educational programs for nascent ventures, that apart from providing seed funding, often utilize extensive consultation with mentors, program directors, customers, guest speakers, alumni, and peers, that helps solidify the value proposition of nascent ventures (Cohen et al., 2019). Research has shown that being part of accelerators programs substantially aid and accelerate venture development (Hallen, Cohen, & Bingham, 2020) and affiliation with the accelerator is positively associated with new venture performance and growth (Dushnitsky & Sarkar, 2018). In that sense, a prosocial venture's selection into an accelerator program may lead to acquisition of initial financial capital and acceleration of business model development and expansion of the network. In this study, we seek to understand more, instead of proven track records of some of the factors that influence a selection decision, especially a venture's financial standing.

Scholars have called for more research about how accelerators process external information to make cohort admission decisions (Yang et al., 2020; Cohen et al., 2018), including entrepreneurial behaviors about capital structure decisions of the prosocial venture (Siqueria et al., 2018). Following, prior research on selection decisions of investors, such as angel (Prasad, Bruton, & Vozikis, 2000), venture capitalists (Plummer

Allison, & Connelly, 2016), and banks (Eddleston, Ladge, Mitteness, & Balachandra, 2016) we draw insights from signaling theory (Spence, 1973) to understand how the capital structure of prosocial ventures may project signals about its future performance (Rawhouser Villanueva, & Newbert, 2017) which may ultimately influence SIA selection decision. Signaling theory (Spence, 1973) is based on the comprehensiveness of the knowledge at hand; the more complete the knowledge, the better-informed decisions the receiver can make. Therefore, we use it as an overarching conceptual foundation for this study. At the same time, we note that decisions regarding assessment of future potential may stem from a venture's current financial standing, specifically, its capital structure (Cassar, 2004; Cumming, 2006; Robb & Robinson, 2014). A venture's capital structure consists of internal financing (revenue, cash flow) and external financings such as debt and equity financing.

Although institutional borrowing is a major source of financing for entrepreneurs (Cosh, Cummings, & Hughes, 2009), popular opinion is that bankers are also hesitant to provide loans to prosocial ventures because of difficulties in objectifying assessment criterion's social value creation (Bacq & Lumpkin, 2014). Bankers grants loans against a lender's ability to service the loan, which for a venture can be established through its previous track record, stable cash flows, and high-quality collateral (Berger & Udell, 1998). Thus, while external debt finance and bank finance may be difficult to obtain (Berger & Udell, 1998; Vanacker & Manigart, 2010), acquiring that source of financing may reflect its quality and which could inevitably increase its chances of selection into the SIA. Concerning equity financings, such as venture capital and angel financing, gaining these sources of financing is often extremely difficult for the entrepreneur

(Bhide, 1992) as venture capitalists and angel investors are interested in high-growth ventures (Baum & Silverman, 2004; Mason & Harrison, 2004). Consequently, if prosocial ventures manage to acquire these sources of finance, it may signal to SIA about its growth potential and influence selection decision. However, as per pecking order theory, there is a hierarchy in seeking external financing resources, wherein debt and equity are often the second last and last resort available to the firm (Myers & Majluf, 1984). Therefore, acquiring these sources of finance may not project a firm's high quality (Walthoff-Borma, Schwienbacher & Vanackery, 2018). On the other hand, static trade-off theory suggests that firms need debt and equity financing to create an optimal capital structure (Kraus & Litzenberger, 1973), projecting their future growth potential. Therefore, we layer pecking order theory and static trade-off theory with signaling theory to develop competing propositions on how capital structure may impact SIA selection decisions.

The remainder of the paper is structured as follows. In the next section, we provide the theoretical framework for the study and develop testable propositions. In the concluding section, we discuss the implications of the present study and highlight the study's contributions.

Theoretical Background and Hypothesis Development

Relevance of Accelerators in Prosocial Venturing

There is a growing trend that calls forth entrepreneurial actions aimed towards social change and shared value creation (Conger et al., 2018; Peredo et al., 2018; Mair & Marti, 2009; Santos, 2012) that recognizes "societal needs, not just conventional economic needs, define markets" (Porter & Kramer, 2011, p. 5), evoking a field of

entrepreneurship intended towards understanding the many nuances of “do-good” or pro-social entrepreneurship (Shepherd, 2015). Prosocial ventures are cause-driven organizations whose central tendency is to create social value (Battilana & Lee, 2014). Nevertheless, they use market-based organizational forms to achieve these objectives (Yunus Moingeon & Lehmann-Ortega, 2010).

By seeking to pursue a social objective through a business structure (Smith, Gonin, & Besharov, 2013), prosocial ventures are at the crossroads of market-based logics and social welfare logics - each logic consisting of distinct goals, values, norms, and identities integrating integration into one organizational entity (Battalina & Dorado, 2010; Fauchart & Gruber, 2011). Prosocial ventures may struggle to articulate its organizational objectives owing to their duality. The act of balancing competing demands of multiple, divergent stakeholders may lead to “performing tension,” causing stress on its organizational effectiveness (Smith & Lewis, 2011). Choosing to serve one (e.g., beneficiaries) might detract from the interests of another (e.g., external investors) (Tracey & Jarvis, 2007). Additionally, due to dual purpose, prosocial ventures are operating in new market category those “business environments in an early stage of formation” (Santos & Eisenhardt, 200, p. 644). Despite new opportunity spaces for prosocial entrepreneurial venturing (Battilana & Lee, 2014; McMullen & Bergman, 2017), a major uncertainty is resource acquisition and mobilization (Zhao & Lounsbury, 2016). Austin et al., 2006 explain that compared to purely profit-focused ventures, prosocial ventures have difficulty tapping into the same capital markets as commercial ventures because of non-distributive restrictions on surplus generated by such ventures (Austin et al., 2006: 3). Whereas commercial ventures can attract institutional lenders or private equity investors,

prosocial ventures may appear unappealing to traditional capital providers. Such curtailed access to resources becomes especially onerous when prosocial ventures need capital to invest in commercial activities (Calic & Mosakowski, 2016).

Given the challenges that prosocial ventures face, they often seek the support of accelerators to help them develop and refine sustainable business models that can generate positive social/environmental and financial returns in their early years. As a relatively new form of entrepreneurial support organization, accelerators programs are designed to help emerging ventures define their ideas, build initial prototypes, identify promising customer segments, build relationships with external investors and industry experts, all in a compressed time frame (Goswami et al., 2018). Accelerators help meet these needs by providing a range of support assistance, such as seed funding, networking, business training, mentoring, and office space (Cohen, 2013, Cohen et al., 2019). Despite the heightened interest in accelerators, very little is known about SIAs. Scholars note that a better understanding of SIA cohort selection's decision processes can provide insight into the efficacy of the acceleration process (Drover et al., 2017; Yang et al., 2020). In responding to this call, we recognize that most entrepreneurship research focusing on selection decisions has relied on signaling theory (Rawhouser et al., 2017) and, therefore, uses it as a foundation for developing our conceptual model (see Figure 1).

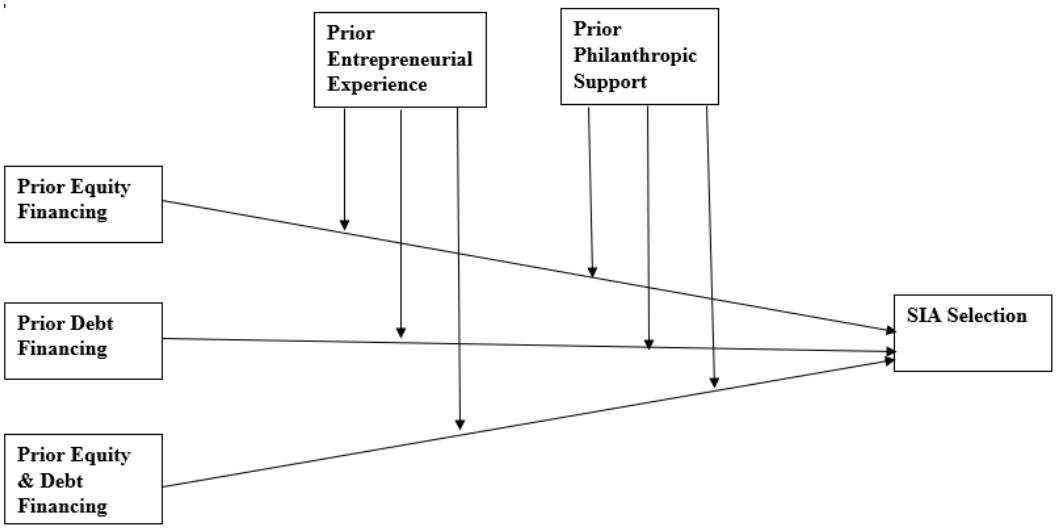


Figure 2-1: Conceptual Model

Signaling Theory

In essence, signaling theory is concerned with reducing information asymmetry between two parties (Spence, 2002). Spence (1973), using a labor market scenario, demonstrated how a job applicant might engage in behaviors to reduce information asymmetry that may hamper the selection ability of prospective employers. Spence posited that to the extent that employers believe one's education, for example, to be a reliable predictor of one's ability, job candidates who signal their educational credentials to employers could reduce information asymmetry, thereby providing the basis for a more informed hiring decision. The more complete, objective, and public-relevant decision criteria are, the easier it is to make informed decisions. On the contrary, when information is incomplete, subjective, or simply unavailable, indecipherable, observable proxies or signals can be used to decrease the asymmetry of the information held by the two parties. In this way, signaling can increase a decision-maker's ability to make informed choices (Spence, 1973, Spence, 2002).

Since its inception, signaling theory has been applied to multitude of fields to explain selection choices (Connelly, Certo, Ireland, & Reutzel, 2011). Concerning entrepreneurial finance literature, signaling theory has been used extensively by researchers. Due to their newness, entrepreneurial ventures may lack proven performance records, thus may seem less credible to investors (Stinchcombe, 1965). Indeed, Akerlof (1978) describes it as a "market for lemons," where information asymmetries abound, seller, privy to information may sell undesirable goods to buyers who lack credible information. On the contrary, specific signals can reduce uncertainty about firms' quality and hint at possible prospects in the eyes of key stakeholders and enhance transactions. As such, in place of objective measures, widely accepted and observable proxies (signals) acts as a credible source of information about a firm's quality that is predictive of financial investment such as media rankings (Rindova, Williamson, Petkova, & Sever, 2005), strategic partnership (Gulati & Higgins, 2003), stock repurchase plans (Westphal & Zajac, 2001; Zajac & Westphal, 2004). The signaling theory has been applied to predict the decision-making of traditional investor groups such as angels (e.g., Becker-Blease & Sohl, 2015), venture capitalists (e.g., Baum & Silverman, 2004; Plummer et al., 2016), and banks (Eddleston et al., 2016).

In simple terms, a capital structure refers to the mix of financing sources, equity, and debt that a firm uses to fund its growth and operations (Fama and French, 2002). Consequently, research suggests that a firm's capital structure is relevant in determining its quality (Kochher, 1996) as it provides a glimpse of how a firm balance between debt and equity to finance its assets, day-to-day operations, and future growth. In that sense, information related to a firm's capital structure may act as proxy of its quality, enhancing

the decision-making capacity of investors by mitigating uncertainties and risks concerning the financing of different types of entrepreneurial firms (Cumming, 2006). Norton (1991) found in a survey of high-growth corporations that the rule of "pecking order" is followed when it comes to financing firms' needs, i.e., the first choice is use of internal cash, the debt, and the issued equity as a last resort. Logically speaking, that order may reverse for entrepreneurial ventures because entrepreneurial ventures are characterized by cash flow concerns that limit financing flexibility (Cassar, 2004; Bellavitis, Filatotchev, Kamuriwo, & Vanacker, 2017; Dover et al., 2017). Concurrently, research suggests new ventures using debt at the initial year of operations are significantly more likely to survive and achieve higher levels of revenue three years after the firm's start-up (Cole & Sokolyk, 2018); therefore, firms have options to design an ideal capital structure, a trade-off between equity and debt or vice versa based on costs and benefits analysis. In the following sections, we lay the groundwork for developing competing arguments based on capital structure signals and selection decisions into SIA.

Pecking Order and Static Trade-Off Theory

According to pecking order theory (Myers & Majluf, 1984), due to asymmetric information and signaling problems associated with external funding, ventures follow a hierarchy of financing sources. This hierarchical descending order - internal funds, then debts, and finally equity. In other words, when a firm's internal cash flow is inadequate, firms resort to debt financing. While funds are raised through equity issues only after the capacity to issue debt has been exhausted (Shyam-Sunder & Myers, 1999). In other words, the cost of financing increases with every step down in that order. As such, entrepreneurs will prefer financing new projects or investments with internal funds,

which are not subject to information asymmetries (Myers, 1984). Scholars have found support for the idea that entrepreneurs often prefer using cheaper internal funds whenever available (Cosh et al., 2009; Hanssen, Deloof, & Vanacker, 2016). If external funds are inevitable, firms are likely to choose among those external sources of funds and choose the option with a lesser cost of capital first, i.e., debt. The costliest financing option is equity financing due to its highest level of information asymmetry, and a cost referred to as "lemon premium" (Akerlof, 1978). Because outside investors are confronted with adverse selection and moral hazard problems as entrepreneurs possess valuable information not available to external investors (Akerlof, 1978), the investors add a premium to the cost of the capital provided (Momtaz, 2020).

Static trade-off theory contends that the firm's optimal capital structure involves debt and equity. The optimal capital structure is determined through a cost and benefit analysis of financing through debt and equity (Kraus & Litzenberger,1973). Therefore, in simple words, it provides tax benefits and serious financial distress in case of relying on too much debt (Frank & Goyal, 2008). Debts may benefit from a tax shield; on the other hand, its drawback is that high debt can cause serious damage to the firm's capital structure (e.g., bankruptcy cost). Scholars have found that outside investors perceive a higher quality and accord more trust in firms trying to reach a target or optimum leverage (trade-off model). (Lopez- Garcia & Sogorb-Mira, 2008). In contrast, the ability to manage debt can serve as a reliable signal for outside investors. Such signals of firm accountability can alleviate the stringent information asymmetry at the early stages of the firm (Epure & Guasch, 2019).

Theoretically, entrepreneurial finance literature argues that profit maximization is an entrepreneur's sole objective (Sapienza, Toldra-Simats, & Zingales, 2013), and the quicker the profit realization occurs, the better the investment. However, such arguments do not consider the notion of social value creation that prosocial ventures aim to fulfill and may take longer to actualize (Bacq & Lumpkin, 2014; Austin et al., 2006). Moreover, it is argued that prosocial ventures are reluctant to add external financing sources to their financial structure (Sunley & Pinch, 2012) because entrepreneurs fear losing their independence (Sapienza, Korsgaard, & Forbes, 2003). More so in the case of prosocial entrepreneurs because the cause-driven nature of the venture may get diluted by pressures from external financers. According to static trade-off theory, one of the most influential theoretical perspectives in finance research on firm capital structure (Frank & Goyal, 2009), entrepreneurs trade off the benefits and costs of debt financing. Debt has an important benefit relative to equity in most countries' corporate tax systems: interest payments are tax-deductible, but dividends and retained earnings are not (or less so). Therefore, debt yields a benefit because it shields earnings from taxes (Modigliani & Miller, 1963). However, the use of debt may also cause financial distress costs (Kraus & Litzenberger, 1973), such as bankruptcy due to the inability to service debts.

Debt entails fixed payments (i.e., interest and principal repayment), and (the risk of) late or no payment causes direct and indirect financial distress costs. Direct costs include the legal fees and expenses incurred in bankruptcy proceedings. Indirect costs refer, for example, to the reluctance of customers and suppliers to do business with a firm that has a higher bankruptcy risk (Altman, 1984; Titman, 1984; Opler & Titman, 1994). Even if the firm eventually does not go bankrupt, the indirect costs of financial distress

can be very high (Opler & Titman, 1994). In the trade-off theory, entrepreneurs optimize capital structure so that the marginal benefit of an additional unit of debt equals its marginal cost (Frank & Goyal, 2009). In other words, having an obligation to service fixed debt payment, the pursuit of prosocial, nonfinancial goals may suffer. A prosocial venture that already functions with competing priorities (prosocial and financial), having to service a debt may seem like an additional financial obligation, which may signal to SIAs that there could be a possibility that the prosocial venture in the future may prioritize its financial obligation over and above its prosocial motivation and switch to being a commercial venture, putting into question the venture's commitment to creating environmental and social change. Therefore, I hypothesize that,

Hypothesis 1: *Debt financing relates negatively to SIA selection*

Acquisition of equity investment may not reflect the true quality of the firm. According to pecking order theory, the information asymmetry between entrepreneurs and investors is of first-order importance (Myers, 1984; Myers & Majluf, 1984). Entrepreneurs typically have more information about firm quality than external investors, which leads to adverse selection problems. Therefore, with rising information asymmetry, external investors may require a "lemons" premium (Akerlof, 1978) to mitigate the cost of adverse selection. Because internal equity is not subject to information asymmetry problems, pecking order theory predicts the existence of a financing hierarchy, where ventures tend to avoid the cost of external financing if possible. As a result, ventures will first prefer to use internal funds, opt for debt financing, and finally, outside equity as a last resort to finance investments (Myers 1984;

Myers & Majluf 1984). Cummings (2006) shows that nascent entrepreneurial ventures with little or no track record tend to select away from equity.

Further, attracting financial resources can come at the cost of diluting founders' equity and control of the company (Wasserman, 2017). Prosocial ventures that secure equity investments may send SIA signals that they are willing to relinquish a higher stake in their ventures to satisfy the "lemons" premium. SIAs may perceive such prosocial ventures to be underperforming tension (Smith and Lewis, 2011), leading them to stray from their mission of creating a positive change. This process, known as mission-drift (Hockerts, 2006), can create dissonance and interfere with critical processes of organizational identification on which much positive behavior depends" (Tracey & Phillips, 2007, p. 267) and may ultimately lead to venture failure (Foreman & Whetteh, 2002). Hence, I hypothesize,

Hypothesis 2**:** *Equity financing relates negatively to SIA selection*

Trade-off theory rests on taxation and bankruptcy costs which are key in determining an optimal capital structure (Frank & Goyal, 2009), which calls for a mix between debt and equity. The static trade-off theory posits that firms tend to trade off the benefits of debt, especially tax benefits (Titman, 1984, Myers, 1977). The theory predicts that companies make incremental financing decisions that allude to an optimal capital structure that benefits the firm. The optimal capital structure is when the marginal benefit of an additional dollar amount of debt financing equals its marginal cost. Because banks only seek interest payments and do not participate in firm management, bank debt is considered the cheapest outside financing source. However, as the need for additional financing increases, firms reach a point of optimal capital structure, wherein the marginal

benefits of debt (i.e., tax savings) are offset by its marginal costs (e.g., bankruptcy costs) (Myers, 1984; Myers, 2001).

Similarly, Graham (2000) notes that firms use less debt when the expected cost of financial distress is high. Firms seeking additional financing may then turn towards equity financing. Contrary to additional financing debt, new equity issues do not increase the probability of failure and do not exacerbate adverse selection problems (Carpenter & Peterson, 2002). Nascent prosocial ventures face complexity in establishing a revenue stream while pursuing social objectives and struggle with low cash flows. Therefore, issuing additional debt increases its liquidity risks.

On the other hand, creating a mix of equity with debt may deem advantageous due to lesser obligation of fixed payment (e.g., dividend payment to investors upon generating revenue/profits); therefore, would prefer lesser distress of servicing debt. Research has shown that equity investors provide capital only if a venture can achieve a return of five to ten times the initial investment (Bussgang, 2014). Prosocial ventures that are successfully able to raise equity investment should deliver a strong signal to other external parties of the significant upside potential of their venture in at least two ways. According to Yang et al. (2020), raising equity indicates that the prosocial venture has qualified upon a rigorous financial analysis validating the viability and sustainability of its business model (Madill, Haines, & Riding, 2005). Generally, irrespective of the source of equity investment, receiving equity investment also entails gaining access to investor's superior resources, capabilities, and networks, all of which should enhance the venture's prospects for scale and survival (Gulati & Gargiulo, 1999; Hsu, 2004). Research suggests that higher debts desist external investors from investing in a venture that displays future

potential because project benefits get accrued to pay off debts instead of paying dividends. Therefore, a mix of debt and equity would signal a prosocial venture's ability to develop an ideal capital structure, thus signaling its quality. Therefore, we hypothesize,

> ***Hypothesis 3:*** *SIAs are more likely to accept prosocial ventures that have received both debt and equity financing.*

Moderating Effects of Prior Entrepreneurial Experience

Researchers suggest that entrepreneurs gain many skills in the process of launching a venture, the more times an entrepreneur launches a venture, the higher the likelihood of achieving venture success (Westhead & Wright, 1998)**.** Prior entrepreneurship experience refers to an entrepreneur's experience through past involvement in founding a venture. Entrepreneurs tap on their knowledge from their prior ventures to formulate and execute plans for their new ventures. Entrepreneurial experience provides entrepreneurs with a "familiar corridor for additional knowledge, skills and abilities regarding firm creation" (Baum et al., 2014, p. 81), which enhances entrepreneurs' resource orchestration capacity (Symeonidou, Noni, & Nicos. (2017). Additionally, research suggests that founding experience enriches entrepreneurial judgment concerning conviction and selection through rational decision-making and strategic action planning (Uygur & Kim, 2016). Entrepreneurship research suggests that prior founding experience of entrepreneurs accrues benefits to the venture with such as increased access to capital (Hsu, 2007); experiential learning (Gruber, MacMillan & Thompson, 2008) that boosts start-up progress (Semrau & Hopp, 2016), and leads to achieving higher performance in their subsequent ventures (Paik, 2014; Parker, 2013). As entrepreneurship entails juggling varied responsibilities by the founder, different types of experience provide different skills (Shane, 2003). Founding experience fosters many

kinds of entrepreneurial skills, including managerial skills and market timing skills (Gompers, Kovner, Lerner, & Scharfstein, 2010). Having gone through conditions related to starting a venture or running a venture makes experienced entrepreneurs less susceptible to mistakes. Research suggests that understanding industry conditions and grasping customers' needs enhances the probability of developing a credible venture strategy and completing the successive steps in the entrepreneurial process of launching the venture (Carpentier & Suret, 2015). In that sense, prior venture experience is a resource that can predict future performance (West & Noel, 2009). Prior founding experience enhances an entrepreneur's network, paving the way for them to obtain diverse information and advice (Hsu, 2007). Research has also shown that entrepreneurial experience, including failures, may improve new venture survival (Delmer & Shane, 2014) and performance (Paik, 2014).

