Do hybridity conceptualizations affect investment decision in social ventures?

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Abstract

As typical examples of hybrid organizations, social ventures try to combine social and financial performance. Recent research suggests that the concept of hybridity could be conceptualized in different ways by considering first the *relative* importance attributed by the organization to the economic logic vis-à-vis the social logic and second the varying levels of *intensity* of both, economic and social, logics experienced by the organization. Most of this literature is theoretical and little is known on the impact of these conceptualizations on the investment decisions. Drawing on categorization theory, we address this question in the context of a social crowdfunding by means of a quasi-experimental design drawing on a sample of 234 crowdfunders. We find that the way the audience categorize the venture as a high-relative versus a high-intensity hybrid venture influence the investment decision. The evaluation of the social ventures and the amount invested by crowdlenders are positively related to high hybrid intensity but not to high hybrid relativity. These findings provide first empirical evidence that the conceptualizations of hybrid organization matter.

Keywords: Social venture, hybrid organization, crowdfunding, quasi-experiment, social entrepreneurship.

1. Introduction

Social ventures are initiatives that respond to long-lasting problems affecting society, such as poverty, exclusion, climate change, or water shortage. Social ventures adopt a holistic business model to tackle social challenges while fulfilling economic imperatives (Calic and Mosakowski, 2016; Wry and York, 2017). They are alternative organizations since they do not aim at profit accumulation and frequently aim at combating the capitalist system (Audebrand and Barros, 2018). These organizations are frequently considered typical examples of hybrid organizations as they combine *social logic* and *commercial logic* (Wry et al. 2014; Huybrechts and Haugh, 2018; Durand et al. 2017). Recent research suggests that the concept of hybridity could be conceptualized beyond a simple discrete categorization of hybrid or not-hybrid (Battilana et al., 2017). Extending Battilana et al. (2017) effort on new ways to conceptualize hybrid organization, Shepherd et al. (2019) argues that hybridity could be conceptualized by considering first the *relative* importance attributed by the organization to the economic logic vis-à-vis the social logic and second the varying levels of *intensity* of both, economic and social, logics experienced by the organization. Nevertheless, most of this literature is theoretical and little is known on the impact of these conceptualizations on the investment decisions.

We build on Shepherd et al. (2019) theoretical contributions to present empirical finding on the impact of the various ways to conceptualize hybridity on one of the most challenging issues faced by social ventures, their financing (Haigh and Hoffman, 2012). The way funders categorize hybrid ventures is likely to influence fundraising. Until now, however, the role played by the heterogeneity of audience categorizations of hybrid organizations within the investment process has received little attention (Vergne and Wry, 2014). Our core research question will thus address how the categorization of organizations, as a high-relative hybrid or a high-intensity hybrid venture, influence the social venture's likelihood to obtain funding?

Previous research has shown that organizations spanning several categories, such as social ventures, suffered from negative assessments and avoidance by external audiences. Hybrid organizations may typically be perceived as members of an "emergent" category, whereby an external audience will have a different view of the codes and features that members of this emergent category share (Parhankangas and Renko, 2017).

To address our research questions, we first developed a new indicator, that we called the *Perceived Grade of Membership* (PGoM). This indicator measures audience perception of membership of a category. We then conducted a quasi-experiment on two crowdfunding platforms. Compared to other sources of financing (i.e. business angels or venture capital), crowdfunding platforms attract a large variety of investors in terms of geographical location, socio-economic profile and motivation (Cholakova and Clarysse, 2015). This makes these platforms an ideal environment to investigate the role played by investors' characteristics in the categorization of social ventures and in resource allocation decisions.

2- Categorization theory and hypotheses development

In the organizational and management literature, hybrids are described as organizations that span several categories and institutional logics (Pache and Santos, 2013). An organization straddles several categories "when it has simultaneous membership in two or more categories" (Wry et al. 2014, p. 71). Hybrids include organizations operating in several markets or industries but also those combining different or even conflicting rationales, such as: commercial and social (i.e. social ventures), or academic and commercial (i.e. entrepreneurial incubators).