Entrepreneurship literature has evidenced that prior entrepreneurial experience is a valuable signal of quality when seeking external funding. In the absence of past performance records for new ventures, investors evaluate the future potential of the venture by evaluating the founder's prior entrepreneurial experience (Toft-Kehler, Wennberg & Kim, 2014). Carpentier and Suret (2015) found that for angel investors, the rejection rates are high for novice entrepreneurs during seeking seed or early-stage venture funding. Additionally, research has shown that prior founding experience increases both the likelihood of VC funding and venture valuation (Hsu, 2007). VCs consider prior entrepreneurial experience valuable because it accords creditability to the venture and displays the entrepreneur's ability to add future value (Lyons & Zhang, 2018).

Similarly, I argue that prior founding experience will moderate the relationship between capital structures and SIA selection. Prior founding experience will serve as a signal of venture expertise. It will depict the founder's ability to effectively overcome the uncertainty of commercialization and successfully launch a prosocial venture. Prior founding experience improves the capacity of entrepreneurs in accurately evaluating new business opportunities (Baron & Ensley, 2006) and altering strategic approaches to suit better the needs of the new market in the future (King & Tucci, 2002). Because prosocial ventures are operating under uncertain and ambiguous situations. The prior founding experience could signal the founder's ability and effectiveness in identifying prosocial opportunities with greater potential to create a positive impact while being commercially successful. Mentorship is intense in accelerators, and many relationships can exist between accelerators and startups (Kohler, 2016). SIAs would want to invest resources in those prosocial ventures whose founders can develop a value proposition for creating a social impact while generating revenue. In the absence of prior performance records, external evaluation of a new venture occurs concerning "what it brings to the table,"; its venture idea, and the individuals behind that idea. Evaluation of the prosocial venture's intention to create a positive change would happen based on its founder/s and their ability to bring the idea to fruition. In that sense, the prior founding experience can mitigate the negative effects of debt financing and equity investment.

> ***Hypothesis 4a:*** *Prior entrepreneurial experience weakens the negative relationship between debt financing and SIA selection.*
>
> ***Hypothesis 4b:*** *Prior entrepreneurial experience weakens the negative relationship between equity financing and SIA selection.*
>
> ***Hypothesis 4c:*** *Prior entrepreneurial experience strengthens the positive relationship between debt, equity financing, and SIA selection.*

Philanthropic Support as a Mechanism of Social Impact Quality

Prior research on entrepreneurial signaling has primarily emphasized signals that reflect a firm's future economic performance (Rawhouser et al., 2017) while somewhat overlooking aspects specific to prosocial ventures (Yang et al., 2020). The core of prosocial venturing rests on the notion of "societal needs" (Porter & Kramer, 2011, p. 5). The ability to effectively articulate the prosocial purpose of the venture leading to the acquisition of funding from impact-focused sources (such as impact investors, venture philanthropy funds, and governmental support schemes) (Bacq, Hertel, & Lumpkin, 2020) may signal the future ability of the venture to create social impact. For example, impact investment optimizes financial and social outcomes and thus promises to support prosocial ventures that simultaneously pursue financial and social goals (Lee, Abdi, & Singh 2020). Similarly, the notion of wealthy individuals leveraging their resources to promote the social welfare of others is a well-established belief (Dees, 2008; Mathias, Solomon, & Madison, 2017). In that sense, philanthropy refers to a sentiment of sympathetic identification of others, a thoughtful discernment of what needs to be done, and a strategic course of action aimed at meeting the needs of others (Schervish & Havens, 1998). Philanthropic support to prosocial ventures can encompass wealthy individuals (e.g., Pierre Omidyar, the founder of eBay) as well as a range of institutions from non-profit organizations (e.g., government agencies), foundations (e.g., Skoll Foundation), to for-profit companies (e.g., The Impact Angel Networks). The philanthropic support foci between negative and positive selections are based on the venture's perceived future environmental and/or social impact (Lehner, Harrer, & Quast, 2018). In other words, the decision to grant philanthropic support may originate from the

idea of fulfilling social and/or ecological motives that are either aligned with the investing ethos (Schäfer, 2005) of the philanthropic individual or the institution.

Because, at times, offering philanthropic support may be perceived to enhance the reputational capital of the stakeholders providing that support (Mathias, Solomon, & Madison, 2017). It necessitates assessment and deliberation of the cause being supported. The defining characteristic of prosocial venturing is 'other-directedness - an orientation toward benefiting others by relieving their hardship and/or promoting their welfare (Batson, 1998). Consequently, the ability to effectively articulate the positive impact on others and garnering philanthropic support should deliver a strong signal to external parties of the capability of the venture to meaningfully impact society. Research has established that philanthropy is not a passive, giving, or donating behavior but rather an action-oriented, change-seeking, results-driven, value-creating, social return-seeking behavior. (Porter & Kramer, 1999). Hence, the acquisition of philanthropic support may positively light the social impact assessment of the venture by SIAs. Alternatively, philanthropic support may include monetary investment and strategic advisory, organizational processes expertise, and access to business networks (Di Lorenzo & Scarlata, 2019), likely generating favorable credibility assessment by SIAs. Additionally, philanthropic support of the prosocial venture may be interpreted by the SIA as boosting its chances to seek additional resources from stakeholders, therefore, ensuring the venture's commitment to fulfilling its prosocial objective. Therefore, we propose,

> ***Proposition 5a:*** *Prosocial ventures that have received prior philanthropic support will increase their likelihood of selection into SIAs despite receiving debt financing.*

Proposition 5b: *Prosocial ventures that have received prior philanthropic support will increase their likelihood of selection into SIAs despite receiving equity financing.*

Proposition 5c: *Prosocial ventures that have received prior philanthropic support will increase their likelihood of selection into SIAs when they have received both debt and equity financing.*

Research Methodology

Sample

The sample is drawn from the Global Accelerator Learning Initiative, an initiative of the Aspen Network of Development Entrepreneurs (ANDE), which focuses on promoting entrepreneurship in developing markets. From 2013 to 2019, ANDE surveyed entrepreneurs conducting business in emerging markets across the globe that applied to a network of 203 SIAs. ANDE collected detailed data from these entrepreneurs at the time of the application to the SIAs and then subsequently on an annual basis to capture follow-up data (ANDE Annual Report, 2018). As I seek to determine the factors that influence the selection, the data used for the study will be derived from the initial survey, which was administered during the application process. At the end of 2019, the database contained 23,369 observations; however, the sample is restricted in two ways. First, I limited the sample period from 2016 to 2019 as it was from 2016 that acceptance/rejection to an SIA was documented. Second, to avoid double counting and capture the nascent stage of a prosocial venture, I limited the sample to those found in the same year they applied to an SIA (e.g., startups founded in 2016 and applied to SIAs in 2016). After applying these restrictions, the sample consisted of 2244 unique startups that applied to 123 accelerators. Years 2018 and 2019 were not included in the sample because of extensive missing observation. To ensure no startups in the sample applied to

more than one SIA, I checked for duplicates using the unique identification number assigned by ANDE to each startup and each SIA and did not find any.

Dependent Variable

The dependent variable is whether or not the social startup was accepted by the SIA to which it applied. This variable is dichotomous and is coded one if the startup was accepted and coded zero if it was rejected.

Independent Variables

Debt Financing

The survey asked respondents to identify the sources from which their ventures had received any debt financing, with response options including banks, non-bank financial institutes, government agencies, other companies, and from family members. I operationalized debt financing as a dichotomous variable, coded one for respondents that indicated having received debt financing from any one of the sources listed above, and coded zero for respondents who did not receive any debt financing.

Equity Financing

The survey asks respondents to identify the sources from which their ventures had received any outside equity, with response options including angel investors, venture capitalists, other companies, government sources, or others. I operationalized equity financing as a dichotomous variable, coded one for respondents that indicated having received an equity investment from any one of the sources listed above, and coded zero for respondents that indicated not receiving any equity investment.

Equity and Debt Financing

It will be operationalized as a dichotomous variable, coded one for respondents that indicated having received both equity and debt investment from any one of the sources listed above and coded zero for respondents who did not receive any debt and equity financing.

Moderator Variables

Prior Entrepreneurial Experience

The survey asks respondents to identify whether the lead founder has prior entrepreneurial experience. I operationalized this variable as a dichotomous variable, coded one for respondents who indicated having any prior entrepreneurial experience and coded zero for respondents who did not have any prior entrepreneurial experience.

Prior Philanthropic Support

The survey asked respondents to identify the sources from which their ventures had received philanthropic investment, with response options including other companies, government agencies, foundations or other nonprofits, fellowship programs, business plan competitions, or crowdfunding campaigns. I operationalized a social signal as a dichotomous variable, coded one for respondents that indicated having received a philanthropic investment from any one of the sources listed above, and coded zero for respondents who did not receive any philanthropic investment.

Control Variables

I controlled for factors that might also impact selection decisions by SIAs. At the venture level, for venture *impact area* as prior research has indicated that industry sectors can influence how startups operate (Wiklund & Shepherd, 2003) by including a set of

dummy variables for agriculture, health, and information technology, with "other" as the reference group. I controlled for the *legal status* of ventures because non-profit and for-profit organizations have intrinsic differences in structures, policies, and strategies (Hull & Lio, 2006). I controlled for the startups' legal status by including dummy variables for for-profit, with others as the reference group. According to Baum and Locke (2004), when entrepreneurs make their visions explicit, they are more motivated to achieve them, making them more attractive to SIAs. I controlled for intellectual capital as it could be, as prior research suggests that innovative ventures are attractive to investors (Nadeau, 2010). I controlled each startup's *intellectual capital* by including a dummy variable, coded as one of the ventures holds any patents and zero otherwise. At the entrepreneur level, I controlled for demographic factors such as the *age* of the lead founder and *gender* of the lead founder; as prior research suggests, in a traditional investment setting, gender can influence investor decisions.

Analysis

To test the probability of selection, I used probit regression in Stata 16 to examine the model. When interpreting the probit model results, the coefficients reported from the probit regression do not indicate the actual magnitude of an effect. The signs of and the p-values associated with the coefficients of main and interaction terms reported may not necessarily reflect the actual direction or the significance of the main or the interaction effects (Hoetker, 2007, Zelner, 2009). Thus, to determine the nature and significance of the main and interaction effects and facilitate the interpretation of the findings, I calculate marginal probabilities for the coefficients of interest.

Results

Table 2-1 reports the means, standard deviation, and correlations matrix of the study variable. As seen in Table 2-1, the reliabilities of all the variables are acceptable for research purposes (Nunnally, 1978). Equity financing is positively correlated to SIA selection ($r = .07$, $p < 0.001$) and positively to prior founding experience ($r = .10$, $p < 0.001$). Prior philanthropic support was significantly correlated to SIA selection ($r = .05$, $p < .05$). Debt financing did not have a significant correlation to SIA selection. The variable debt and equity financing were not included in hypothesis testing due to its limited number of observations and low predictive power.

Hypothesis Testing

Probit regression was used to assess the direct and interaction effects after controlling for several variables. The coefficients and p-values for all hypotheses are displayed in Tables 2-2 and 2-3. Hypothesis 1 states that ventures with debt financing would be less likely to get selected into SIA. Hypothesis 2 stated that prosocial ventures with equity financing were less likely to get selected to SIAs. The results in Table 2-2 Model 2 shows that debt financing was not significantly related to SIA selection ($\beta = 0.14$, $p = 0.46$). The marginal effect analysis suggests that holding all control variables constant at their means, a prosocial venture with debt financing has a 3 % chance of getting selected into SIA.

Table 2-1

Descriptive Statistics and Correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. SIA Selection	.16	.01																	
2. Debt F	.03	.01	.02																
3. Equity F	.05	.04	.07*	.01															
4. Debt & Equity F	0.00	0.00	.00	.00	.00														
5. Founder Exp.	.47	.01	-.02	.02	.09*	.00													
6. Philan. Support	.13	.01	.05*	.01	.02	.00	.02												
7. Education	.11	.01	.01	.00	-.04	.00	-.03	.06*											
8. Agriculture	.11	.01	.01	.00	-.04	.00	.01	.02	-.12**										
9. Health	.11	.01	.04	.02	.03	.00	-.03	.06*	-.12**	-.12									
10. Energy	.04	.01	-.03	-.01	.00	.00	-.02	.02	-.07*	-.08**	-.09								
11. Environment	.06	.04	-.02	-.01	-.02	.00	-.02	.00	-.09**	-.09**	-.05*	-.05*							
12. Water	.01	.02	.02	.01	.01	.00	.00	.01	-.04†	-.04†	-.02	-.02	-.03						
13. For-profit	.82	.01	-.02	-.00	.08**	.00	.07*	-.04†	-.11	-.05*	.02	.02	-.06*	-.04					
14. Intellectual P	.07	.05	.01	.01	.06*	.00	.05*	.06*	-.03	-.03	.12**	.09	-.01	-.07*	.05*				
15. F Team Size	2.73	.04	-.02	.03	.05*	.00	.10**	.13**	-.01	.04†	-.03	-.00	.06*	.01	-.05*	.05*			
16. Founder Age	31.76	.19	-.01	.06*	.02	.00	.03	.03	-.01	.01	-.01	-.00	.01	-.02	.01	-.00	.00		
17. Founder Gender(M)	.69	.01	-.08*	.04†	.06*	.00	.18**	-.02	-.03	-.02	.01	.01	-.02	-.01	.09**	.06*	.07*	-.04†	
18. Y2016	.55	.01	-.09*	-.03	.04*	.00	-.02	-.05*	-.02	.01	-.03	-.03	-.05*	.02	.09**	-.04†	-.01	-.04†	.01

** $p < .01$. *$p < .05$. † <.10

Table 2-2

Summary of the Probit Analysis-1

	SIA Selection					
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.58**	-0.58**	-0.58**	-0.58**	-0.59**	-0.60**
Education	0.06	0.06	0.06	0.06	0.05	0.05
Agriculture	0.10	0.10	0.10	0.10	0.10	0.09
Health	0.16	0.15	0.15	0.15	0.14	0.14
Energy	-0.16	-0.16	-0.16	-0.16	-0.17	-0.17
Environment	-0.09	-0.09	-0.09	-0.09	-0.09	-0.08
Water	0.37	0.36	0.36	0.36	0.36	0.35
For Profit	0.02	0.02	0.03	0.03	0.03	0.01
Intellectual Property	0.07	0.07	0.07	0.07	0.05	0.05
F Team Size	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02
Founder Age	-0.03	-0.04	-0.03	-0.03	-0.04	-0.04
Founder Gender	-0.23*	-0.23*	-0.23*	-0.23*	-0.23*	-0.23*
Y2016	-0.31**	-0.30**	-0.31**	-0.31**	-0.30**	-0.30**
Debt Financing		0.14	0.14	0.21	0.14	0.10
Founder Experience			-0.03	-0.02		
Debt Financing x Founder Experience				-0.15		
Philan. Support					0.20*	0.19*
Debt Financing x Philan. Support						0.26
Pseudo R^2	0.02	0.02	0.02	0.02	0.02	0.02
AIC	1882.07	1883.53	1885.35	1887.18	1878.91	1880.65
BIC	1961.76	1968.91	1976.42	1983.95	1964.29	1971.71

** $p < .01$. *$p < .05$. † <.10

Table 2-3

Summary of Probit Analysis-2

	SIA Selection					
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.58**	-0.57*	-0.56*	-0.56*	-0.58*	-0.58*
Education	0.06	0.07	0.07	0.07	0.06	0.05
Agriculture	0.10	0.12	0.12	0.12	0.11	0.11
Health	0.16	0.15	0.15	0.15	0.14	0.14
Energy	-0.16	-0.16	-0.16	-0.16	-0.17	-0.18
Environment	-0.09	-0.08	-0.08	-0.08	-0.07	-0.08
Water	0.37	0.35	0.35	0.35	0.35	0.35
For Profit	0.02	-0.02	-0.01	-0.01	-0.02	-0.02
Intellectual Property	0.07	0.05	0.05	0.05	0.03	0.03
F Team Size	-0.01	-0.01	-0.01	-0.01	-0.02	-0.02
Founder Age	-0.03	-0.04	-0.04	-0.03	-0.04	-0.04
Founder Gender	-0.23*	-0.24**	-0.24*	-0.24*	-0.24**	-0.24*
Y2016	-0.31**	-0.32**	-0.32**	-0.32**	-0.32**	-0.31**
Equity Financing		0.46*	0.46*	0.32*	0.45*	0.47*
Founder Experience			-0.05	-0.06		
Equity Financing x Founder Experience				0.21		
Philan. Support					0.20*	0.21*
Equity Financing x Philan. Support						0.11
Pseudo R^2	0.02	0.03	0.03	0.03	0.03	0.03
AIC	1882.07	1871.09	1873.01	1875.92	1868.56	1872.43
BIC	1961.76	1950.78	1958.39	1972.69	1953.94	1969.19

** $p < .01$. *$p < .05$. † <.10

The results in Table 2-3 Model 2 shows that prior equity financing was significantly and positively related to SIA selections ($\beta = 0.45$, $p < 0.05$). A marginal effects analysis shows that prosocial ventures with equity financing have a 10.5% ($p < 0.05$) chance of getting selected into the SIA. Thus Hypothesis 2 was not supported. Hypothesis 4a states that prosocial ventures with debt financing are more likely to be accepted by SIAs with lead founders with prior entrepreneurial experience. The results in Table 2-2 Model 4 show that the interaction term is negative and not significant ($\beta = -0.15$, $p = 0.69$). A marginal effects analysis was insignificant and negative. Thus, Hypothesis 4a was not supported. Hypothesis 4b states that prosocial ventures with equity financing and with prior entrepreneurial experience are more likely to get selected into SIA. The results in Table 2-3 Model 4 show that the interaction term was positive by insignificant ($\beta = 0.21$, $p= 0.45$). A marginal effects analysis was insignificant and negative.

Thus, Hypothesis 4b was not supported. Hypothesis 5a states that prosocial ventures with debt financing and philanthropic support are more likely to get accepted by SIA. The results in Table 2-2 Model 6 show that the interaction term between debt financing and philanthropic support was positive but not significant ($\beta = .26$, $p = .61$). A marginal effects analysis showed to be insignificant. Hypothesis 5b states that prosocial ventures with equity financing with philanthropic support more likely to be accepted by SIAs. The results in Table 2-3 Model 6 show that the interaction between equity financing and philanthropic support was ($\beta = .11$). In contrast, a marginal effects analysis shows that prosocial ventures with equity financing and prior philanthropic support have a 5% ($p< .05$) of getting selected, so Hypothesis 5b was somewhat supported.

Discussion

In this study, I have developed a theoretical perspective to understand cohort selection decisions of social impact accelerators. I drew insights from signaling theory to explain how SIAs may discern between "high-quality" and "low-quality" prosocial ventures. I based the arguments on pecking order theory and static trade-off theory, two of the most widely accepted capital structure theories within the finance literature. As per pecking order theory, there is a hierarchy associated with capital structure decisions of the firm, wherein a venture seeks external financing due to internal financial constraints. Thus, contrary to popular belief, debt financing and equity financing acquisition may not signal a higher quality prosocial venture.

The overall empirical results, however, do not offer support for the main and the moderating effects. On the contrary, static trade-off theory assumes that a combination of debt and equity financing creates an optimal capital structure. The optimal capital structure is difficult to obtain as ventures may struggle to obtain a balance between dead-weight costs of bankruptcy and the tax saving benefits of debt. Additionally, ventures consider equity financing as a last resort due to its high cost of capital.

Though unexpected, but not surprising was the fact that prosocial ventures with equity financing had a higher chance of selection. Perhaps a distinct decision process that goes into optimizing cohort selection of nascent prosocial ventures for SIAs relies on third-party assessment. Prior equity financing communicates to the SIA that the venture has undergone rigorous financial assessment, validating the viability and sustainability of its business model (Madhill et al., 2005). It highlights that the interpretation of signals may often be influenced by implicit bias (Dover et al., 2017), making decision-makers

partial towards certain conditions. On the other hand, debt financing may still be perceived as too risky without a positive cash flow (which is true for most nascent start-ups). Additionally, equity investment may signal that the prosocial venture may have potential access to equity investor's superior resources, capabilities, and networks, all of which can enhance the venture's scale and survival (Hsu, 2004). Therefore, under such a scenario, SIAs may conform and behave similarly to other traditional sources of finance, such as angel investors and venture capitalists.

Limitations and Future Research

I operationalized equity and debt financing as the presence or absence of equity or debt investment, not the signals' strength. Thus, it is possible that the amount or source of investment, i.e., equity investment from a government agency versus equity investment from angel investors and/or the number of investors one equity investor versus several equity investors, may provide additional information about prosocial ventures' credibility. Therefore, an avenue of future research could be to examine how the nature of equity and or debt investors impact SIA selection decisions.

The sample drawn from ANDE was a global sample collected through a survey from prosocial ventures applying to 123 different SIAs across multiple countries. Countries and SIAs contained within these countries represent their idiosyncratic differences. Although ANDE does not provide identifying information on the SIAs or the countries they belong to, adding matching controls from other data sources may generate additional nuances to the findings.

CHAPTER 3

SOCIAL AND ECONOMIC SENSE GIVING FOR PROSOCIAL VENTURES IN EQUITY CROWDFUNDING

Introduction

Although prosocial ventures aim to tackle grand social issues, which is different from commercial ventures' sole aim of profit maximization, both struggle with securing financial capital during the early stages of the venture; however, the problem amplifies for prosocial ventures mainly due to two reasons. First, prosocial ventures often require long-term investment (Bacq & Lumpkin, 2014), making opportunity costs for investors to increase instead of investing in commercial ventures, allowing for quicker financial returns (Austin, Stevenson, & Wei-Skillern, 2006). Secondly, by its very nature, prosocial ventures possess an added complexity owing to the demand to meet dual objectives, i.e., social and economic in tandem. They may assess its performance as complicated for investors (Austin et al., 2006). Lack of an appropriate measurement of clear and quantifiable performance objectives may cause investors to perceive a highly risky investment in a prosocial venture. Prosocial ventures are increasingly turning towards crowdfunding to counter these financial resource acquisition issues (Allison, Davis, Short, & Webb, 2015; Kuppusawmy & Bayus, 2017; Logue & Grimes, 2018; Short, Ketchen, McKenny, Allison, & Ireland, 2017). Crowdfunding

refers to the “efforts by entrepreneurial individuals and groups–cultural, social, and for-profit–to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries” (Mollik, 2014, p. 2). In other words, crowdfunding calls forth the power and wisdom of the collective formed by diverse individuals, bringing together to achieve a common goal: to fund an idea/venture.

Crowdfunding has increasingly become a valuable alternative source of raising capital for new ventures (Allison et al., 2017; Belleflamme, Lambert, & Schwienbacher, 2014; Kuppuswamy & Bayus, 2017). To date, approximately 2,000 crowdfunding sites exist to facilitate interactions between entrepreneurs and would-be funders (Drake, 2015). Their collective financial impact is tremendous. The World Bank believes that crowdfunding could account for over $300 billion in cumulative transactions by 2025 (Short et al., 2015). With the legalization of crowdfunding in the US through the Jumpstart Our Business Startups Act (2012), crowdfunding efforts may also treat funders as investors, giving them equity stakes in return for their funding. Despite the initial skepticism about the high levels of regulations in equity crowdfunding (Heminway & Hoffman, 2010; Mollick, 2014), it has been widely accepted and adopted in the US and other countries (Abrams, 2017).

While previous research has explored factors that influence funders to invest in equity crowdfunding (Vismara, 2016a), little is known about equity crowdfunding factors influencing prosocial ventures (Calic & Mosakowski, 2016). Given that crowdfunding draws a diverse group of individuals consisting of novice and experienced investors, each may have a different motivation to fund a crowdfunding campaign. Some members of the

crowd may become inclined towards the prosocial aspect of the venture and by providing funds may construe it as an opportunity to co-create the social changes for which the venture is aiming. On the other hand, some crowd members may become attracted to the investment and growth potential of the prosocial venture due to its novel product or service. Prosocial ventures are classified as hybrid organizations, spanning different categorical boundaries, such as social welfare and economic logic (Battalina & Dorado, 2010; Wry & York, 2017). As such ventures involve multiple logics may have greater difficulty in articulating their mission, garnering resources from external audiences than ventures that fit cleanly into established categories because audiences are less able to make sense of such organizations and are less likely to view them as appealing (Moss, Renko-Dolan, Block & Myskenes, 2018). To give a sense of its purpose by correctly responding to the audiences' expectations and formulating their message that will resonate with the right audience can signify success in raising capital from the crowd. A key part of any crowdfunding proposal is a description of the venture that may include snippets from the life and business of the entrepreneur along with details of the venture, its aims, and goals. While crowdfunding scholars have explored the importance of storytelling and entrepreneurial narratives (Cappa, Pinelli, Maiolini, & Leone, 2020; Gafni, Marom & Sade, 2019; Manning & Bejarano, 2017), there is a call for more research exploring prosocial crowdfunding that adopts a dual strategy of financial and non-financial motivations (Berns, Figueroa-Armijos, Veiga, & Dunne, 2020; Cholakova & Clarysse, 2015). Concurrently, entrepreneurship scholars have called for more research exploring crowdfunding's revelatory setting as the collective and unfolding nature of early-stage entrepreneurship (Fisher, Kuratko, Bloodgood, & Hornsby, 2016; Soublière

& Gehman 2020). We answer the calls in our paper by exploring how linguistics representations found in the crowdfunding pitches influence a diverse crowd for equity prosocial crowdfunding.

Entrepreneurship being a socially embedded phenomenon, meaning may be derived from language, talk, and communication (Weick, Sutcliffe, & Obstfeld, 2005). In this vein, several researchers have examined how entrepreneurs use language in a sense giving context to influence the way that another party understands or makes sense (Gioia & Chittipeddi, 1991) of the venture idea, identifying the use of gestures (Cornelissen, Clarke & Cienki, 2012), metaphors (Nicholson & Anderson, 2005; Hill & Levenhagen, 1995), rhetoric and narratives (Holt & Macpherson, 2010) as communication tools. Sensegiving refers to the deliberate attempt to shape the interpretations of others (Gioia & Chittipeddi, 1991). In the context of prosocial ventures, operating under significant ambiguity, perpetuating a purpose by situating its understanding in a wider social environment, evoking acceptance and approval to garner support is supremely important (Cornelissen & Clark, 2010; Hill & Levenhegen, 1995). One such mechanism through which prosocial ventures can express their mission is through entrepreneurial narratives. The best entrepreneurial narratives strike positive emotional chords with investors, thereby motivating their action and support (Boje, Oswick, & Ford, 2004; Rindova, Becerra, & Contardo, 2004; Shaw, Brown, & Bromiley, 1998). Resonance is felt when narrators attend "closely to the socio-cultural context in which they craft their stories" (Martens, Jennings & Jennings, 2007, p. 1117)—for example, acknowledging broader societal trends echoes with a wider audience and that has meaning beyond the entrepreneurial endeavor. However, little is known about linguistic representation

embedded within entrepreneurs' various rhetorical strategies represented though entrepreneurial narratives that prosocial ventures utilize to crowdfund their ventures.

Theoretical Background and Hypothesis Development

Equity Finance

Entrepreneurs often prefer financing sources that involve relinquishing less control and require lower servicing costs (Cosh et al., 2009; Vanacker & Manigart, 2010). As such, entrepreneurs' first preference is for personal financial resources, followed by soft funding sources from family and friends, and often pursue external sources last (Bruton, Khavul, Siegel & Wright, 2015). Banks may be considered a major financing source for entrepreneurs (Cosh et al., 2009). However, popular opinion depicts a different picture, suggesting that bankers are also hesitant to provide loans to entrepreneurial ventures. Bankers care about firm creditworthiness, thus their preference to provide business loans to less informationally opaque firms with an established track record, stable cash flows, and high-quality collateral (Berger & Udell, 1998). Thus, while external debt finance and bank finance, in particular, are often crucial, entrepreneurs also experience problems accessing this source of financing, especially when their ventures lack an established track record and invest heavily in intangible assets to pursue future growth (Berger & Udell, 1998; Cassar, 2004; Vanacker & Manigart, 2010).

Entrepreneurs also seek traditional sources of external equity finance, such as venture capital (VC), corporate venture capital (CVC), and angel investors. VC is the most widely recognized form of equity financing. VCs raise funds from a set of limited partners (university endowments, pension funds) and seek to provide a return to these investors through selective investments into a portfolio of young, innovative companies

(Drover, et al., 2017; Gompers & Lerner,2000). VC firms are typically small, geographically clustered entities, often working closely with the ventures they invest in to provide guidance and value beyond capital (Sapienza, 1992; Sørenson, 2007). CVC denotes the systematic practice by established corporations of making equity investments in entrepreneurial ventures (Dushnitsky & Lenox, 2006). Angel investors are accredited individuals who invest their capital into young ventures. Angels are often former entrepreneurs who seek to fund and add value/guidance to investee firms in their area of expertise (Drover et al., 2018). However, obtaining external financing sources is often extremely difficult for the average entrepreneur (Bhide, 1992).

Moreover, in the aftermath of the financial crisis, sophisticated investors have become more risk-averse (Block & Sander, 2009), as such entrepreneurial ventures find it increasingly difficult to secure these traditional sources of finance. Venture capital and angel investors are primarily interested in ventures with high growth ambitions, and their selection filters are extremely restrictive (Baum & Silverman, 2004; Bertoni, D'Adda, & Grilli, 2015; Mason & Harrison, 2004). They are focused on realizing timely exits via acquisition or IPO, which may not suit the extended time horizon necessary for prosocial needs to transpire. Arms of corporations invest CVC funds as extensions of their primary focus (Benson & Ziedonis, 2009). Hence, CVCs invest in those entrepreneurial ventures that integrate well within their market offerings and enhance their own companies' portfolios. Additionally, frequently despite the availability of VC and angel financing, many entrepreneurs are reluctant to search for these sources of finance because they fear losing control of their ventures (Sapienza Korsgaard, & Forbes, 2003). Indeed, venture capital and angel investors often require important equity stakes in ventures and are

actively involved in their portfolio firms' post-investment (e.g., through involvement on the board of directors), which might conflict with the prosocial ventures' social good agenda.

Equity Crowdfunding

In recent years, crowdfunding has become a mainstream source of funding for early-stage firms. (Ahlers, et al., 2015; Vismara, 2016a). Crowdfunding draws inspiration from concepts like micro-finance (Morduch, 1999) and crowdsourcing (Poetz & Schreier, 2012) but represents its unique fundraising category, facilitated by a growing number of internet sites devoted to the topic. Equity crowdfunding refers to the type of early-stage funding in which many investors, who are primarily approached via online platforms, contribute a small fraction of capital for company ownership (Vulkan, Åstebro, & Sierra, 2016). According to Mollick (2014), there are four main models of crowdfunding. First, the patronage model places funders in the position of philanthropists who expect no direct return on their donations. Second, the lending model offers loans with the expectations of some rate of return on capital invested. The third is reward-based crowdfunding, which treats funders as early customers, expecting that the venture provides the finished product to the funders later. Fourth is equity crowdfunding, which is a new form of entrepreneurial finance. Investors do not receive perks or engage in pre-purchase of the product but rather participate in a firm's future cashflows (Hornuf & Schwienbacher, 2018). In other words, new ventures issue financial securities to acquire capital. Historically, low-interest rates on savings motivated individuals to participate as lenders in the peer-to-peer debt crowdfunding market, which is now the most widely adopted form of alternative finance. Because of security regulations, equity crowdfunding

was late to the game but has seen tremendous increase in recent years (Bruton et al., 2015). First, it enables entrepreneurs to solicit financial resources from many geographically distributed non-professional resource providers, often exchanging presales of a (future) product and/or service (Mollick & Nanda 2016). In contrast, entrepreneurs in traditional settings mostly solicit equity investments from a few professional and/or angel investors seeking financial returns (Kirsch, Goldfarb, & Gera, 2009). Second, in crowdfunding campaigns, interactions between entrepreneurs and resource providers occur in public and are easily observed by (prospective) resource providers in real-time and retrospect (Burtch, Ghose, & Wattal, 2016). In contrast, professional and angel investors often rely on private, in-person, and dyadic exchanges with entrepreneurs when making their funding decisions (Murray, Kotha & Fisher, 2020).

Equity crowdfunding has emerged as a new source of external equity finance that plays an increasingly important role in the financing of young entrepreneurial firms (e.g., Ahlers et al., 2015; Bruton et al., 2015; Cumming & Vismara, 2017; Drover et al., 2018; Short et al., 2017; Vismara, 2016, 2018). This phenomenon provides new opportunities for entrepreneurs to target a broader group of external equity investors. Although to some extent, all crowdfunding funders may be thought of as investors, making decisions about which projects to support based on their expectations for success (Mollick, 2014), some aspects of equity crowdfunding are categorically different from other types of crowdfunding because of several reasons. First, equity crowd funders pledge a higher average amount. Secondly, the goal amount of equity crowdfunding campaigns is on average higher, which may steadily increase over time. Thirdly, each project provides a pre-money valuation that helps a funder decide on the potential quality of the campaign.

And finally, funders have a clear goal of obtaining a positive return on their investment monetarily (Vulkan, Astebro & Sierra; 2016).

Additionally, crowdfunding as a source of entrepreneurial finance is steadily rising (Cumming and Johan, 2017). Consequently, certain aspects of crowdfunding make the study of early-stage ventures unique and gaining a deeper understanding of prosocial ventures. Access to the full pitch presented to the investors, which non-crowdfunding entrepreneurs typically keep classified; focus on early-stage finance, usually the stage least exposed to outsiders; it enables us to have a very clear definition of success – the entrepreneur sets a goal and must reach it. Otherwise, the entrepreneur receives no funding (Gafni, Marom & Sade, 2019)

Previous research on equity crowdfunding has explored success factors in raising equity crowdfunding (e.g., Ahlers et al., 2015; Vismara, 2016), while others have examined dynamics on equity crowdfunding platforms (e.g., Hornuf & Schwienbacher, 2018, Vismara, 2018; Vulkan et al., 2016) and outcomes after equity crowdfunding campaigns (e.g., Signori & Vismara, 2018). Additionally, scholars have examined factors such as prior financing that lead ventures to seek equity crowdfunding (Kleinert, Volkmann, & Grünhagen, 2018; Walthoff-Borm, Schwienbacher, & Vanacker, 2018). Concurrently, literature in prosocial crowdfunding has explored lending-based crowdfunding models (e.g., Allison et al., 2015; Calic & Mosakowski, 2016; Moss et al., 2018) and reward-based crowdfunding (e.g., Parhankangas & Renko, 2016). However, there is limited research exploring prosocial equity crowdfunding. Scholars have called for more research exploring prosocial crowdfunding in different crowdfunding settings (Calic & Mosakowski, 2016) and equity investments in crowdfunding (Parhankangas &

Renko, 2016). Acknowledging this call for research we explore equity crowdfunding for prosocial ventures through the lens of sense giving. However, little is known about how prosocial ventures articulate their dual missions to build legitimacy to seek financial resources from a broad group of stakeholders. While others explored crowdfunding, we assess how linguistic cues known to affect underlying motivation can frame entrepreneurial narratives either as a business opportunity or as an opportunity to help others.

Sense Giving Through Linguistics

How do investors determine the future value of a venture that propels them to invest? Although research considering financing prosocial ventures is relatively nascent, a great deal of prior research has delved into the features of new ventures seeking financial investment (Balachandra, Briggs, Eddleston, & Brush, 2019; Higgins & Gulati, 2006). This research suggests that investors pay attention to a wide variety of factors, including personality and experience (Higgins & Gulati, 2006), environmental conditions (Eisenhardt & Schoonhoven, 1990), gender (Balanchandra et al., 2019; Greenberg and Mollick, 2017; Orser, Riding & Manley, 2006), expertise-based intuition (Huang & Pearce, 2015) and product and market category (Lockett, Murray, & Wright, 2002). This research also suggests that investors are not fully rational and that their decisions are often shaped by ventures' annunciate information (Moss et al., 2018). This dissemination is the "sense giving process, actors use power and other resources to enact their subsidiary identity, to respond meaningfully to and thereby influence the behavior of others" Clark and Geppert (2011, p. 399).

Scholars have looked at sensegiving from the standpoint of gaining legitimacy (Aldrich & Foil, 1994; Petkova, Rindova & Gupta, 2013). This research suggests that organizations consider different sense-giving mechanisms to influence a broad stakeholder audience from a distance. The research emphasizes the importance of sense-giving activities, such as narratives that enable new ventures to describe their resources, activities, and growth strategies (Lounsbury & Glynn 2001, Martens et al., 2007; Porac & Thomas, 2002). The communication process through entrepreneurial narratives contributes to the acceptance and approval of legitimacy (Hallen & Eisenhardt, 2012; Vissa, 2011). Concurrently, sociocognitive research suggests that organizations consider sensegiving to draw attention and gain acceptance and approval (Petkova et al., 2013). While information cues affect both attention and acceptance, and approval, it is the overall salience and availability of a stimulus that affects attention. In contrast, acceptance and approval occur based on the presence and levels of specific attributes (Pollack et al., 2008).

In the early stages of creating a new venture, entrepreneurs also need to speak to others about this vision in order to gain feedback and their support (Lounsbury & Glynn, 2001) to the extent that language is closely connected at the point where entrepreneurs verbalize their experiences and elaborate these in a context of speaking to others. Since giving is expression aimed at others (Tetlock & Manstead, 1985) characterized by symbolic processes of influence and impression management, largely conditioned and bounded by the discursive fields or communities in which entrepreneurs operate (Cornelissen, Clark, & Cienki, 2012, Cornelissen, 2012) Therefore, entrepreneurial narratives, expressed through languages, that depicts details of business and life are part

of the sensegiving process (Dodd, 2002). As a result, we have witnessed a more direct interest in the role of language and communication in entrepreneurship and entrepreneurial finance (Clarke & Cornelissen, 2011).

This paper considers linguistic representations consists of content words (what is said), adjectives, nouns, and verbs which conveys meaning as well as style words (how it is said) which uses verb tense, articles, prepositions, negations, as well as the use of emotion words (affective tone of communication), words describing cognitive processes (such as the use of causation words, self-discrepancies), relativity-related words (e.g., time, verb tense, motion, space), and sensory-related words (see, hear, feel) (Chung & Pennebaker, 2012; Toma & D'Angelo, 2015, Parkahangas & Renko, 2017). Linguistics representations can occur in multiple forms, including face-to-face interactive discursion and one-sided written texts (Alvesson & Karreman, 2000; Grant, Hardy, Oswick & Putnam, 2004). Research suggests that entrepreneurs use linguistic representations to acquire legitimacy or resources (Lounsbury & Glynn 2001; Zott & Huy, 2007). Appropriate representations help orient individuals around a common effort that may lack precise definition, and linguistics may offer such representations (Simon, 1996). As documented within the entrepreneurship literature by generating and communicating "insight into how things are" (de Koning & Dodd, 2002, p. 2) through linguistics and language entrepreneurs enhance the likelihood of securing investment capital (Martens, Jennings & Jennings, 2007).

While much of the earlier research on entrepreneurial finance has focused on formal investors as the targets of entrepreneurs' communication, more recent literature acknowledges that the investing "crowd" behaves differently. A key part of any

crowdfunding proposal, a description is included in which the entrepreneurs present the project to be funded. Previous research has demonstrated the importance of communication content (what the pitch contains) for funding purposes. Recognizing the relevance of linguistics representation in crowdfunding, scholars have explored various means entrepreneurs employ to convince a diverse audience (Allison et al., 2015; Frydrych, Bock, Kinder, & Boeck, 2014). For instance, Allison et al. (2017) found that a positive narrative style in the crowdfunding pitches is positively related to crowdfunding success. Manning and Bejarano (2017) found that crowdfunding projects narrated in different styles—as "ongoing journeys" or "results-in-progress"— convey project value and help secure funding from investors. Gafni, Marom, and Saade (2019) found that the higher the incidence of referring to self, highlighting the entrepreneurial ability, the better the chances of securing crowdfunding. Clarke, Cornelissen, and Healey (2019) showed that entrepreneurs' use of different verbal tactics such as literal and figurative language to frame a venture conveys their passion and preparedness during an idea pitch, enhancing the perception of investment potential for investors. Collectively, prior research demonstrates that that effective communication is vital to crowdfunding success, as funding decisions are based on very limited amounts of the digitally conveyed information. To that effect, giving sense through meaningful communication methods has been an important aspect of how new firms gain support (Cornelissen & Clarke, 2010), especially in ventures with prosocial objectives (Jones, Latham, & Betta, 2008). To identify a social problem and envisage a business solution, prosocial entrepreneurs must make sense of the status quo and new ideas. They use linguistic representations to illustrate the legitimacy of their new ideas and envisioned future to stakeholders.

Sensegiving strategies, such as linguistics rely on approaches to communication which either seek to legitimize and align or an internalized entrepreneurial ideal of consistent collaboration (Kimmitt & Munoz, 2018) as articulating a new vision for how a social problem can be solved and how it should be communicated to others (Hill & Levenhagen, 1995) which may result in garnering support for the venture in a crowdfunding context. Language has formative effects on thought processes (Langacker, 1991). However, for entrepreneurs who aim to convey messages to prospective investors and attract resources effectively, crowdfunding represents an especially noisy environment in which a copious amount of information vying for investors 'attention (Steigenberger & Wilhelm, 2018) and favorable impression formation through linguistic representation by displaying its prosocial objective and investment potential is bound to make a difference in its level of attractiveness to the crowd.

In the context of crowdfunding, research suggests that engaging the community is important to foster social identification among existing resource providers (Murray, Kotha & Fisher, 2020). Prosocial ventures utilize market-based business practices to mitigate social issues (Grimes, McMullen, Vogus, & Miller, 2013). The goal is to create a business solution for benefiting the disenfranchised (George, McGahan, & Prabhu, 2012). Prosocial objectives, therefore, involves a process that fosters social and economic wellbeing of communities (Mair & Marti, 2009) that requires the prosocial entrepreneur to alter how others perceive and understand the world (with its deficiencies) and to help them envision the proposed alternative (Maitlis & Lawrence 2007). To that effect, to ensure the achievement of crowdfunding goals, prosocial entrepreneurs must communicate their thoughts and vision to seek "buy-in" from others to gain their support

(Rouleau, 2005). Engaging the crowd is essential, both to envision prosocial purpose and obtain the necessary financial capital to propel the vision into a reality. Crowdfunding research has found that crowdfunding pitches that highlight the venture as an opportunity to help others can achieve crowdfunding success (Allison et al., 2015). Research suggests that funders are willing to fund a prosocial venture because of their desire for social participation and interaction, i.e., taking part in something that helps a friend or someone else they can relate to needing money for a social or a personal cause (Belleflamme et al., 2012; Gerber et al., 2012). Parhankangas and Renko (2017) suggest that linguistic styles that connect the entrepreneurs to their audiences personally boost the success of prosocial crowdfunding campaigns.

Similarly, we argue that aligning the crowdfunding campaign with the prosocial objective by describing the venture as the social process of enacting change for the betterment of others may lead to crowdfunding success. New organizations are enacted as critical stakeholders (such as funders) change their behaviors to allow the organization to emerge (Low & Abramhamson, 1997). Employing linguistic representation and situating the venture's goals and objectives as the unit of understanding of enacting good may empower funders to "act" by funding the venture. Stephan, Patterson, Kelly, and Miar (2016) suggest that calling forth the power of the crowd to enact changes is possible when they are solicited and made to feel empowered enough to do so. Therefore, if co-creation, empowerment, and participation are both a process and a resource for prosocial entrepreneurs, it is logical to expect that social process terms will often occur in prosocial crowdfunding pitches.

> ***Hypothesis 1:*** *Greater emphasis on social process terms in crowdfunding pitches will be positively related to crowdfunding success.*

Prosocial ventures are essentially "the offspring of two different species," (Doherty, Haugh, & Lyon, 2014, p. 418), characterized by a mixing of social and economic elements (Battilana & Dorado, 2010). As it requires the achievement of social goals through commercial activity (Moizer & Tracey, 2010), the social and economic aspects of the venture can be held at varying intensity levels and are symbiotic (Shepherd, Williams, & Zhao, 2019). The process of achieving prosocial objectives runs its course by recognizing and exploiting opportunities to create social value, employing innovation, tolerating risk, and declining to accept limitations in the availability of resources (Peredo & McLean, 2006). The ability to leverage financial resources that address social problems is central (Dacin et al., 2010). The process to acquire it can have both differences and similarities with commercial entrepreneurship (Austin et al., 2006). Research suggests that apart from managing the dual performance objectives (social and economic), prosocial organizations must also remain accountable to stakeholders (Battilana & Dorado, 2010; Pache & Santos, 2013).

Prosocial ventures seeking financing through crowdfunding provide an opportunity to understand the market and test out interest in the proposed product (Colombo Franzoni & Rossi–Lamastra, 2015). In such early stages, as the company, its product, and its marketing choices are articulated, investors realize that they can assess the goals, the values, and the overall ideology associated with entrepreneurial ideas and can make decisions that are meaningful and influential (André et al. 2017; Calic & Mosakowski 2016). To that effect, prosocial entrepreneurs exhibit both utilitarian (i.e., entrepreneurial, opportunistic, pragmatic) and normative identity traits (i.e., social, people-orientation) (Moss et al., 2011; Stevens et al., 2014). The former is governed by

economic rationality, revenue maximization, and cost minimization, whereas the latter is governed by ideological commitment towards the betterment of others and solving grand social issues. Moss, Short, Payne, and Lumpkin (2011) found in their studies that prosocial ventures display utilitarian identity that is similar to commercial ventures, indicative of attention to economic performance. Moreover, Stevens, Moray, and Brunel (2014) showed that for prosocial ventures, the social and the economic missions are related to each, one informing the other and vice versa.

We contend that the language used by prosocial entrepreneurs to describe the venture, its goals, and objective during the equity crowdfunding pitch may consciously reflect, along with its prosocial mission, its economic potential as a viable opportunity for investment for funders. In a crowdfunding setting, funders are diverse and represent a wide variety of funding logic (Moss et al., 2018), therefore describing the prosocial mission as a marketable opportunity with words related to money (such as cash, revenue, sell), numbers (example, thousands) and quantifiers (example, much, many) may help formulate the opinion of the crowd. Using economic terms during the campaign pitch may make its prosocial objective less ambiguous and more actionable, thus making it easier for funders to grasp the venture's purpose and thus attract the crowd that is still forming its opinion to invest in the venture.

> ***Hypothesis 2:*** *Greater emphasis on economic terms in crowdfunding pitches will be positively related to crowdfunding success.*

Long Term Orientation

Butler (1995, p. 946) claims that "time, as we experience it in the present, can only have meaning in relation to our understanding of the past and our vision of the future." Social changes take time (Bacq & Lumpkin, 2014). Combining social change

with liabilities of newness (Stinchcomb, 1965) in prosocial venturing may further conflate their ability to gain access to resources. However, Wang and Bansal (2012) have shown that the impact of newness is lessened when new ventures adopt a temporal orientation which is a subjective perspective of time reflected in the temporal depth of its strategic decisions (Ancona, Okhuysen, & Perlow, 2001; Fiegenbaum, Hart, & Schendel, 1996; Lee & Liebenau, 1999). A firm's temporal orientation can range from short to long; strategic decisions with a short-term orientation emphasize efficiency, whereas decisions with a long-term orientation emphasize effectiveness (Covin & Slevin, 1989; Venkatraman, 1989). According to Miller and Le Breton-Miller (2005), "the only way to sustain good performance is to act in the long-run interests of the company and all of its stakeholders" (p. 232). Long Term Orientation (LTO) tends to prioritize long-range implications and impact decisions and actions that come to fruition after an extended period (Le Breton-Miller & Miller, 2006; Lumpkin & Brigham, 2011). Like prosocial ventures, family firms exist with dual objectives. For example, the economic activities of family firms are often aimed at creating and preserving wealth for future generations (Zellweger, 2007). The pursuit of noneconomic goals is another distinguishing feature of many family businesses (Chrisman, Kellermanns, Chan, & Liano, 2010; Chua, Chrisman, & Sharma, 1999). Noneconomic goals such as succession within the family (Handler, 1994), the creation and preservation of socioemotional wealth (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), developing and protecting the family reputation (Miller & Le Breton-Miller, 2005), and transgenerational value creation (Zellweger, Nason, & Nordqvist, 2012) have all been discussed in association with an extended frame of LTO. Strategy scholars have shown that firm value increases when

they adopt a long-term perspective such as innovation and stakeholder relationships, thereby mitigating the "time-based" agency conflict between shareholders and managers (Flammer & Bansal, 2017).

Research has also shown that language affects the degree to which people judge events with different degrees of goal-orientation (Athanasopoulos & Bylund, 2013) and whether they describe ongoing actions by mentioning endpoints (Athanasopoulos et al., 2015). Research has emphasized that organizational driven social change is touted as being an intertemporal trade-off for business sustainability (Bansal & DesJardine, 2014; Slawinski & Bansal, 2015), a strategy to engage non-financial stakeholders over the long term (e.g., Hillman & Keim, 2001; Luo & Bhattacharya, 2006; Marquis, Glynn & Davis, 2007), and an insurance mechanism against future risks (e.g., Godfrey, 2005; Koh, Qian, & Wang, 2014). Additionally, Liang, Marquis, Rennebog, and Sun (2018) found that future orientation can impact organizational social activities. Therefore, for LTO, there are two aspects, it combines the argument that social goals need time, so prosocial firms depicting such an outlook will be attractive to investors, who are attracted by the ideology that prosocial ventures will effectively create the change that they have set out to create (Wang & Bansal, 2012; Bacq & Lumpkin 2014; Siqueira, Guenster, Vanacker, & Crucke, 2018). Similarly, strategy literature explicates that adopting an LTO perspective gives a positive outlook to investors.

> ***Hypothesis 3a:*** *Long-term orientation will moderate the relationship between social process terms and crowdfunding success, such that when long-term orientation is high, the relationship becomes stronger.*

> ***Hypothesis 3b:*** *Long-term orientation will moderate the relationship between economic terms and crowdfunding success, such that when long-term orientation is high, the relationship becomes stronger.*

Founder Experiential Breadth

Investors value experience and are willing to risk their money on founders who have extensive experience (Kor, 2003; Mannor, Matta, Block, Steinbach, & Davis, 2019). However, there is limited research that has explained how potential investors value the experience breadth of the founder. Experiential breadth is the range or scope of prior experiences held by the lead founder (Mannor et al., 2019). Several findings suggest that potential investors would likely perceive broad experience as quite valuable for early-stage firms. For example, studies have found that breadth positively influences unit/firm performance (Bunderson & Sutcliffe, 2002; Cannella, Park, & Lee, 2008). Further, researchers have argued that experiential breadth can help leaders to innovate more creatively (Beckman, 2006), identify more opportunities (Gruber, 2010; Gruber, MacMillian, & Thompson, 2012), and access a wider social network (Kelley & Caplan, 1992).

Despite the well-accepted value of experience in shaping key organizational processes and outcomes, most research considering the influence of experience in new ventures has focused on either the basic accumulation of experience depth by founders in a particular industry (e.g., Delmar & Shane, 2006; Kor, 2003) or an individual's experience as a serial entrepreneur (Burton, Sørensen, & Beckman, 2002). Similarly, the literature on serial entrepreneurs (i.e., individuals who have founded several new ventures) recognizes that these entrepreneurs can transfer learning from venture to venture such that they engage in less search (Westhead, Ucbasaran, & Wright, 2005), identify more opportunities (Ucbasaran, Westhead, & Wright, 2009), and can more

readily turn search behaviors into business opportunities (Ucbasaran, Lockett, Wright, & Westhead, 2003) than entrepreneurs without new venture experience (see Figure 3-1).

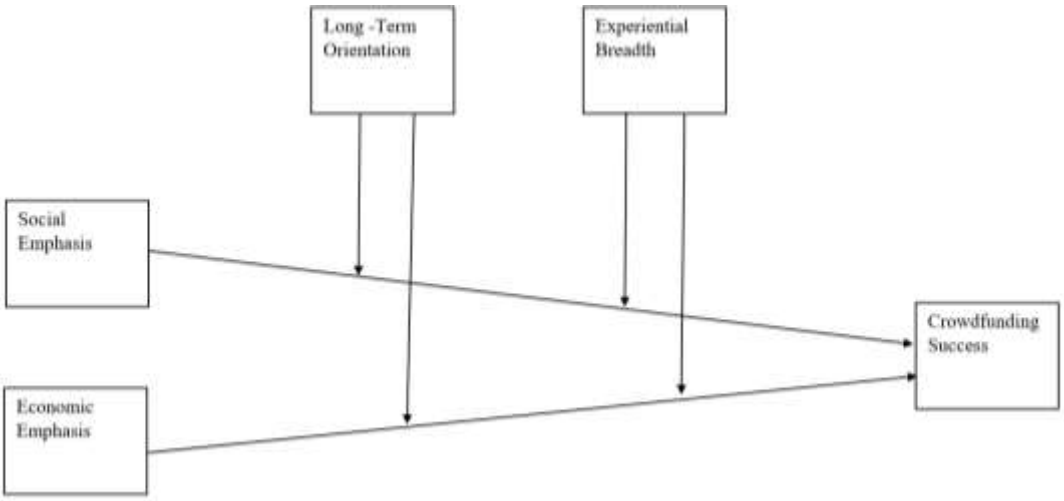


Figure 3-1: Conceptual Model

In line with the substantial body of research supporting the benefits of the depth of experience and serial entrepreneurship experience, research confirms that investors in new ventures acknowledge and value the benefits that such founders with experiences provide (e.g., Hsu, 2007). For founders of prosocial ventures, experiential breadth may play a significant role in convincing investors to support the venture. Because prosocial ventures are operating with unproven business models in new markets, founders with experiential breadth would be considered a favorable asset to the firm by investors. A founder with experiential breadth may add credibility to a new firm. Investors are more likely to trust the founder with the experiential breadth and willing to take the risk of investing in the new firm. Given that they possess diverse and varied experience, a founder with experiential breadth may correctly articulate the prosocial venture's purpose of existence that may resonate with the crowd.

Hypothesis 4a: *Founder experiential breadth will moderate the relationship between social emphasis and crowdfunding success, such that when founder experiential breadth is high the relationship is stronger.*

Hypothesis 4b: *Founder experiential breadth will moderate the relationship between economic emphasis and crowdfunding success, such that when founder experiential breadth is high the relationship is stronger.*

Research Methodology

Sample

This study will focus on linguistics representation in an equity crowdfunding setting for prosocial ventures through Regulation Crowdfunding securities offerings. The Securities and Exchange Commission (SEC) created Regulation Crowdfunding under the small business division of exempt offerings, enabling eligible companies to offer and sell securities through crowdfunding. In 2015, the Commission adopted Regulation Crowdfunding to implement the requirements of Title III of the Jumpstart Our Business Startups (JOBS) Act (2012). Under the rules, eligible companies can raise capital using Regulation Crowdfunding starting May 16, 2016. A company issuing securities in reliance on Regulation Crowdfunding (an "issuer") is permitted to raise a maximum aggregate amount of $1,070,000 in 12 months through Securities and Exchange Commission (SEC) approved funding portals. As of November 12, 2016, the SEC has approved 21 funding portals to conduct securities crowdfunding issues. It allows unaccredited and accredited investors to invest in companies through easy online interfaces.

The maximum aggregate amount of $1,070,000 in 12 months can be offered through multiple offerings. Each offering remains open for investors for 21 days. The minimum offering amount and deadline date are important values because securities

crowdfunding operates under an all-or-nothing principle. Investments received by the company are held in an escrow account and are not released to the company unless the sum is greater than the minimum offering amount by the deadline date. Companies are permitted to change the minimum offering amount and deadline date throughout the issue subject to SEC approval.

SEC determines the maximum investment limit of investors for 12 months for novice and accredited investors, which is determined through income level. If the annual income *or* the investor's net worth is less than $107,000, then during any 12 months, the investor can invest either $2,200 or 5% of annual income or net worth. Likewise, if the annual income *and* or the net worth of the investor is equal to or more than $107,000, then during any 12 months, the investor can invest up to 10% of annual income or net worth. During the 12 months, the aggregate amount of securities sold to an investor through all Regulation Crowdfunding offerings may not exceed $107,000, regardless of the investor's annual income or net worth. As SEC comprises a diverse crowd interested in funding the venture, whereby prosocial and financial motivation may be reflected, this offers the right setting to study equity crowdfunding for prosocial ventures.

Under Regulation Crowdfunding, the SEC permits companies to issue securities with less stringent reporting requirements than other securities issuing, such as initial public offering (IPO). For a crowdfunding issue, companies need to file a short form, Form C with the SEC listing information about officers, directors, the issuer's business, a method for pricing the issue, minimum offering amount, and deadline, and reviewed (rather than audited) GAAP financial statements. Some of the required disclosures include a narrative discussion of the company's financial condition, annual financial

statements (which may require a review or audit depending on the amount of the offering), the business experience of directors and officers over the past three years, names of individuals holding more than 20% equity in the company, a description of the business and business plan, purpose of the offering, intended use of the offering proceeds, price, and material factors that invest in the issuer speculative or risky (SEC 2016b). A crowdfunding campaign consists of offering statements that provide details to potential investors about the issuing company through text, video, pictures, interviews with founders and financial statements, and information on the number of investors and the amount invested in the issue so far. In these settings, with relatively more information asymmetry than traditional investment settings (Alhers et al., 2015; Moss et al., 2018), linguistics representations depicted in the crowdfunding becomes a key element in offering sense about the venture and assist in the decision-making process of the investors (Mollick, 2014).

The sample is drawn from Regulation Crowdfunding, under the Securities and Exchange Commission's (SEC's) Edgar (Electronic Data Gathering, Analysis, and Retrieval System) database. The Crowdfunding Offerings Data Sets provide structured data from crowdfunding and consist of statements, updates, annual reports, and terminations filed with the Commission. The Crowdfunding Offerings Data Sets contain information derived from structured data filed with the Commission by individual registrants and Commission-generated filing identifiers. The offerings data sets are updated quarterly and are available from April 2016 to March 2021. The years 2016 and 2021 were not included in the sample as they did not contain a full year of crowdfunding campaign data. I avoided the year 2020, as it was a year when global factors and

macroeconomic conditions were mutable and if included with in the sample may influence the results. The crowdfunding offerings datasets were extracted from 2017 to 2019.

The sample consisted of 5,790 observations. I limited the sample in multiple ways. Firstly, as the research intends to examine prosocial equity crowdfunding, firms seeking debt financing as a funding vehicle were removed, which reduced the sample to 3,969 observations. Secondly, after verifying the founding dates, I retained firms incorporated no earlier than 2012 to assure that less than five years had elapsed between incorporation and crowdfunding campaign, which ensured that the firms retained in the sample were representative of the early-stage ventures and further reduce the sample to 2,974. Thirdly, multiple filings from the same firm were removed; this further reduced the sample size to 2,206. Fourthly, firms that were missing details or did not have complete information available were removed and further reduce the sample size to 2,033. Finally, the research question aimed to examine the equity crowdfunding for prosocial ventures; hence only those firms that met the criterion for prosocial motivations were retained within the sample and reduced the final sample to 365 prosocial ventures. Following Parhankangas and Renko (2017), to identify prosocial ventures, I searched for campaigns that contained keywords: “social,” “social impact.” “social justice,” “human rights,” “health,” “nutrition,” “education,” “clean technology,” “environment,” and “human rights.” The projects were further screened and cross-checked against crowd funder intermediary portals, news articles, and the crowdfunding campaign information data aggregator, King’s Crowd (Elder & Hayes, 2021). Examples of campaign websites and pitches are presented in Table 3-1.

Table 3-1

Examples of Prosocial Ventures Included Within the Sample

Venture Names	Description of Prosocial Venture
Space Division	Developer of an online marketplace created to provide space inspired consumer products. The company's marketplace offers consumer products manufactured from upcycled space-ready carbon fiber that's used on the very same production lines that build aircraft, rockets and even spacecraft, enabling customers to own piece of this space age material.
Sondors Electric car	Our mission is to offer a cost effective and clean alternative to our daily transportation. We believe the car world is going electric. We want everyone to be able to drive to work with a cool looking electric car. We want to make a change, for the better. We do not have time to wait around. We need a solution right now to transform how we drive to work. The world is changing. Let's change it together.
Because Learning	Because Learning, formerly known as Ardusat, is a learning platform based on STEM. They offer products for school-based learning and home-based learning with the overall goal of inspiring students to study the STEM fields of science, technology, engineering, and math. Their school products are NGSS-aligned, and their home products arrive as monthly customized lessons.
Building Economic Advancement Network Corp	Bean is a modern social networking platform with the goal of driving economic growth, advancement, and inclusion for urban communities. Through leveraging the latest developments in social networking and blockchain technology, BEAN connects users with businesses and professionals that are not just in their community but good for their community as well. Right now, BEAN's immediate target audience is African Americans and African people throughout the diaspora who desire economic advancement. BEAN's blockchain technology also allows users to see their daily economic impact and be rewarded with BEAN coins. With each swipe of a finger, users can expand their network and their net worth while economically advancing their communities.
SkillMil Inc.	Allows veterans to find civilian jobs by matching their military skills to corporate skills. Helps companies take advantage of getting government grants and credits. Powered by exclusive SRI machine learning technology. Addresses an underserved multi-billion-dollar market.

Dependent Variable

Crowdfunding Success

Following Anglin, Short, Dover, Stevenson, Mckenny, and Allison (2018) and other works in crowdfunding literature, crowdfunding success will be measured by two indicators. First, whether or not the funding target is met and will be measured as a dichotomous variable. Firms that achieved crowdfunding success were coded as 1, and those that did not achieve the target amount were coded as 0. The funding target is set at the beginning of the campaign. Until the funding target is met, the SEC holds the funding amount in an escrow account. Firms are given access to the funds only when the full amount stipulated at the beginning of the campaign is raised. The firms are allowed to make changes to the funding amount during the campaign, which has to be notified to the investors. The second measure is the log of total funds raised in the crowdfunding campaign. Due to the high degree of skewness in the amount requested and raised, the logarithmic value will measure this continuous variable.

Independent Variables

I will use Linguistic Inquiry and Word Count (LIWC) software DICTION to analyze the linguistics representation and determine their social and economic emphasis. The software is particularly equipped (Pennebaker, Mayne, & Francis, 1997). LIWC is a text analysis program that counts words based on a built-in dictionary in natural languages, such as English (Tausczik & Pennebaker, 2010), by focusing on basic linguistic elements (e.g., future tense) as well as psychologically meaningful linguistics elements (e.g., social process, money). LIWC reads written or transcribed verbal texts stored in a digital, computer-readable form (such as text files). The text analysis module

then compares each word in the text against a user-defined dictionary. LIWC output contains standardized word counts that control for the length of the text, which is necessary as a longer crowdfunding pitch can contain more instances of language that have a social or economic emphasis (Moss et al., 2018).

The validity of the measures analyzed through LIWC software is high as it is widely a recognized text analysis tool in management research (Short & Palmer, 2008), while the reliability of the measures are high as it does not use human coders (Duriau, Reger & Pfarrer, 2007). The software can process large amounts of text (Ober, Zhao, Davis, & Alexander, 1999) and is suitable for this study to measure the effects of language use on funding, which requires analyzing large amounts of data.

Social Emphasis

This variable will be measured using the frequency of LIWC's social process words (e.g., communicating, connecting, helping, sharing, relations, giving, telling, listening; Cronbach's $\alpha = 0.97$), friend words (e.g., neighbor, buddy, partner, friend, mate; Cronbach's $\alpha = 0.81$), and family words (e.g., parent, brother, son, cousin, kin, spouse; Cronbach's $\alpha = 0.53$) drawn from the LIWC of Pennebaker et al. (Pennebaker, Francis, & Booth, 2007). The LIWC dictionary contains 455 social process words, 37 friend words, and 64 family words.

Economic Emphasis

This variable will be measured using the frequency of LIWC's words related to money (e.g., cash, bill, revenue, sell, trade), numbers (e.g., thousand, billion, half), and quantifiers (e.g., few, much, many). Pennebaker's LIWC dictionary contains 75 words for money, 29 words for numbers, and 89 words for quantifiers.

Long -Term Orientation (LTO)

Following Slawinski and Bansal (2012) and Flammer and Bansal (2017), who argue that its discourse reflects a venture's time orientation, I will follow similar operationalization. I will construct this variable by textual analysis of the venture's offering statement that provides information about its business overview and purpose. LIWC has a word dictionary that counts present tense, indicating the firm's short-term operations and goals. It also has a dictionary that counts future tense, which would indicate the firm's long-term purpose and goals. I computed the ratio of future tense words to the sum of present tense and future tense keywords. Understandably, ventures that use future tense keywords more frequently in their discourse are more likely to have a longer-term orientation—given by the formula. Long-term orientation was determined by the formula as such.

LTO = Future Tense/ (Future Tense + Present Tense).

Founder Experiential Breadth

Following Mannor, Matta, Block, Steinbach, and Davis (2019), founder experiential breadth will be measured through five indicators. The first is an indicator of functional breadth. This measure consists of a cumulative count of the number of unique functional experiences of the lead founder. The second indicator of experiential breadth is educational breadth. This measure consists of a count of the specific educational qualifications (classes taken, degrees received, certifications) in each category of functional experiences. The third indicator of breadth is the entrepreneurial breadth, measured as the total count of prior ventures launched. The fourth indicator of breadth is organizational breadth which counts the number of different organizations for which the

lead founder had previously worked. The final indicator is the industrial breadth measured as the count of different industries identified by the GICS codes where the lead founder has previously worked. The lead founders of the prosocial ventures were identified from the SEC filing Form C and the campaign pages and used to construct this variable. Details regarding the founder's education and career information were derived from Linkedin.com. Linkedin.com is a leading business-oriented social networking service that provides self-reported details of individuals' educational and experience information. Linkedin.com is considered an accurate and reliable source of information and has been used in prior research on founder human capital (Ko & McKelvie, 2018).

The first was an indicator of functional breadth. This measure consisted of a cumulative count of the number of unique functional experiences the founding team members had represented in their previous endeavors. These functional experiences included past working experiences in the following categories: sales experience, legal experience, finance experience, advertising/marketing experience, accounting experience, direct management experience, information technology experience, or human resources experience. Information from the firm website was also included in cases where appropriate information from other sources was unavailable. Thus, this measure could range from zero to eight, and the average in the sample was 3.82 (SD = 3.11). The second measure of educational breadth could range from zero to eight and averaged 1.46 (SD = 0.88). The third indicator was an entrepreneurial experience which measured count based on prior founding experience, and the average in the sample was 1 (SD = 1.81). The fourth indicator was the organizational breadth that measured the number of different organizations that the founder has worked previously and the average in the sample was

3.92 (SD = 3.11). The fifth indicator was the industry experience which measured the number of different industries that the lead founder has worked in before the venture's founding. The average in the sample was 1.96 (SD = 1.31); (α = 0.82).

Control Variables

Following previous crowdfunding research and language studies, I found that the categories of products or services differ in their ability to raise funds (e.g., Allison et al., 2015). To isolate these effects, I controlled for summary variable *clout* capturing "relative social status, confidence or leadership that people display through their writing or talking" (LIWC, 2019). I also controlled for *word count* measured as the raw number of words within a file (LIWC, 2019). Previous crowdfunding research has found that in crowdfunding settings instead of traditional investment settings, women are systematically more successful than men (Gorbatai and Nelson, 2015); hence, I controlled for the *lead founder gender*. I created a dummy variable for lead founder gender, where male founders were coded as one and female founders were coded as zero. I also controlled for *firm size* measured through the log of the number of employees. I controlled for *firm age*, the average of which was 1.76 (SD = 1.26). I also controlled for *year effects* as the sample included firms from different years. I controlled for *prior firm performance* measured through net income t-1.

Analysis

Hierarchical multiple regression analysis was used to assess the direct effects of social emphasis and economic emphasis on crowdfunding success after controlling for several variables. A test was conducted via PROCESS macro (v3.5) to assess the moderation effects using SPSS 26 software with the bootstrap sampling method (sample

size = 5,000), as recommended by Hayes (2017). This bootstrap sampling was used to generate asymmetric confidence intervals (CIs) for the moderating effects. The simple slopes of the economic emphasis and social emphasis at one standard deviation below the mean and one standard deviation above the mean of long-term orientation and experiential breadth were plotted to determine any significant interaction effects (Aiken and West 1991).

Results

Table 3-2 provides the means, standard deviations, reliabilities, and correlation coefficients of the study variables. As seen in Table 3-2, the reliabilities of all the variables are acceptable for research purposes (Nunnally, 1978). Social emphasis was positively correlated with the crowdfunding success variable ($r = 0.12$, $p < 0.05$), providing initial support for Hypotheses 1 and 2. Similarly, economic emphasis was positively correlated with crowdfunding success ($r = 0.15$, $p < 0.01$). Long term orientation, was positively correlated with social emphasis and economic emphasis ($r = 0.38$, $p < 0.01$) and ($r = 0.39$, $p < 0.01$) respectively. However, experiential breadth was not correlated to social and economic emphasis. It was also found that clout and word count were highly correlated to each other and other study variables.

High correlation among study variables may cause multicollinearity issues which may influence the results and conflate result interpretations. Thus, these two variables were excluded from hypothesis testing. Additionally, it was found that the operationalization of crowdfunding success represented through the log of the total funds raised was not correlated to any of the study variables. Hence, it was excluded from hypothesis testing.

Hypothesis Testing

Table 3-2 summarizes the regression results for all the hypotheses. All the hypotheses were tested by entering the control variables (clout, word count, lead founder gender, firm size, firm age, year, and prior firm performance) in the first step (see Models 1 and 4) and the variable associated with the hypothesis being tested in the second step. All variables have been standardized before hypothesis testing in order to mitigate issues arising from multicollinearity. All the models were not susceptible to multicollinearity as they had tolerance values well above 0.2 and Variance Inflation Factors well below 5 (Bowerman & O'Connell, 1990). Hypothesis 1 was supported as the social emphasis was positively significant in predicting crowdfunding success Table 3-3 Model 2 ($b = 0.06$, $p < 0.05$). Hypothesis 2 was supported as the economic emphasis was positively related to crowdfunding success Table 3-4 Model 2 ($b = 0.06$, $p < 0.05$).

An interaction term was created to test Hypotheses 3a regarding the moderating effect of long-term orientation on the relationship between social emphasis and crowdfunding success. The interaction term of social emphasis and long-term orientation significantly predicted crowdfunding success ($b = 0.05$, $p < 0.05$; $\Delta R^2 = 0.07$, $p < 0.05$) in Table 3-3 Model 4.

Thus, Hypothesis 3a was supported. Hypothesis 3b was regarding the moderating effect of experiential breadth on the relationship between social emphasis and crowdfunding success, for which an interaction term was created. The interaction term of social emphasis and experiential breadth was found to be negative and insignificant Table 3-3 Model 6 ($b = -0.02$, $p = 0.44$; $\Delta R^2 = 0.06$, $p = 0.44$). Thus, Hypothesis 3a was not supported.

Table 3-2

Descriptive Statistics and Correlations

Variables	*M*	*SD*	1	2	3	4	5	6	7	8	9	10
1. Social Emphasis	1032.1	682.76										
2. Economic Emphasis	1963.7	1297.0	0.80**									
3. Long-Term Orientation	0.23	0.06	0.38**	0.39**								
4. Experiential Breadth	12.16	8.52	0.01	0.03	0.06							
5. Crowdfunding S	0.75	0.45	0.12*	0.15**	0.05	0.04						
6. Year 2017	0.28	0.45	-0.07	-0.06	-0.17**	0.14**	0.17**					
7. Year 2018	0.44	0.50	0.08	0.06	0.03	-0.13*	-0.24**	-0.56**				
8. Firm Age	1.76	1.26	-0.03	0.03	-0.11*	0.08	0.11*	0.02	-0.07			
9. Firm Size	4.99	7.43	-0.03	0.04	-0.12*	0.06	0.10	0.06	-0.06	0.23**		
10. Firm Performance	-	3834.8	-0.15**	-0.18**	-0.01	-0.11*	-0.06	-0.04	-0.01	-0.24**	-0.30**	
11. Lead Founder G	0.49	0.41	-0.03	0.00	-0.04	0.12*	-0.03	0.04	0.06	-0.05	0.08	-0.07

Lead Founder Gender: 1 = Male, 0 = Female; Crowdfunding Success 1 = Yes, 0 = No

** $p < .01$.

*$p < .05$.

Table 3-3

Summary of the Hierarchical Regression Results -1

	Crowdfunding Success					
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	.69**	.68**	.68**	.68**	.68**	.67**
Year 2017	.06	.06	.05	.03	.06	.06
Year 2018	-.15*	-.16*	-.17*	-.18*	-.16*	-.16*
Firm Age	.03	.03	.03	.02	.03	.03
Firm Size	.05*	.05*	.05†	.05†	.05†	.05†
Firm Performance	.00	.00	.00	.00	.01	.01
Lead Founder Gender	.01	.02	.02	.02	.02	.02
Social Emphasis		.06*	.14*	.15*	.06*	.06*
Long Term Orientation			.09	.12		
Experiential Breadth					-.01	-.01
Social Emphasis x LTO				.05*		
Social Emphasis x EB						-.02
R^2	.07	.08	.09	.10	.08	.08
ΔR^2	.05	.06	.07	.08	.06	.06
F	3.97**	4.19**	3.87**	4.05**	3.66**	3.34*

** $p < .01$. *$p < .05$. † <.10
Note: Lead Founder Gender: 1 = Male, 0 = Female; Crowdfunding Success 1 = Yes, 0 = No

Table 3-4

Summary of the Hierarchical Regression Results -2

	Crowdfunding Success					
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	.68**	.69**	.71**	.70**	.69**	.68**.
Year 2017	.06	.06	.05	.03	.06	.07
Year 2018	-.15**	-.16**	-.16*	-.17*	-.16*	-.16*
Firm Age	.03	.03	.02	.02	.03	.03
Firm Size	.05†	.05†	.05†	.05†	.05†	.05†
Firm Performance	.00	.01	.01	.01	.01	.01
Lead Founder Gender	.01	.01	.01	.01	.01	.02
Economic Emphasis		.06*	.11*	.11*	.06*	.07**
Long Term Orientation			.06	.06		
Experiential Breadth					-.01	-.02
Economic Emphasis x LTO				.05*		
Economic Emphasis x EB						-.03
R^2	.07	.09	.09	.10	.09	.09
ΔR^2	.05	.06	.06	.08	.07	.07
F	3.97**	4.44**	4.03**	4.07**	3.88**	3.59**

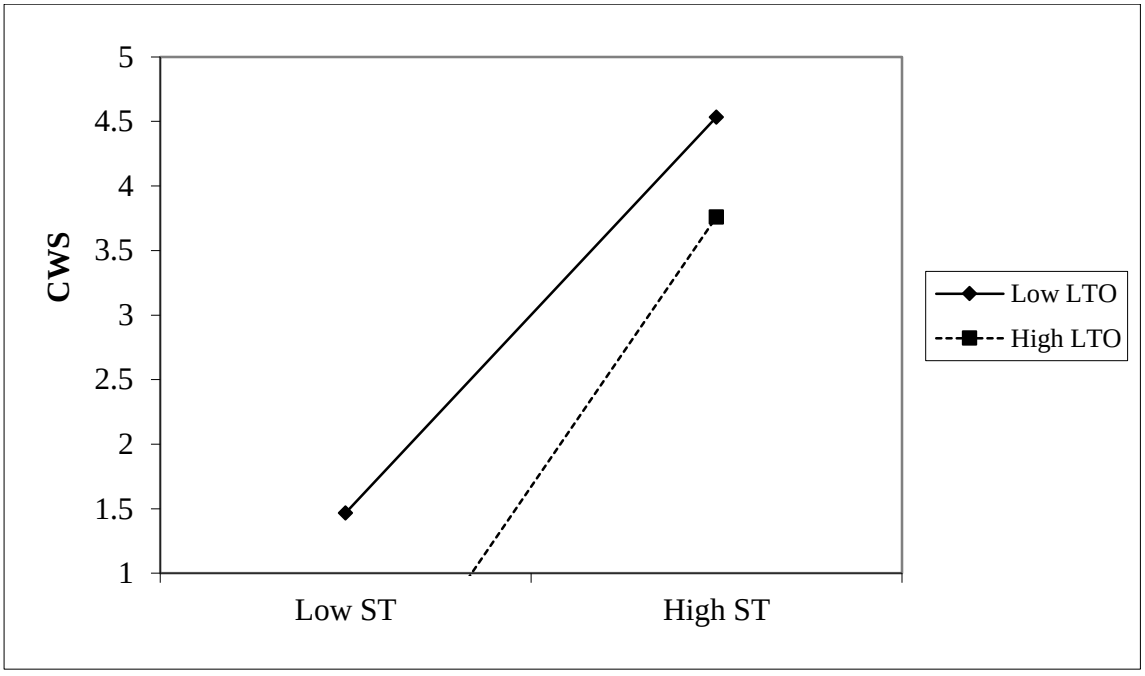
** $p < .01$. *$p < .05$. † <.10
Note: Lead Founder Gender: 1 = Male, 0 = Female; Crowdfunding Success 1 = Yes, 0 = No

Hypothesis 4a was regarding the moderating effect of long-term orientation on the relationship between economic emphasis and crowdfunding success, for which an interaction tern was created. The interaction term of economic emphasis and long-term orientation significantly predicted crowdfunding success Table 3-4 Model 4 (b = 0.05, p <0.05; ΔR^2 = 0.08, p <0.05). Thus, supporting Hypothesis 4a. Hypothesis 4b examined the moderating effect of experiential breadth on the relationship between economic emphasis and crowdfunding success, for which an interaction term was created. The interaction term of economic emphasis and experiential breadth was found to be negative and insignificant Table 3-4 Model 6 (b = - 0.03, p =0.31; ΔR^2 = 0.07, p =0.31). Thus, Hypothesis 4a was not supported.

Furthermore, PROCESS add was used to test Hypotheses 3a, 3b, 4a, and 4b Hayes' (2013). PROCESS add-on was used. The results show that the indirect effects of social emphasis on crowdfunding success through long-term orientation are statistically significant (b = 0.56, SE = 0.21, 95% BCa CI [0.13, 0.98], supporting Hypothesis 3a. Further, results show that indirect effects of social emphasis on crowdfunding success through experiential breadth was statistically insignificant (b = -0.16, SE = 0.23, 95% BCa CI [-0.62, 0.30]. Thus, Hypothesis 3b was not supported. Similarly, to test Hypotheses 4a and 4b, Hayes' (2017) PROCESS add-on was used. The results show that the indirect effects of economic emphasis on crowdfunding success through long-term orientation were statistically significant (b = 0.55, SE = 0.22, 95% BCa CI [0.12, 0.97], thus supporting Hypothesis 4a. Furthermore, the indirect effects of economic emphasis on crowdfunding success through experiential breadth were statistically insignificant supporting the hypothesis (b = -0.30, SE = 0.25, 95% BCa CI [-0.77, 0.18]. Therefore,

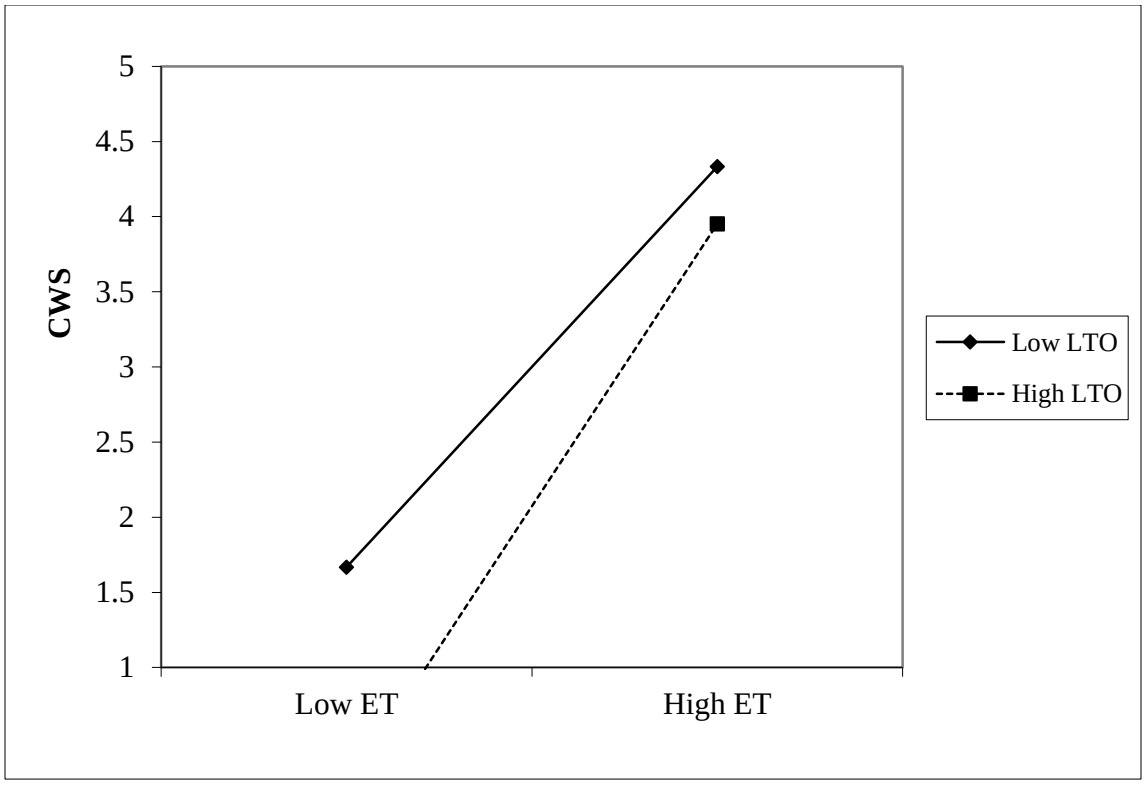
Hypothesis 4b was not supported. Thus, confirming the results. Additionally, to facilitate the interpretation of the interaction term, the simple slopes of the economic emphasis and social emphasis at one standard deviation below the mean and one standard deviation above the mean of long-term orientation and were plotted (Aiken & West 1991).

As shown in Figure 3-2, the positive relationship between social emphasis and crowdfunding success was stronger when long-term orientation was high. Similarly, as shown in Figure 3-3, the positive relationship between economic emphasis and crowdfunding success was stronger when long-tern orientation was high. Thus, further supporting Hypotheses 3a and 4a.



CSW = Crowdfunding Success; ST = Social Emphasis; LTO = Long-Term Orientation

Figure 3-2: The moderating effect of long-term orientation on the relationship between Social Emphasis and crowdfunding success.



CSW = Crowdfunding Success; ET = Economic Emphasis; LTO = Long-Term Orientation

Figure 3-3: The moderating effect of long-term orientation on the relationship between economic emphasis and crowdfunding success.

Discussion

Building on the earlier content-centric research on entrepreneurial fund-raising and crowdfunding, the results suggest that language, its meaning, and its use are valid predictors of crowdfunding success for prosocial ventures. The results find support for an interactionist perspective of sense giving approach. The results indicate that social emphasis is positively related to crowdfunding success. Further, the results suggest that the extent to which prosocial ventures achieve crowdfunding success is affected by long-term orientation. Similarly, the results indicate that economic emphasis is positively related to crowdfunding success. Further, the extent to which prosocial ventures achieve crowdfunding success is affected by long-term orientation. Thus, overall results suggest

that crowdfunding success is an outcome that arises from the interactive effect of social emphasis and long-term orientation.

The results provide new insight into the hybridity of prosocial ventures and financial resources acquisition. The findings show that social perspective and the economic perspective are important factors when seeking financial resources from the crowd. The findings support and provide new insights into the sense-giving literature and its relevance in crowdfunding. It is necessary to understand that the external audience (crowd) is unaware of the internal prosocial practices of the ventures. However, the crowd can draw inferences and gain a sense of an organization and its purpose of existence. For prosocial ventures operating under significant ambiguity, situating an understanding of its prosocial mission can lead to acceptance, approval, and resource acquisition. In order to make sense, ventures rely on language to communicate to either seek legitimacy or seek collaboration to co-create and enact social change. They articulate a new vision for how a social problem can be solved. In that sense, ventures use language to describe themselves and how the crowd evaluates those words. Therefore, words matter in entrepreneurship for the stories and narratives made by entrepreneurs. They are also valuable as the prototypical linguistic set with features that allow outsiders to act about the venture (Moss et al., 2018).

This study is possibly the first that has explored the effects of language on prosocial equity crowdfunding. Prior studies have explored the effects of language on rewards-based prosocial crowdfunding (Parhankangas & Renko, 2017) and debt crowdfunding (Moss et al., 2018). One of the key differences between rewards-based, debt-based crowdfunding and equity crowdfunding is that equity funders have a clear

goal of obtaining a positive return on their monetary investment (Vulkan, Astebro & Sierra, 2016). So instead of pre-purchase of the product (as rewards-based crowdfunding), equity crowd funders participate in a firm's future cashflows. To that effect, the social and economic aspects of the venture can be held at varying intensity levels (Shepherd et al., 2019). Research suggests that apart from managing the dual performance objectives (social and economic), prosocial organizations must also remain accountable to stakeholders (Battilana & Dorado, 2010; Pache & Santos, 2013). Therefore, the process of acquiring financial resources can have both differences and similarities with commercial ventures (Austin et al., 2006). Prosocial equity crowdfunding represents a diverse funding logic (Moss et al., 2018). One that is rooted in remaining accountable to stakeholders (crowdfunding investors), fulfilling economic rationality, revenue maximization, and cost minimization. Thus, the economic emphasis in the crowdfunding pitches for prosocial ventures that offer a glimpse of future returns aligns itself with the commercial purpose of the prosocial venture.

Consequently, during the early stages of the prosocial venture, its product and its marketing choices are articulated, and crowdfunding investors realize that they can assess the goals, the values, and the overall ideology associated with entrepreneurial ideas and can make decisions that are meaningful and influential (André et al. 2017; Calic & Mosakowski 2016). In that sense, the crowdfunding campaign alludes to the future potential of the prosocial venture in meeting its dual purpose of social betterment and economic returns and alluding to a time perspective for the realization of returns. The present is informed by deriving meaning from the past and drawing a vision for the future (Butler, 1995). When reflected on venture decisions, the subjective perspective of time

can change current cognition and action (Gioia & Chittipeddi, 1991). A long-term orientation that prioritizes long-range implications will impact decisions and actions that culminate in an extended period. Long-term orientation has relevance in the dual purpose of prosocial ventures. The results show that long-term orientation interacts with social emphasis to predict crowdfunding success, referencing and fulfilling the aspect that social changes take time (Bacq et al., 2014). The investors attracted by the prosocial motivations are willing to see the social change or betterment that the venture aims to fulfill. Similarly, investors following an economic logic identify with the future economic return and cash flow and provide the funds that the prosocial ventures seek.

From a practical point of view, the findings provide a better understanding of crowdfunding investors' evaluations. Prosocial entrepreneurs can design effective crowdfunding campaigns and use the appropriate language to draw the crowd's attention.

Limitations and Future Research

Despite some of the results found, many questions remain unanswered. First, despite previous research showing that founder background has relevance for investors, experiential breadth was not a factor in predicting crowdfunding success. Post hoc analysis of the five indicators of experiential breadth was also found not to be a factor in predicting crowdfunding success. A reason for such a result may be interpreted in two ways. First, prosocial equity crowdfunding offers a different setting in which the potential of early-stage ventures is examined, wherein the articulation of the dual purpose of the venture is of paramount importance, and the founder background is less important. Secondly, experiential breadth is a weak instrument and requires further investigation, thus offering an avenue for future research.

Second, a “word count approach” was adopted to measure social and economic emphasis used by prosocial entrepreneurs. Despite its accuracy and efficacy in processing large quantities of data, this approach is simplistic and likely to miss some nuances of a complex phenomenon, such as language use. The approach adopted to construct social and economic emphasis has been employed in strategic management and entrepreneurial finance literature. However, there may be other cues that may be qualitative, which would require a multi-level approach by combining the computerized content analysis with qualitative discourse analysis, offering an avenue for future research. Similarly, other cues such as authenticity and emotions conveyed through the pitches may influence how prosocial ventures give sense. Thus, offering an avenue for future research.

Third, prosocial equity crowd funders comprise a diverse crowd, backers in prosocial equity crowdfunding campaigns may not represent professional investors. Thus, an interesting avenue for future research would be to investigate through linguistic and discourse analysis, professional investors, their motivational cues that propels them to provide resources.

Finally, social entrepreneurs played a distinctive role in mitigating social problems exacerbated by the pandemic, acknowledged in research (Bacq & Lumpkin, 2020). However, the biggest challenge is to manage cash flow to stay afloat and improve the likelihood of survival. Thus, in times of crisis and emergencies, do crowdfunding investors’ evaluations of a venture prosocial ventures lean towards prosocial motives of the ventures, or does acquiring a valid investment that will grow in the future become relevant.

CHAPTER 4

CSR BUSINESS MODELS AND IPO PERFORMANCE

Introduction

A substantial amount of research has shown that firms' socially responsible actions have positive bearings on financial performance (Vishwanathan, Osterhout, Heugens, Duran, & van Essen, 2019; Wang et al., 2016), a stance justified through empirical results and broad reviews of the literature (Eccles, Ioannou, & Serafeim, 2014; Margolis & Walsh, 2003; Margolis, Elfenbein, & Walsh, 2007; Orlitzky et al., 2003). Despite the scholarly enthusiasm, most previous studies have explored corporate social responsibility (CSR) and its performance implications within the context of large mature firms (Jenkins, 2004; Peloza, 2009) while ignoring CSR implications for young entrepreneurial firms (Wang & Bansal, 2012).

Corporate social responsibility (CSR) is defined as "contexts-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance" (Auguinis, 2011, p. 858). Thus, I address CSR in entrepreneurial firms in this chapter by drawing on insights from stakeholder theory that suggests attention to stakeholder interests is critical to organizational success (Berman, Wicks, Kotha, & Jones, 1999; Choi & Shepard, 2005). Stakeholders are any individuals or groups that can affect, or are affected by, the achievement of the firm's objectives (Freeman, 2010). With this in mind, entrepreneurial

firms adopting a stakeholder orientation, which is the degree to which a firm decides to focus its attention on stakeholders (Bettinazzi & Zollo, 2017), can create synergistic solutions for multiple stakeholder groups (Tantalo & Priem, 2016) and result in multiple avenues for businesses to create a positive impact. Although, these entrepreneurial firms are not isolated to not-for-profit forms of activity.

Of late, entrepreneurship literature has called for examining the concept of "shared value" creation that stems from business activities (Donaldson & Walsh, 2015; Peredo et al., 2018; Wang et al., 2016) and recognizing that "societal needs, not just conventional economic needs, define markets" (Porter & Kramer, 2011, p.5). It is within this new market perspective that the concept of 'prosocial venturing' has developed. What makes a venture prosocial is its other-directedness, an orientation toward benefiting others by relieving their hardship and/or promoting their welfare (Batson & Powell, 2003). In other words, prosocial ventures create lucrative business opportunities while simultaneously resolving social and environmental issues. Prosocial venturing is conceptually broad enough to encompass CSR, especially when CSR is seen as going beyond statutory compliance to corporate activity to further some social good (Peredo et al., 2018). By aligning CSR with business activities, prosocial venturing has resulted in entrepreneurial firms focusing upon satisfying the most basic quality-of-life needs (Parrish, 2010), the bottom of the pyramid (Bruton et al., 2013; Prahalad, 2005), eco-efficiency, and environmental sustainability (Dean & McMullen, 2007; Munoz & Dimov, 2015), and community-centric development (Peredo & Chrisman, 2006; Shepard, Saade & Wincent, 2019), which has also resulted in the growth of new industry categories such as renewable energy (Russo 2003; Bolinger & Wiser, 2009), natural foods (Hess, 2004;

Lee, 2009), and green building (Eichholtz, Kok & Quigley, 2010; Hoffman & Henn, 2008; York & Lenox, 2013).

Kaul and Luo (2017) explain that when CSR activities are closely related to the core business activities of the firm (1666), it can benefit stakeholders and maximize profits for shareholders, thus arguing for an "economic case" for CSR. One such way that entrepreneurs can adopt a stakeholder orientation while creating an economic case for CSR is by developing and implementing innovative business models. A business model (BM) describes an organization and how that organization functions in achieving its goals (Massa, Tuchi, & Afuah, 2017). A business model is observed at the organization level (Casadesus-Masanell & Ricart, 2010; Teece, 2010; Zott and Amit, 2007) and reflects the firm's realized strategy (Casadesus-Masanell, & Ricart, 2010). In a recent review, Massa et al. (2017) observe that scholars are increasingly utilizing the business model concept to explore how firms in addition to economic value also create social and environmental value (Dohrmann, Raith, & Siebold, 2015; Jenkins, Ishikawa, Geaneotes, Baptista, & Masuoka, 2011; Michelini & Fiorentino, 2012) and call for more research that explores possibilities of shared value creation and ways to measure it. An example of this innovative business model in an entrepreneurial firm is found at Tom's Shoes, where their "Buy one, give one" business model donates a pair of shoes for every pair purchased. Equally attractive to diverse stakeholders, customers, and investors; by purchasing shoes, a customer denotes support for the model's noble societal cause and future growth potential (Bhardwaj, Chatterjee, Demir, & Turut, 2018). The entrepreneurial venture generates economic viability by adopting a substantive CSR objective (Matten & Moon, 2008; Wickert, Scherer, & Spence, 2016), and the result is a

"market for virtue" (Vogel, 2007) through which stakeholders and shareholders may reward firms for behaving responsibly toward others.

To address the combined calls within the strategic management and entrepreneurship literature concerning CSR and performance within entrepreneurial firms, we focus specifically on firm financial performance during the initial public offering (IPO) in young entrepreneurial firms. In particular, I ask the following research question: Will stakeholders and investors support a new venture that adopts a CSR business model during the initial public offering that leads a new venture to acquire more resources?

IPO enables firms to sell equity shares to public investors, allowing them access to considerable financial resources that ventures use to finance growth (Certo, Holcomb, & Holmes, 2009). However, it may suffer a liability that makes raising capital an uphill battle for new ventures (Certo, 2003, Stinchcomb, 1965). This battle may be more pronounced in prosocial ventures because stakeholders may not comprehend the future they aim to create, i.e., a positive impact through their ventures. If the business model is a major departure from incumbent firms' dominant business model design, it may lack cognitive legitimacy for the fledgling company (Aldrich & Fiol, 1994; Hargadon & Douglas, 2001; Suchman, 1995). Cognitive legitimacy is the assessment that organizational activities are desirable, proper, or appropriate because they match pre-constructed beliefs about ways of organizing work and generating social value (Suchman, 1995). Cognitive legitimacy can be enhanced by facilitating stakeholders' awareness of the prosocial venture's business model, its value proposition, and its proposed impact. Owing to this issue, we argue that the quantity and quality of information shared about

the venture may result in the stakeholders' willingness to commit to the organization (Choi & Shepard, 2005; Garud, Schildt & Lant, 2014). Contributing to an understanding of cognitive legitimacy, I propose that media presence may help prosocial ventures in the challenges of setting future expectations that are comprehensible and plausible. In other words, media presence will influence the relationships between CSR IPO performance.

The following sections review relevant literature in stakeholder theory, business models, IPO, and cognitive legitimacy. Two hypotheses were developed regarding the key relationships in the research question.

Theoretical Background and Hypothesis Development

Corporate Social Responsibility and Stakeholder Theory

Prosocial venturing can take many forms and is promoted in several different forums. Many of the initiatives undertaken since 2004 under the umbrella of the United Nations Global Compact, such as social entrepreneurship and B-corp., similarly embody a push for a prosocial business impact (Wang et al., 2016). Prosocial venturing has been explained as business activities that merge and balance social and economic value orientations to win the approval of important stakeholders (Battilana & Lee, 2014; Battalina, Sengul, Pache, & Model, 2015). CSR activities help create business value, develop strategic resources, and insure against risks (Margolis & Walsh,2003; Orlitzky et al., 2003; Wang & Bansal, 2012). In that sense, CSR is prosocial as it represents a firm's initiatives to influence social conditions, aimed at the minimization of corporate environmental and community impacts, and fair treatment of employees (Whetten, Rands, & Godfrey, 2002).

The primary theoretical lens applied to understand the link between CSR and firm value is stakeholder theory, which explicates that multiple groups of stakeholders can impact a firm's financial value (Clarkson, 1995; Freeman, 1984; Mitchell, Agle, & Wood, 1997). Stakeholders are jointly committed to the firm's success and therefore contribute specific forms of capital, including financial, human, and social capital (Kochan & Rubinstein, 2000). Stakeholders may be individuals or constituents that participate, either voluntarily or involuntarily, in a venture's wealth-creating capacity and activities (Post, Preston, & Sachs, 2002). The firm also needs stakeholders to exist (Dunham, Freeman, & Liedtka, 2006). Theoretically, a firm's stakeholders may include shareholders, customers, suppliers, employees, local communities, regulators, society, and the natural environment (Jones, 1995; Wood, 1991). Stakeholder theory also argues that different stakeholders may value different CSR aspects and may reward firms accordingly (Hillman & Keim, 2001; Lev, Petrovits, & Radhakrishnan, 2010; Madsen & Rogers, 2015). Scholars suggest that stakeholder interests are critical to organizational success (Berman, Wicks, Kotha, & Jones, 1999; Clarkson, 1995). Thus, an important task for organizations is managing stakeholders and subsequently attracting stakeholder resources (Choi & Shepard, 2005), resulting in enhanced financial performance.

A range of stakeholders increasingly urges business firms to pay attention to social, environmental, and ethical matters (Aguilera, Rupp, Williams, & Ganapathi, 2007; Bansal, 2003; Sonenshein, DeCelles, & Dutton, 2014; Wang et al., 2016). Additionally, engagement in CSR related activities provides stakeholders with valuable cues about a firm's relative "other-regarding" orientation (Agle, Mitchell, & Sonnenfeld, 1999; Godfrey, 2005) and may lead stakeholders to a generalized inference of firm quality and

benevolence (McWilliams & Siegel, 2001). Expected benefits are more visible in market measures of firm performance, such as stock price than in period-delineated accounting measures of firm performance, such as return on assets (Orlitzky & Benjamin, 2001). A meta-analysis of 251 studies encompassing 35 years showed that the effect of CSR on shareholder value is small yet positive and significant, explaining about 2.2% of the variance in financial performance (Margolis, Elfenbein, & Walsh, 2007). However, a replication study with a larger sample and a longer timeframe—showed that the findings from the original study might have limited generalizability (Zhao & Murrell, 2016). Moreover, only 37% of the effects in the meta-analysis empirically assessed the causal direction in this relationship; that is, the measures of CSR often did not precede the measures of financial performance (Margolis et al., 2007, p. 29). These findings revert scholars to the question of whether high-performing firms undertake CSR initiatives or firms that undertake CSR activities do well (Orlitzy et al., 2003; Peloza, 2009).

Jensen (2002) argues that evidence from fields of economics and finance suggests social welfare or shared value creation is maximized when all firms in an economy maximize total firm value. Shareholders may benefit from a firm's social investment (Margolis et al., 2007). We propose that the relationship between CSR and financial performance will be evident in prosocial ventures as they adopt a discernible and explicit CSR agenda for their business activities. In other words, ventures that adopt a substantive CSR approach that represents the implementation of a CSR in a venture's core activities and processes such that it is likely to become an integral and enduring part of the organization (e.g., Durand, Hawn, & Ioannou, 2019) will be subsequently rewarded by stakeholder groups including shareholders (David, Bloom, & Hillman, 2007).

McWilliams and Siegel (2001) conceptualized "profit-maximizing" CSR, which described the firms that added a "social" attribute or feature to the product or service that stakeholders consider as valuable, can reap financial benefits when the marginal cost of the social attribute added to the product or service equates the marginal return of producing the CSR attribute. Link, Siegel, and Siegel (2007) propose that when firms create social goods, it creates a bridge between innovative activity and consideration for positive externalities. An externality is defined as the impact of an economic agent's actions on the well-being of a bystander. Pollution is a classic example of a negative externality. At the same time, innovation (whose benefits cannot be entirely appropriated by its creator) is a classic example of a positive externality (McWilliams & Siegel, 2011). While the private returns to innovation (or those that accrue to the company) may be high, the social returns to innovation (through creating new or improved products and processes) are likely to be even greater. Surprisingly, the cusp where CSR and entrepreneurship meets has remained unexplored.

Prosocial Venturing and Business Models

The business model is primarily concerned with business models that create, deliver, and capture economic value (Teece, 2010). Massa et al. (2017) intuitively explain that a business model describes an organization and how that organization functions in achieving its goals (e.g., profitability, growth, social impact). There is no business without a defined value proposition, and value creation justifies the business entity (Morris, Schindehutte, & Allen, 2005). Value proposition refers to the value embedded in the product/service offered by the venture (Boons & Lüdeke-Freund, 2013). In other words, business models exemplify mechanisms through which firms create and capture

value. The extent to which a firm's business model can create and capture value determines its competitive advantage and firm performance (Zott, Amit, & Massa, 2011). While the study of business models has traditionally focused on business activities, scholars are increasingly using the concept of business models to explain innovative ways in which firms create non-economic value, such as Bottom-of-Pyramid business models (Massa & Tucci, 2013).

The act of innovation, which refers to "employing existing resources differently, in doing new things with them," is infixed within entrepreneurship (Schumpeter 1934, p. 68) (As discussed in Zott & Amit, 2007). In that sense, for new ventures, business models can represent avenues for innovation that can be combined and complemented with product, process, and organizational innovation (Casadesus-Masanell & Zhu, 2013; Massa & Tucci, 2014). For example, a novelty-centered business model, which is the conceptualization and adoption of new ways of conducting transactions, can be achieved by connecting previously unconnected parties, linking transaction participants in new ways, or designing new transaction mechanisms (Zott & Amit, 2007). A case in point is the E-business model or Internet-based ways of "doing business" (Amit & Zott, 2001), such as Netflix (McDonald & Eisenhardt, 2019). Likewise, opportunities exist for entrepreneurs to develop business models aimed towards creation and capture of shared value, i.e., realign organizations' search for profits with innovations that also benefit the environment and society (Halme & Laurila, 2009; Massa et al., 2017; Seelos & Mair, 2007), such as a business model for hybrid vehicles (Tesla Motors, Stringham, Miller & Clark, 2015) and microfinance (Grameen Bank, Allison, et al., 2013). Therefore, prosocial ventures can adopt a broad variety of activities that enable them to create

"shared value" (Porter & Kramer, 2011), combining economic goals with those aligned with social and environmental values.

Entrepreneurial ventures can adopt multiple mechanisms to create shared value. However, the degree of adaption of CSR elements within their business models will determine the salience of its prosocial nature. We propose that one of the mechanisms of creating shared value through their business model is combining CSR aspects with core business operations and responsibilities aimed towards stakeholders, which can occur by integrating stakeholders' demands and expectations into the firm's operations, structures, and processes (Bettinazzi, Massa, & Neumann, 2019; Crilly, Zollo, & Hansen, 2012). This business model can be characterized by actions like ensuring product longevity (Bocken, Short, Rana & Evans, 2014) and enhancing employee welfare (Farooq, Rupp & Farooq, 2017). For instance, Starbucks buys and sells Fair Trade coffee, a cooperative that ensures and certifies ethically sourced goods from farmers and workers and safeguards their welfare. Although initially pressured by social activists, Starbucks' commitment to integrating CSR elements into their core activities has resulted in a rapid rise in consumer loyalty, augmentation of reputation, and increased market value (Argenti, 2004).

A prosocial venture can take an environmental or social problem as a source of business innovation, ideate and build new products or services that solve the problem. For instance, Grameen Bank (Yunus et al., 2010) pioneered the microfinance industry by challenging the conventional way of thinking about loan financing by making small loans sufficient to finance income-generating small businesses. What started as an experimental initiative has found legitimacy as a major industry (Zhao, Isihara, & Lounsbury, 2013)

aimed towards creating shared value as a mechanism for poverty alleviation and financial value maximization for shareholders (Kent & Dacin, 2013). Therefore, the idea of a CSR business model adopted by prosocial ventures can stem from doing good for stakeholders, either by conducting business responsibly or finding unique solutions to grand societal challenges, both of which fulfill the purpose of creating shared value for firms and stakeholders involved.

CSR Business Models and IPO

For decades researchers have looked for answers that establish a resounding positive link between CSR activities and firm financial performance (Wang et al., 2016; Vishwanathan et al., 2019). After multiple meta-analyses on the subject (Orlitzky et al., 2003, Margolis & Walsh, 2003), it has been established that CSR activities and firm financial performance are positively related. It is inherently logical that a firm's various stakeholders will be inclined to establish long-term relationships and subsequently benefit from lower costs, high-quality inputs, and sustained competitive advantage (Godfrey, 2005; Porter & Kramer, 2006; Wang & Bansal, 2012). Consistent with this, research has shown empirical evidence of such benefits that stakeholders have accorded to the firm such as consumers (e.g., Fosfuri & Giarratana, 2014), employees (e.g., Turban & Greening, 1997), suppliers (e.g., Hillman & Keim, 2001), and investors (e.g., Flammer, 2013; Hawn, Chatterji, & Mitchell, 2017). However, given the heterogeneity of CSR, the extent to which the interests of stakeholders and shareholders converge depends on the efficacy of the CSR activity.

Despite the recent trend with prosocial venturing (Moroz et al., 2018), the (stock) "market is a voting machine, whereon countless individuals register choices which are

the product partly of reason and partly of emotion" (Graham & Dodd, 2009, p. 70). While there is extensive research that supports the view that investors respond favorably when firms adopt CSR (Afrin, Peng, & Bowen, 2019; Cheung, 2011; Durand, Pauguam, & Stoloway, 2019; Hawn et al., 2017), there are limited studies that have investigated the relationship between new ventures with a defined CSR objective and its financial performance (Wang & Bansal, 2012). Some studies have examined corporate philanthropy and IPO performance in entrepreneurial ventures (Jia & Zhang, 2014) where firms may employ corporate philanthropy as a signaling mechanism (Durand et al., 2019), which could be a symbolic gesture rather than a substantial adaptation of CSR (Cuypers, Koh, & Wang, 2015). Firms with greater public visibility may perform better by acquiring more positive stakeholder responses (Wang & Qian, 2011).

Literature on new venture performance considers short-term investor reactions by measuring IPO performance, which is indicative of a firm's valuation based on its ability to raise capital (Gulati & Higgins, 2003). The IPO event provides access to considerable financial resources that new ventures utilize to finance growth and reconcile current obligations (Certo et al., 2009). Hence, a favorable market reaction to a prosocial venture will be significant to its eventual survival and success. Prosocial ventures face a dual challenge in finding the right balance between creating a positive impact while ensuring commercial success. In order to do so, the business model should reflect a unification of the multiple needs of the stakeholder groups. Kaul and Luo (2018) suggest that firms that adopt a substantive CSR objective by providing a differentiated product or service that raises revenue for the firm can contribute to stakeholder welfare and raise shareholder profit. Furthermore, research suggests that CSR serves as a basis of differentiation

(McWilliams & Siegel, 2001; Flammer, 2015), drawing in revenue from consumers who support their position (Du, Bhattacharya & Sen, 2011) and, in turn, amplify its financial performance (Hull & Rothenburg, 2008). Therefore, we propose,

> ***Hypothesis 1:*** *CSR business model will be positively related to its IPO performance.*

Cognitive Legitimacy

Legitimation, which refers to 'the intentional engagement of social actors in specific practices that may lead to achieving [legitimacy]' (Drori & Honig, 2013, p. 349), is a potential antidote to the liability of newness (Stinchcombe, 1965). Legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Gaining legitimacy is important for entrepreneurial ventures since the crucial motivator of external parties to provide the new venture with resources is the belief that the venture is indeed competent, appropriate, and effective or believes that the young venture with a CSR business model is legitimate. Legitimacy consists of two dimensions: cognitive and sociopolitical (or normative) legitimacy (e.g., Aldrich & Fiol, 1994). Cognitive legitimacy involves cognitive judgments of a venture's comprehensibility (Aldrich & Fiol, 1994; Suchman, 1995), whereas normative, or sociopolitical, legitimacy is the positive normative evaluation (i.e., perceived rightness) of the organization and its activities, given existing norms and laws of stakeholders (Aldrich & Fiol, 1994; Suchman, 1995; Golant & Sillince, 2007; Green & Li, 2011). Because we aim to find out how prosocial ventures help stakeholders understand that the firm's characteristics are both different from and similar to other organizations, our discussion of legitimacy will consist of cognitive legitimacy.

Cognitive legitimacy is central to help stakeholders understand a novel venture. An organization is evaluated as cognitively legitimate when its purpose for existence and its business model becomes comprehensible (Suddaby & Greenwood, 2005). The highest form of cognitive legitimacy exists when a new good, process, or service is accepted as part of the socio-cultural and organizational landscape (Khaire, 2005). When stakeholders of a venture understand its characteristics, the organization may become so familiar to them that they may view the venture as 'given' and are not thinking actively about it (Aldrich & Foil, 1994; Suchman, 1995). However, since knowledge about the activities of a new venture is not widespread (Wiklund, Baker, & Shepard, 2010), these firms are not likely to be seen yet as comprehensible by their multiple stakeholders (Rutherford & Buller, 2007). Since legitimacy evaluations represent social judgments that reside in the eye of the beholder (Fisher, Kuratko, Bloodgood, & Honrsby, 2017), such assessments are audience dependent (Suchman, 1995) and on the realization of a taken-for-grantedness of the venture (Golant & Sillince,2007)

Cognitive legitimacy can be created by the volume of documentation/information a venture can provide (Deeds, Mark, & Frandsen, 2004). Spreading knowledge about the venture increases venture comprehension (Aldrich & Fiol, 1994; Shepherd & Zacharakis, 2003) that may help stakeholders understand the plausibility of the venture idea, its purpose, its scope of operations (Suchman, 1995). Additionally, alliances can provide an important source of cognitive legitimacy to a venture. Affiliations with more reputable entities such as venture capital (VC) firms can convey important information in an IPO market (Pollack et al., 2010); the more prominent the entity is, the stronger its impact will be in building cognitive legitimacy of the new venture. Therefore, news coverage and VC

prominence could prove relevant in engaging stakeholders and equitable to building cognitive legitimacy.

Media Coverage

Aldrich and Fiol (1994, p. 648) noted that legitimacy could be assessed "by measuring the level of public knowledge about a new activity" or "by assessing public acceptance of an industry." For many individuals and organizations, the mass media serves as an important source of information about events and issues going on about them in the environment. This process then goes beyond being informative to affecting long-term changes in beliefs and attitudes. The media records public knowledge and opinions and focuses on public impression (Graf-Vlachy, Oliver, Banfield, König & Bundy, 2020). Mass Media can impact how evaluations of the quality, competence, and/or character of organizations are produced, disseminated, and accessed in the public domain in a vertical, top-down, one-to-many diffusions pattern (Etter, Ravasi & Colleoni, 2019). Mass media outlets, such as newspapers, play an important role in disseminating information to a broad audience (Fang & Peress, 2009), thus impacting new venture legitimacy. Prior research has shown that media coverage constitutes an important strategic asset (Deephouse, 2000) that can significantly affect the performance and valuation of firms (Rogers, Skinner, & Zechman, 2016), as well as investors' trading patterns (Pollock & Rindova, 2003). The IPO market is a market in which investors need to form impressions of relatively new ventures about which they are likely to lack firm-specific knowledge. In such an environment, the media can facilitate or inhibit the formation of impressions about firms by increasing investor exposure to information about them (Pollock & Rindova, 2003), and media coverage is significantly related to market category entry

rates (Schultz, Marin, & Boal, 2014). Therefor. acknowledging the legitimacy effects of media-based information exchange on the emergence of new market categories.

For prosocial ventures engaging key stakeholders such as current customers, suppliers, investors, and employees may result in a more direct impact on organizational success. At the same time, media coverage may provide an opportunity to set agenda (Adner, 2009) and construct legitimacy for the general population. The general population could effectively constitute thousands of current and potential customers, employees, or investors, who may be encouraged or discouraged to buy from, work for, and invest in the organization by the evaluations they are exposed to on the mass media (Fombrun, 1996; Ravasi, Etter, & Colleoni, 2019). Therefore, increasing the scope of information dissemination by many folds, which prosocial ventures may utilize to disburse their business idea and value proposition and likely build cognitive legitimacy among its stakeholders.

Zimmerman and Zeitz (2002) suggest that firms acquire legitimacy when stakeholders understand the worthiness of their objectives and their competence to work towards achieving the designated objectives efficiently. New ventures with higher levels of media attention are more likely to become known by prospective capital providers (Pollock and Rindova, 2003). “Being known” is often viewed as a crucial factor that helps firms enter into resource providers’ consideration set (Williamson, 2000). Aerts and Cormier (2009) argue that news coverage grants organizations legitimacy. Founders and the founding team of prosocial ventures may attempt to build cognitive legitimacy by presenting the ideas, values, and beliefs that guide their logic of founding and, consequently, their activities (Lounsbury & Glynn, 2001; Zott & Huy, 2007) in mass

media, which in turn may garner support from stakeholders. Legitimacy reflects the scrutiny and testing of stakeholders that look for positive signals regarding the organization's potential or capabilities (Hannan & Freeman, 1984). To that effect, the more media coverage that prosocial ventures receive, the more legitimate it would become to stakeholders regarding its value proposition and its endeavors to create a positive impact. Research suggests that stakeholders are deemed to have more global legitimacy concerns, such as a firm's impact on society and the natural environment and financial viability (Allen & Caillouet, 1994).

Vanacker, Forbes, Knockaert, and Manigart (2020) found that media coverage exerts a stronger moderating influence on unrealized performance than on the effect of the realized performance. News coverage of prosocial ventures with unproven and untested business models can inform many constituents of the salience of its projected impact on society and the environment while at the same time preserving its long-term profitability (Dahlsrud, 2008)— building public support, image, and reputation. CSR literature suggests that disclosing information can foster a positive image for external stakeholders (Dhaliwal et al., 2011) and help improve stakeholder engagement and strengthen firm-stakeholder relationships (Lee & Sweeney, 2015). In that sense, news coverage enhances support from external stakeholders, increasing investors' valuation of the firm (Henisz, Dorobantu, & Nartey, 2014). Bansal and Clelland (2004) found that firms pursuing environmental initiatives incur less unsystematic stock market risks through an analysis of media reports. Similarly, I argue that news coverage of ventures with a CSR business model will impact their IPO performance.

Hypothesis 2: *News coverage will moderate the relationship between CSR business models and IPO performance such that when news coverage is high the relationship between CSR business model and IPO performance will become stronger.*

Venture Capital (VC)

Startups seeking to acquire resources struggle to demonstrate the legitimacy they need to transition throughout various organizational life cycle stages to assure their survival and growth (Fisher et al., 2016). Zimmerman and Zeitz (2002) suggest that legitimacy is an important resource that can help entrepreneurial ventures acquire more relevant resources for their growth and success. New ventures take strategic actions to enhance their legitimacy in the market. Such strategic actions may involve third-party affiliations that can help alleviate the information gap and offer legitimacy to new ventures (Stuart, Hoang, & Hybels, 1999). Prior research has shown that third-party endorsements through inter-organizational relationships with prominent organizations such as venture capital firms can serve as a source of legitimacy (Gulati & Higgins, 2003). Prior research has shown that third-party endorsements are valuable. They can reveal discrete information about the company's assets or future potential by making the unfamiliar more familiar and building cognitive legitimacy among stakeholders. Doh Howton, Howton, and Siegel (2010) found that publicly listed firms utilize third-party endorsements to build credible CSR legitimacy among their investors. VCs play the role of information intermediaries in gaining more resources for firms. VCs are public institutions that tend to hold broader social and economic objectives than the commercial success of a particular startup. The startups that such institutions choose to support reveal the agency's policy preferences and priorities (Islam, Fremeth, & Marcus, 2018). Pfeffer and Salancik (2003) note that the acquisition of legitimacy for a new venture is related to

its actual or perceived compliance to institutionalized expectations. Legitimacy can be gained through conformity and strategic action to engage in "acting-as-if" behavior, or behavior that makes the emerging organization seem less like a nascent organization and more like a fully functioning organization that has earned a permanent place in the market (Gartner et al. 1992). By doing what other commercial new ventures does. i.e., affiliate with prominent VCs, ventures with CSR business models can build familiarity and build cognitive legitimacy among its stakeholders. Consequently, VCs provide a tangible assessment of whether or not the new venture can do what it is organized to do, thereby resulting in subsequent support from other resource gatekeepers during IPO. Additionally, entrepreneurs of firms operating in highly ambiguous markets, such as prosocial markets (with hybrid logics), use "soft-power" strategies, such as VC backing, to make themselves more identifiable to their stakeholders (Santos & Eisenhardt, 2009).

VCs provide funds and exert intensive monitoring efforts and provide value-added support to projects with growth potential (Guo and Jiang, 2013). As such, VCs can make errors in their assessment of the venture's future potential and may invest in firms that end up falling short of expectations, too (Ghalbouni & Rouziès, 2010) and that VC backing may at times be a double-edged sword (Shafi, Mohammadi, & Johan, 2020). For example, Tom Shoes being taken over by its creditors from the founder and Bain Capital (VC) (CNBC, Dec 30, 2019)

Likewise, entrepreneurial firms without VC backing may and do successful experience outcomes. In that sense, we can assume that the venture evaluation of VCs may not be perfect, and the decision to invest in an entrepreneurial firm by additional

VCs may translate into more precise assessment, making the venture more trustworthy in its capacity to pursue its prosocial and financial objective. Hence, I hypothesize,

> ***Hypothesis 3:*** *The number of VCs present in the entrepreneurial firm will moderate the relationship between CSR business model and IPO performance.*

Consequently, Fisher, Kurotko, Bloodgood, and Hornsby (2017) note that new venture legitimacy is derived from associative mechanisms, which organizations a new venture is tied with and a venture receiving backing from a prominent VC is more valuable to its IPO performance (Gulati & Higgins, 2003; Lee, Pollock & Jin, 2011) and future survival (Manigart et al. 2002). Additionally, research has shown that the better the reputations of participating venture capital firms, the more money a startup raised during IPO (Chang,2004). Accordingly, management and entrepreneurship scholars have evidenced the positive effects of VC prominence on ventures (Lee et al., 2011). VC investors compete with other investors for the most promising venture investment opportunities; therefore, VCs want to maintain their reputation and desirability as future partners (Hallen, Katilla & Rosenberger, 2014). Ozmel (2007) notes that firm-specific uncertainty, which refers to uncertainty a firm experiences because of firm-specific idiosyncrasies, such as a CSR business model, can be mitigated through being affiliated with high-status third-party organizations such as VCs. In that sense, the more prominent a VC is, the higher the legitimacy it will accord a new venture. Additionally, the notion that VC investors also stake their professional reputation on the venture's success, therefore a prominent VC tie-up will accord more legitimacy to the new venture treading uncharted waters through its unique business model (see Figure 4-1). Therefore, I hypothesize,

Hypothesis 4: *VC prominence will moderate the relationship between CSR business model and IPO performance.*

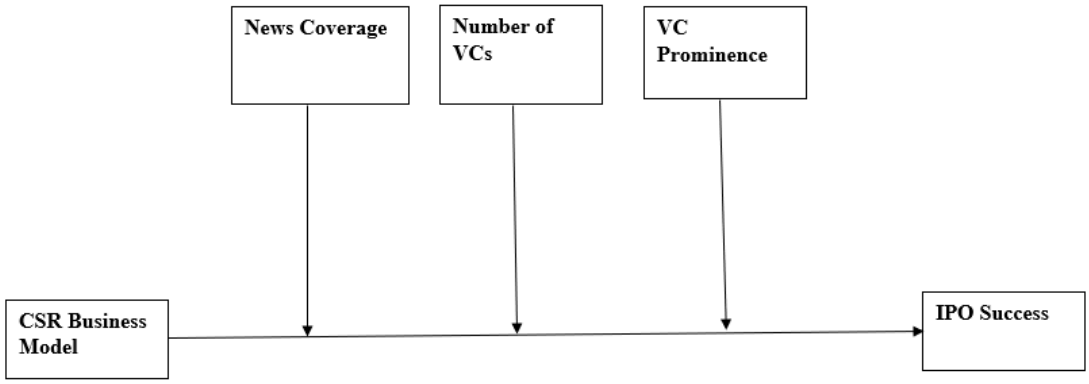


Figure 4-1: Conceptual Model

Research Methodology

Sample

The sample consisted of young entrepreneurial firms that went public in the United States between 2014 and 2019. I focused on recent years for two reasons – firstly, to limit the possibilities of delisting and dissolution (Shumway,1997). Secondly, focusing on recent years helped reduce the possibility of macroeconomic conditions influencing the results (Kroll, Walters, & Le, 2007). The initial sample was obtained from Loughran and Ritter's database (2004), which consists of all firms completing IPOs from 1975 through 2020. The database also included the founding dates of these firms. I extracted 1,212 IPOs from 2014 to 2019. I searched the Securities and Exchange Commission's (SEC's) Edgar (Electronic Data Gathering, Analysis, and Retrieval System) for prospectuses and proxy statements to collect data for dependent, independent, and control variables. After verifying the founding dates, I retained firms incorporated no earlier than 2004 to assure that less than ten years had elapsed between incorporation and the initial public offering, which ensured that the firms retained in the sample were representative

of the young, entrepreneurial phase of their life cycles (Taulaulicar, Grundei, & Werder, 2005; Kroll et al., 2007). This requirement eliminated 458 firms. From the prospectus, I identified and eliminated ADRs, closed-end mutual funds, REITs, partnerships, subsidiaries, spinoffs, and any firms that were taken public in the "best efforts offer," which eliminated 291 firms. Thus, the final sample includes 463 firms.

Data Collection

I have collected information regarding the study variables from multiple sources. Given the difficulty of obtaining objective measures of business models, I deemed the use of perceptual measures through content-coding appropriate (Dess & Robinson 1984). I collected CSR business model-related information from IPO prospectuses, and where information was not available, annual reports were referenced to collect more data. The dependent variable was collected from the IPO prospectus and WRDS (Wharton Research Data Services). Information regarding venture capital was collected from the IPO prospectus and Crunchbase.com. At the same time, information regarding media coverage was collected from the Nexis Uni database. Information regarding control variables was collected from the IPO prospectus, WRDS, Nexis Uni, and US Census Bureau. The research design mitigates common method bias by drawing on different data sources for CSR and financial performance (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

Dependent Variable

IPO Success: Following Higgins and Gulati (2003), we measured IPO success following the four-step process. First, I obtained the value for a firm's net proceeds from the first page of the final prospectus. The information is the amount of cash the firm

receives due to the offering, less costs incurred during the IPO process. Second, I calculated the pre-money market valuation of the firms within the sample, which is an indicator of IPO success employed in previous organizational and strategic management research. The pre-money market value is calculated as follows:

$$V^* = (puqt - puqi)$$

where pu is the final IPO subscription price as indicated on the firm's final prospectus, qt measures the number of shares outstanding, and qi is the number of shares offered in the IPO. The figure is the firm's market valuation less the proceeds to the firm due to the IPO. V* is, therefore, the market valuation of the firm just preceding the first day of trading. Third and fourth, I calculated each firm's 90-day market valuation and 180-day market valuation after the IPO to gauge the early success of the firm's offering. I used the same formula for pre-money market valuation but substituted the post-IPO price at 90 days out and then 180 days out for pu in the formula. Since these four financial measures are considered highly correlated, these measures were standardized, and the mean was obtained to create one financial indicator of IPO success.

Independent Measure

CSR Business Model: I operationalized this variable in two ways. First, as Zott and Amit (2010) explained, a business model is a set of activities and the resources and capabilities to perform them – either within the firm or beyond it through cooperation with partners, suppliers, and customers – to create value. Therefore, information about a firm's value proposition, product details, manufacturing, operations, suppliers, marketing, channels, suppliers, resources, and other internal practices or activities exemplify a business model. In order to better inform investors, firms provide information regarding

its primary activities as it constitutes its business model in the IPO prospectus. Such information can be found in the "Business" section of the prospectus. Following Husted, Jamali, and Safar (2016) I created a continuous variable for the CSR business model based on the KLD STATS categories. KLD STATS is a well-known measure used in innumerable CSR-related studies. KLD measures company-related CSR activities through qualitative areas of seven categories; product characteristics, human rights, employee relations, community, diversity, environment, and corporate governance. These categories a further separated into types in order to better explain each of the categories. For example, the environment has eight types; Beneficial Products and Services, Pollution Prevention, Recycling, Clean Energy, Communications, Transparency rating, Property, Plant, Equipment, Management Systems, and Other Strengths.

I utilized MAXQDA, a qualitative data analysis software, which has been utilized for qualitative content analysis (Saillard, 2011). The software allows for thematic content analysis. To analyze the content of the "Business" section of the IPO prospectus. I created codes for six CSR-related broad categories. Corporate governance was excluded as a category as the CSR business model does not cover agency conflicts between managers and stockholders. A set of strengths for each of these categories was given a binary (1/0) rating. So, the firm's range related to the CSR business model would fall between 0 to 6, six being the highest and zero being the lowest. Only the "Business" section of the IPO prospectus was coded to avoid double-counting. Although information about a firm's activities is available within other sections of the prospectus, that information may be quite similar to those available in the "Business Section." Second, I operationalized the CSR business model as a dichotomous binary variable, wherein if

firms where coded under any of the six categories that were assigned a value of 1 and 0 otherwise. The qualitative content analysis follows prior research that has adopted such operationalization for the business model and entrepreneurship research (e.g., Zott & Amit, 2007) in codifying business models.

Moderators

Number of VC

Following Raggozzino and Blevins (2020), I measured VCs as the total count of the unique VC firms investing in the new venture. This information can be obtained from the prospectus, and the 8K reports. Irrespective of the dollar amount being invested from the VC, each VC was counted as one and generated a continuous variable.

VC Prominence

Prominence is a socially constructed perception of an individual's or organization's status. Prior research has measured status via ventures' networks in a market. For example, Rindova et al. (2006) referred to status as the relative position of actors in the network, and the position is indicative of the quality/prominence of the actor. The firm's prominence is conceptualized as its level of prominence using its position within the network (Hallen, 2008). This approach to measuring prominence via network size has been widely used in the management, entrepreneurship, and finance literature (Jensen and Roy, 2008). Thus, the more connected the VC firm, the higher its prominence and better it can collect information from its network and assess the new venture's potential. Similarly, support from a prominent VC accords a certain level of cognitive legitimacy to the new venture with CSR business models. To measure VC prominence, I used investors' network score, available in Crunchbase.com. CrunchBase

is a premier source of information regarding startups (Hallen et al., 2014) and draws data from >350 investment firms providing information on their investments (Hallen et al., 2014). CrunchBase includes ventures' full investment history regardless of the type of investor (including angel investors and venture capitalists) (Ko & McKelvie, 2018). The scores were calculated using the methodology described in Hochberg et al. (2007), whereby each investor's score reflects the following two criteria: (1) how well connected the VC firm is to other investors and (2) how well connected the VC firm's co-investors are to other investors. In other words, the higher the rank, the better the prominence of the VC. Crunchbase.com has been used in prior entrepreneurial finance and management research and has been considered an unbiased and valid proxy measurement of investor prominence (Ko & McKelvie, 2018). I extracted the information about the VC capital ownership from the IPO prospectus. It assigned the role of lead VC to the firm that had invested the highest ownership stake in the entrepreneurial firm, after which the network score was extracted from Cruncbase.com. A logarithm transformation was conducted to mitigate the issues of non-normality.

Media Coverage

The concept of the news media coverage focuses on information dissemination as the news media's primary role, especially in financial markets (Liu et al., 2014). News media coverage makes the capital markets more efficient by reducing information asymmetries and increasing awareness of firms among stock market participants, building legitimacy for the new venture and its business activities. Following Pollack and Rindova (2003) and Love, Lim, and Bedner (2017), I operationalized this variable as the volume(count) of the news coverage received by each IPO firm. The information is

obtained from the "Major Newspapers," "Journals and Magazines," "Trade Magazines," and "Blogs" databases of Nexis Uni database. Following Souitaris, Zerbinati, Peng, and Shepard (2020), I qualitatively assessed 10% of the news articles randomly. The coverage was mostly positive or neutral, and the extent of potential negative coverage was negligible. Hence, the total count of US-based news media coverage was considered. The search was limited to within US new media coverage as well as limited to English news only.

Control Variables

Following previous strategy research on CSR and IPO performance, I control Firm age, calculated as a number of years elapsed until IPO from the founding. *Firm size is calculated* as the natural log of total assets (Surroca & Tribo, 2008). I controlled for *profitability* using the ratio of net income to total assets (ROA). Underwriters systematically underprice IPOs (Lewellen, 2006), selling the shares below the market price. Following prior work in financial economics, I calculated *underpricing* as the first-day return of the equity offering (Ragozzino & Reuer, 2011). *Lead underwriter prestige* was measured as underwriter rankings provided by Loughran and Ritter (2004), based on Carter, Dark, and Singh (1998). The information about the lead underwriter was extracted from the IPO prospectus. The underwriter ranking ranges from 0 to 9. Following Arikan and Capron (2010), the prestigious underwriter with a ranking range of above 7.9 is coded as one, and those below were coded as 0. Following prior research, I controlled whether the firm belongs to the *high-tech industry* from the SIC code, coded as a dichotomous variable. Firms were coded as one if they belonged to the high-tech industry and 0 otherwise (Ragozzino & Reuer, 2011, Ragozzino & Blevins, 2021). I controlled for

company-sponsored news coverage and press releases as the firm's total count of press releases obtained from Nexis Uni. I controlled for the IPO year and the gender of the CEO.

Analysis

Control for Endogeneity

In order to measure the relationship between the CSR business model and IPO success, a common method would be to employ ordinary least square regression, placing the measure of the CSR business model on the right-hand side of the regression equation. However, prior research in CSR suggests that a virtuous loop or reverse causality exists between CSR and firm financial performance (Peloza, 2009, Orlitzky et al., 2003, Husted et al., 2016). In other words, CSR can improve firm financial performance, so the firms' investment and involvement in CSR increases. Additionally, other omitted variables may influence and affect CSR business model and IPO success, producing biased coefficients (Bascle, 2008), leading one to argue that measures related to CSR should correct for endogeneity.

In order to overcome the endogeneity bias, researchers suggest using instrumental variables for accounting for unexpected results of the regression relationship (Semadeni, Withers, & Certo, 2014). Instrumental variables must fulfill two conditions: relevance and exogeneity (Kennedy, 2008). Relevance refers to the degree to which the instrument corresponds with the endogenous variable, i.e., the independent variable, which in this case are the measures for the CSR business model. Exogeneity refers to the degree to which an instrument is uncorrelated with the error term in the second stage. Following

these steps allows researchers to reduce the chance of replacing one endogenous independent variable with another (Bascle, 2008, Semadeni et al., 2014).

Following Husted et al. (2016), linear geographic distance between two locations, identified through zip codes, was used as one of the instrumental variables. Scholars have made arguments that geography plays a significant role in CSR activities – specifically, firms located near large cities tend to have higher levels of CSR. Thus, a strong case can be made for arguing that new ventures located near large cities will tend to adopt a CSR business model.

In order to operationalize the instrumental variable, I first identified large, populous cities in the United States, which were Boston, Chicago, Los Angeles, New York, Philadelphia, and San Francisco (Christoffersen & Sarkissian, 2009). Followed Husted et al. (2016) and Awaysheh et al. (2019), the location of company headquarters was identified through the 3-digit UPS zip code. Following (Coval & Moskowitz, 1999), I calculated the geographic distance by referring to the firm's zip code to determine their latitude and longitude coordinates from the US Census Board, geodata database. Finally, computing the linear distance between two geographic points by using the Haversine formula, given below.

$$\text{Geographic Distance} = r \times \arccos[\sin(lat_{firm}) \times \sin(lat_{city}) + \cos(lat_{firm}) \times \cos(lat_{city}) \times \cos(lon_{city} - lon_{firm})]$$

The distance is recorded as the distance from the corporate headquarters to the center of the nearest financial center measured in kilometers.[2.] Distance <100 km is a dummy variable that equals 1 if the firm is headquartered within 100 km of the center of the nearest financial center and 0 otherwise.

Additionally, there could be state-level factors influencing the choice of CSR business model. Ioannou and Serafeim (2012) found that corporate social performance is lower in highly corrupt countries. Similarly, US states with high corruption may have fewer new ventures with CSR business models, while state corruption may not influence IPO performance. We proxy for corruption at the state level using the total number of per capita corruption convictions of local, state, and federal officials (Butler, Fauver, and Mortal, 2009). Information about corruption levels was extracted from the U.S. Department of Justice's Public Integrity Section.

Relevance and Exogeneity Test of Instrumental Variable

The 2-stage least square regression was conducted in Stata 16. The results obtained from first stage, wherein the instrumental variables and the control variables were regressed on measures of CSR business. For the CSR business model count variable (CSRCount), geographic distance CSRCount ($\beta = 0.31$, $p < .001$) and corruption ($\beta = 0.003$, $p < 0.05$). For the CSR binary variable (CSRY), geographic distance ($\beta = 0.17$, $p < 0.001$), and corruption ($\beta = 0.001$, $p < 0.05$). Therefore, the two instrument satisfies the condition of relevancy for both independent variables.

The second condition is to test for exogeneity, i.e., the instrumental variable is exogenous and not related to the dependent variable. The findings suggest that the null hypothesis that the instruments are exogenous cannot be rejected CSRCount (Sargan $Chi^2 = 0.14$, $p = .71$); CSRY (Sargan $Chi^2 = 0.34$, $p = 0.56$). Therefore, satisfying the second condition that both the instruments are exogenous would not directly relate to the dependent variable IPO success.

Testing for Endogeneity

After establishing the relevance and exogeneity of the instrumental variable, it is necessary to test for endogeneity. Wherein the null hypothesis states that the measures for the CSR business model are exogenous. The results of the Durbin-Wu-Hausman test indicated that the null cannot be rejected CSRCount (Durbin $Chi^2 = 1.24$, $p = .26$), CSRY (Durban $Chi^2 = 1.30$, $p = .25$). In such a scenario, it is not necessary to correct for endogeneity in the estimation.

Results

Table 4-1 reports the means, standard deviation and the correlations matrix of the study variable. As seen in Table 4-2, the reliabilities of all the variables are acceptable for research purposes (Nunnally, 1978). CSRY is negatively correlated to IPO Success (IPOS) ($r = -0.08$, $p < 0.05$) and positively to number of VC (NVC) ($r = 0.34$, $p < 0.05$) and new media coverage ($r = 0.20$, $p < 0.05$). CSRCount was positively correlated to NVC ($r = 0.37$, $p < 0.05$) and news coverage ($r = 0.23$ $p < 0.05$). NVC was negatively correlated to IPOS ($r = -0.10$, $p < 0.05$).

VC prominence (VCP) was negatively correlated to IPOS ($r = -0.13$, $p < 0.05$), meaning that the lower the number News media coverage was positively correlated to IPOS ($r = 0.20$, $p <0.05$), CSRCount ($r = 0.25$, $p < 0.05$), NVC ($r = 0.22$, $p < 0.05$). Thus, offering initial support for some of the hypothesis.

Table 4-1

Descriptive Statistics and Correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
IPOSuccess	-.02	.05																		
CSRCount	1.85	.05	-.06†																	
CSRY	.91	.02	-.08*	.75**																
Media Coverage	4.57	.06	.20***	.25***	.20***															
VCNum	2.70	.09	-.10*	.37***	.34***	.23														
VC Prominence	7.26	.10	-.13*	-.02	.02	-.12*	.02													
Firm Age	6.02	.15	.08	.06	.06	.27	.25	-.01												
Firm Size	5.22	.05	.02	.07	.08	.06	.10*	.05	.03											
Profitability	.03	.07	.27***	.10*	.02	.15***	.03	-.02	.09	.03										
CEOGender(M)	.91	.02	.03	-.22***	-.04	.01	-.07	-.03	.06	.03	.02									
Underwriter Prestige	.78	.02	.24***	.10*	.02	.23**	.20**	-.19**	.14*	.11*	.05*	.05								
Underpricing	.26	.84	.01	.04	-.02	.06	.09	-.02	.01	-.04	-.01	.05	.06							
News Release	3.77	.07	.12*	.29***	.29***	.85***	.31***	-.11†	.39*	.05	.12	-.01	.21	.03						
High Tech Industry	.12	.02	.20***	-.01	.04	.23**	.06	-.09	.15*	.01	-.01	.02	.12**	.12**	.21**					
Y2014	.28	.02	.00	.04	.06	.03	.12	-.02	.09	.04	.01	.03	.03	-.02	.11	-.02				
Y2015	.15	.02	.00	.08	.08	.03	.01	.05	.01	.01	-.04	.02	-.05	-.04	.07	.03	-.21			
Y2016	.10	.02	.00	.07	.07	.06	.06	.05	.04	.01	-.01	-.04	.01	.20	.09	.02	-.16	-.13		
Y2017	.12	.02	.00	-.16	-.13	.01	-.10	.03	-.00	-.00	-.03	-.02	-.02	-.05	-.03	.04	-.21	-.18	-.14	
Y2018	.19	.02	.00	-.02	-.01	-.13	-.02	.04	-.12	-.03	-.03	.07	.03	.01	-.12	-.05	-.26	-.22	-.17	-.23

** p < .01. *p < .05. † <.10

Table 4-2

Summary of the OLS Regression Results -1

	IPO Success							
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	-.35	-.13	-.28	-.21	-.23	-.49†	-.35	-.35
Firm Age	-.01	-.01	-.01	-.01	-.01	-.01	-.01	-.01
Firm Size	-.01	.01	-.01	-.09	.01	.01	.04	.04
Profitability	.21***	.22***	.22***	.24***	.21***	.21***	.22***	.23***
CEOGender(M)	.02	-.09	-.10	-.10	-.07	-.07	.05	.05
Underwriter Prestige	.39***	.41***	.41***	.40***	.44***	.44***	.23†	.24*
Underpricing	-.03	-.02	-.03	-.02	-.02	-.02	.01	.01
News Release	.01†	.01*	-.01	-.01†	.01*	.01*	.01†	.01*
High Tech Industry	.51***	.49***	.44**	.46***	.50***	.50***	.58***	.58***
Y2014	.05	.07	.12	.09	.11	.11	.23	.23
Y2015	.09	.13	.11	.13	.13	.13	.28†	.29†
Y2016	.08	.11	.13	.14	.13	.13	-.02	-.03
Y2017	.08	.05	.06	.08	.05	.05	22	.23
Y2018	.10	.11	.12	.12	.13	.13	.28†	.28†
CSRCount		-.13**	-.14**	-.14**	-.08†	-.08†	-.07	-.19
Media Coverage			.01*	.03**				
CSRCount x Media Coverage				-.05*				
VCNum					-.07**	-.07*		
CSRCount x VCNum						-.01		
VC Prominence							-.04	-.04
CSRCount x VC prominence								.02
R^2	.16	.18	.19	.20	.20	.20	.22	.22
ΔR^2	.14	.16	.16	.17	.17	.17	.18	.17
F	6.66	7.00	6.96	6.93	7.38	6.91	5.40	5.07

** $p < .01$. *$p < .05$. † <.10

Hypothesis Testing

Hierarchical multiple regression analysis was used to assess the direct effects and moderating effects after controlling several variables. Table 4-2 and 4-3 displays the findings of the regression results for all hypotheses. Hypothesis 1 states that the CSR business model would positively relate to IPO success; the results in Table 4-2 Model 2 show that CSRCount was significantly but negatively related to IPO success ($\beta = -.13$, $p < .001$). Regarding the second operationalization of the CSR business model, CSRY was significantly but negatively related to IPO Success ($\beta = -0.28$, $p < 0.01$), Table 4-3 Model 2. Thus, Hypothesis 1 was not supported.

Hypothesis 2 anticipated a news coverage would moderate the relationship between the CSR business model and IPO success. As seen in Table 4-2 Model 4, the interaction term between CSRCount and news coverage was significant but negative ($\beta = -.05$, $p < .05$). Additionally, as seen in Table 4-3 Model 4, the interaction term between CSRY and news media coverage was not significant ($\beta = -.01$, $p = 0.66$). Thus, Hypothesis 2 was not supported. Hypothesis 3a stated that the number of VC would moderate the relationship between the CSR business model and IPO success. As seen in Table 4-2 Model 6 was negative and not significant ($\beta = -0.04$, $p = 0.86$). As seen in Table 4-2 Model 6, the interaction term between the CSRY and the number of VCs was negative and nonsignificant ($\beta = -0.05$, $p = 0.44$). This Hypothesis 3a was not supported.

Table 4-3

Summary of the OLS Regression Results -2

	IPO Success							
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	-.35	-.17	-.13	-.17	-.41	-.33	-.30	
Firm Age	-.01	-.01	-.03	-.03	-.01	-.01	-.01	-.01
Firm Size	-.01	-.01	-.01	-.01	.01	.01	.04	.03
Profitability	.21***	.21***	.21***	.21**	.21***	.21***	.22***	.22***
CEOGender(M)	-.02	-.01	-.02	-.02	-.01	-.02	.10	.11
Underwriter Prestige	.39***	.38***	.38***	.38***	.43***	.42***	.22†	.23†
Underpricing	-.03	-.03	-.03	-.03	-.02	-.02	.01	.01
News Release	.01†	.00	.00	.00	.01	.01	.01	.00
High Tech Industry	.51***	.52***	.49***	.49***	.52***	.52***	.60***	.60***
Y2014	.05	.08	.10	.10	.11	.11	.24	.23
Y2015	.09	.12	.11	.11	.13	.12	.28†	.30†
Y2016	.08	.11	.13	.13	.13	.13	-.02	-.01
Y2017	.08	.07	.08	.08	.06	.05	.25	.25
Y2018	.10	.11	.12	.12	.13	.13	.29†	.30†
CSRY		-.25*	-.28*	-.25*	-.16*	-.23†	-.15	-.65
Media Coverage			.01†	-.05				
CSRY x Media Coverage				.01				
VCNum					-.08**	-.03		
CSRY x VCNum						.05		
VC Prominence							-.04	-.10
CSRY x VC prominence								.07
R^2	.16	.17	.18	.18	.19	.20	.22	.22
ΔR^2	.14	.15	.15	.15	.17	.17	.17	.17
F	6.66	6.80	6.60	6.19	7.29	6.87	5.05	5.05

** $p < .01$. *$p < .05$. † <.10

Discussion

Building on the concept of shared value creation and firm financial performance for young entrepreneurial firms, the results suggest that CSR-related business models are a valid predictor of firm financial performance for young entrepreneurial firms, albeit negative.

Further, in this study, we built on stakeholder theory and business models to shed light on shared value creation and venture performance during the initial public offering of entrepreneurial firms. The basic intuition is that the new ventures with business models that align CSR elements with their core business activities help them create value for different stakeholder groups while enhancing the likelihood of receiving favorable investor reactions during IPO. There have been anecdotal examples regarding young entrepreneurial prosocial ventures that support the idea that aligning key business activities with CSR elements may result in favorable financial outcomes and investments. For instance, Gramin Bank was designed to alleviate poverty and the venture that pioneered the micro-finance industry (for details, Yunus et al., 2010). Despite such evidence in practice, there has been limited research exploring CSR in young entrepreneurial ventures. I remedy the gap by exploring prosocial ventures and financial performance. I add to the ongoing conversation about stakeholder theory in young entrepreneurial ventures. I extend the business model literature by exploring shared value creation through CSR related business model that takes a social issue as a starting point of business.

The concept of shared value creation that prosocial ventures aim to attain though CSR alignments fit within the notion that “value is not ‘discovered’ lying around in the

market, but created through shared assumption….with the help of others and with others who value what we create" (Freeman, Harrison, Wicks, Parmer, & De Colle, 2010, p 281). Drucker initially introduced the idea as not simply the compatibility of profitability and responsibility but the idea that business ought to "convert" its social responsibilities into business opportunities. Drucker made this point clear: "But the proper 'social responsibility of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth" (Drucker, 1984, p. 62). Kaul and Luo (2018) explain that when CSR activities are closely related to the core business activities of the firm, they can benefit stakeholders and maximize profits for shareholders. Combining stakeholder responsibilities with core business operations may include higher product quality and investments in R & D, paying just wages, supporting responsibility measures of suppliers, and applying environmentally benign practices and policies. As to the expected benefits, the firms may benefit from corporate reputation, cost savings, risk reduction, or anticipation of legislation, which adds to firm valuations.

The negatively significant results suggest that prosocial ventures that align their primary business activities along CSR elements do not perform well during IPO. One way to explain the negatively significant result would be to acknowledge that IPO is a short-term performance metric. IPO performance primarily depends on the perceptions of investors (Certo, 2003). IPO depicts a firm's ability to raise capital during the growth stage and subsequently fuel its future growth, which may influence its long-term performance metrics. Concerning young firms, investors may consider such endeavors to be risky as they may impact the firm's financial standing in the short term. At the same

time, benefits from CSR alignment may take longer to actualize. Wherein investors react negatively to prosocial ventures with CSR business models.

Decades of research support the view that "virtuous" firms are often rewarded in the marketplace for being socially responsible (Margolis & Walsh, 2003; Orlitzky et al., 2003). However, due to the heterogeneity of CSR undertakings, there is a considerable range of activities that fall under the purview of CSR. CSR activities may vary in the type of stakeholder groups being served and how the activity is organized (Boddewyn & Doh, 2011). The challenge remains for organizations to draw out the efficacy of CSR in ways that justify and merge stakeholder and shareholder interests. Social responsibility theorists posit that firms should sometimes engage in activities that benefit employees, suppliers, customers, and society at large, even if those activities reduce the present value of the cash flows generated by the firm (Paine, 2002). Consequently, CSR literature has findings that suggest that CSR initiatives are costly endeavors that distract managers' attention and exacerbate relationships between principal and agent (Margolis & Walsh, 2003). As such, mapping the relationship between the effectiveness of CSR in prosocial ventures and firm financial performance has mainly been drawn from findings from large established firms.

However, investigating in such relationships is problematic due to multiple reasons. First, large firms often find it difficult to measure the efficacy of CSR efforts when justifying a short-term investment as the firms' internal systems may pose challenges in measuring, tracking, and optimizing their sustainability impact (Wang et al., 2016). Multi-national corporations find it challenging to adopt CSR initiatives that will balance responsible practices and competitive initiatives to maintain a robust

position in challenging business environments (Acquier, Valiorgue, & Daudigeos, 2017; Lund-Thomsen & Lindgreen 2013). Second, CSR encompasses multiple dimensions involving different stakeholder groups. Thus conflicts of interest among stakeholder groups competing for financial resources and managerial attention may arise (Akremi, Gond, Swaen, De Roeck, & Igalens, 2015; Hafenbradl & Waeger, 2017). Finally, for large firms, CSR initiatives are considered as peripheral activities, as a way to realize value from its externalities (Baron, 2001; Dorabantu, Kaul, & Zelner, 2017; Porter & Kramer, 2011) and not at the forefront of what they do. Therefore, though some CSR ("do good") involves proactive strategies to create social value, many forms of CSR ("do no harm") seek to limit the social costs of business, ironically highlighting the negative consequences of corporate activity that are rarely eliminated (Crilly, Ni & Jiang, 2016). Moreover, extant CSR studies have focused on large firms (Aguinis & Glavas 2012), where substantial CSR adoption may eventually abate to symbolic CSR due to (1) shareholder pressure (e.g., Body Shop (Husted & Allen, 2007) or (2) limitations imposed due to internal organizational systems of established routines that do not allow conversion of CSR into main market strategy through which a firm can collect economic rent (Dorabantu et al., 2017).

Legitimacy performs an important role for firms undertaking IPOs. Research indicates that legitimate firms are less likely to fail (Certo et al., 2009). Firms employ multiple mechanisms to influence investor reactions. One such mechanism to mitigate the liability of newness is to gain legitimacy. Hence, third-party endorsements are valuable. They can reveal discrete information about the company's assets or its future potential by making the unfamiliar more familiar and building cognitive legitimacy among

stakeholders. Reur and Devarakonda (2017) found that VCs play the role of information intermediaries in gaining more resources for firms. VCs are public institutions that tend to hold broader social and economic objectives than the commercial success of a particular startup. The startups that such institutions choose to support reveal the agency's policy preferences and priorities (Islam, Fremeth, & Marcus, 2018). As such, VCs can make errors in their assessment of the venture's future potential and may invest in firms that end up falling short of expectations, too (Ghalbouni & Rouziès, 2010) and that VC backing may at times be a double-edged sword (Shafi te al., 2020). Lacking status and power, they have little control over their investors' actions (Pahnke, Katila, & Eisenhardt, 2015) and other prospective investors' adverse perceptions of such actions. The conjecture that VC prominence would enhance the relationship between CSR business model and IPO performance by augmenting new venture legitimacy was not supported, leading us to the first limitation of the study, discussed in the following section.

Limitations and Future Research

The study has several limitations. First, the effectiveness of CSR is often difficult to observe, especially when justifying a short-run investment, and may be limited by internal systems that do not allow companies to measure, track, and optimize their sustainability impact (Wang, et al 2016). I identified an objective count-based measure to operationalize the CSR business model based on globally recognized CSR measurements. There could be varying degrees of alignment. CSR alignment and business activities may vary in the type of stakeholder groups being served (Mattingly & Berman, 2006), the way the activity is organized (Boddewyn & Doh, 2011). Thus, there could be varying degrees

of intensity of CSR within the primary activities of the venture. Future research should explore the intensity of each category of CSR alignment and how that relates to firm performance.

Second, although the results suggest a limited effect of the moderating factor of VC prominence, I conducted the additional analysis. I created an alternative measure of VC prominence by creating a dichotomous measure. The median value of VC prominence was identified and based on the median score. VC that fell below the median score was coded as one, and those above were coded as zero. OLS regression was conducted, and for both measures of the CSR business model, the results were negative. Although the VC prominence score was garnered from new publicly available sources and used in prior research, there could be room for a more nuanced expansion of the measure to enhance research quality.

Finally, research suggests the increasing importance of non-financial information in determining equity values (Certo, 2003; Coluccia, Dabić, Giudice, Fontana, & Solimene, 2020). To that effect, Luo and Kaul (2019) have argued that ventures with defined for-profit incentives pursuing CSR are more innovative. Although not within the scope of the current study, there could be other boundary conditions that may influence CSR business models and their IPO performance. Thus, one such boundary condition could be the level of innovation of the prosocial ventures, a potential future research avenue.

Even when prosocial ventures have a clear social mission, there could be variations in what is considered to be a successful engagement or outcome. Would doing well in one stakeholder dimension affect firm performance in some other dimensions?

Should prosocial ventures try to cover all CSR dimensions simultaneously or focus on one or two of the most relevant ones with limited resources? If the latter, how shall the managers determine and prioritize the most relevant of them all? In sum, to help managers most effectively deal with the demands from multiple stakeholder groups, future research may examine tradeoffs under competing goals and conflicts among different stakeholder groups.

CHAPTER 5

CONCLUSION

The dissertation aimed to examine resource acquisition during three different stages of prosocial venturing. I drew insights from several theoretical underpinnings to establish the premise of the three essays, each essay exploring different sources of resource acquisition for different stages of prosocial venture formation. Essay 1 considers signaling theory as the overarching theoretical foundation. It is layered with pecking order and static trade-off theory to explore how the capital structure of the prosocial venture during its nascent stage signals its quality to the social impact accelerators, influencing selection decisions. Essay 2 explores prosocial equity crowdfunding from the perspective of organization sense giving. The essay seeks to answer how prosocial ventures, while straddling economic and prosocial objectives, communicate their dual purpose, draw the crowd's attention, and raise funds. Finally, Essay 3 explores prosocial ventures during the growth phase while examining prosocial ventures through the lens of stakeholder theory, business models and cognitive legitimacy, and factors that influence their ability to raise capital during the IPO phase.

The essence of the joint studies lies in knowing that most studies on prosocial venturing and entrepreneurial finance literature consider funding sources in isolation (Drover et al., 2017). However, as new venture forms emerge, so do alternative resource acquisition mechanisms. An isolated focus on a sole venture stage and/or

resource acquisition mechanism may fail to capture the interlinkages present between them and what those connections may reveal when explored simultaneously. Although the results from Essay 1 were inconsistent with the hypothesized relationships, it was undeniable that the highest form of uncertainty and information asymmetries is present during the nascent stage. Hence, prior financing, especially equity financing, may have signaling value. SIAs may rely on such information to make selection decisions and mitigate limited firm performance records. The results in Essay 2 were largely consistent with the hypothesized relationships that focused on investor evaluations of the crowd. For prosocial entrepreneurs obtaining venture capital or angel investment may be unrealistic (Bhide, 1992) due to the restrictive selection filters of such sources of finance (Baum and Silverman, 2004). Instead, raising capital through crowdfunding may seem more attractive because "wisdom of crowds" paradigm (Surowiecki, 2005). In that sense, the crowd's judgment may seem easier to sway by allowing prosocial ventures the opportunity to articulate their dual purpose; economic and social correctly. To give a sense of its purpose by correctly responding to the expectations of the diverse crowd (economic & social welfare) and formulating their message that will resonate with the right audience. Using linguistics representation to simultaneously display the economic and prosocial worth of the venture and convince the crowd of its merits and future potential in fulfilling its dual purpose. Essay 3 explores prosocial ventures during their growth stages, whereby resource is sought from accredited and institutional investors. The fact that the results displayed a negatively significant relationship for the main effect suggests that conforming to the norm and appearing similar to other ventures may be beneficial. Investors may consider ventures with CSR business models to bear the

superior risk and thus punish the firm during the IPO. While CSR may be considered part of corporate strategy that adds differentiation and helps established firms stay competitive (Flammer, 2015), such adoption may be deemed riskier for the new venture.

New venture capitalization is one of the most foundational entrepreneurship issues (Drover et al., 2017). The dissertation aimed to underscore the variability and heterogeneity in funding sources during different stages of prosocial venturing while exploring emerging forms of new venture financing. Going forward, I encourage researchers to broaden the scope of inquiry into prosocial venture financing, probing how changes in practice may inform the theoretical understanding of this domain.

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