Categorization theory and, in particular, the concept of multiple categorization, has been used to explain hybrids' fundraising and the likelihood that they will obtain funding (Wry et al. 2014). This theory builds on the assumption that categories act as lenses through which external audiences simplify reality by grouping entities, such as firms or products, into categories. Category membership shapes audience expectations about, and assessments of entities, accordingly fostering or thwarting their fundraising success.

One may wonder whether, and how, the choice of category will impact a social venture's likelihood to receive funding. To develop hypotheses related to this question, we built on the multiple-category perspective. According to the so-called *"categorical imperative"* principle, when firms hybridize, they dilute their identity, which results in confusion about the nature of the firm and how it should be assessed (Durand et al. 2017).

However, some studies have assigned a more moderate role to this "categorical imperative", which does not seem to be relevant for every configuration. In some cases, category spanning may even be beneficial for hybrid organizations. For instance, if the hybrid venture initially belonged to a stigmatized category (such as the tobacco industry), membership of a legitimate category will have a positive impact on appraisal by an external audience (Alexy and Georges, 2013).

We thus argue that social ventures may constitute another exception to the *"categorical imperative"* principle. Indeed, the co-existence of social and commercial features in social ventures may be positively viewed, if the venture experiences a high level of integration of their business model, in other words, when the social welfare and commercial dimensions are found simultaneously in a single activity. Battilana and Lee (2014) suggested that social ventures whose activities were characterized by thisa high level of integration would be appealing to external audiences. Accordingly, on crowdfunding platforms, we expect that a perceived primacy of one category over the other will be judged less favorably than a perceived well-balanced intense hybridity of the venture.

We can assume the same relationship for hybrid intensity and hybrid relativity. High-relative hybridity suggests that the various institutional logics weight similarly and are thus particularly well integrated.

Hypothesis 1: *A perceived high hybrid intensity will have a positive impact on a crowdfunder's investment decisions.*
Hypothesis 2: *A perceived high hybrid relativity will have a positive impact on a crowdfunder's investment decisions.*

4- Method

To test our hypotheses, we adopted a quasi-experimental design based on a survey-based approach. All registered members of an equity platform dedicated to impact investing in France (WEDOGOOD) and a lending platform in Belgium (Crowd'in) were invited to participate in a quasi-experiment directly administered by the platform manager. Mixing data generated by an impact investing platform with those of a more "generalist" platform allows for the inclusion of varying levels of familiarity with hybrid ventures and goals among prospective funders.

4.1. Participants and procedure

Participants received an e-mail from the platforms' managers inviting them to take part in a survey about crowdfunding. The questionnaire reached 9,472 members of WEDOGOOD—

of which 1,463 had previously invested in at least one project on the platform—and 5,136 members of Crowd'in, including 972 previous investors.

The survey was structured in two parts. The first part contained questions about participants' profiles, their perceptions, and their preconceptions about the social and commercial categories. The second part contained the campaign of a nascent social venture called "EaTy". This part also included questions on perceptions about the EaTy social venture. Once they had started with the section on EaTy, participants could not go back to the first part of the survey.

The EaTy social venture was inspired by a Kickstarter campaign led by a work integration social organization located in New York City that offered a food delivery service; the food was prepared by refugees, employed as restaurant chefs, who were encouraged to cook their own traditional dishes.

4.2. Measurement

4.2.1. Dependent variables

Investment Decision:The crowdlender was asked to answer whether or not he would invest in the project. This variable was set to 1 if the crowdfunder reports that he would invest in the project and 0 otherwise.

Project Evaluation. The crowdlender was asked to answer whether or not he "Globally, I like EaTy project". This variable was set to 1 if the crowdfunder did not like at all and 5 if he totally agrees with the statement.

Prospective funders' investment decision: Following Wry and Lounsbury (2012) and Cholakova and Clarysse (2015), the prospective funders' investment decision was measured by using the **Funding Amount** ("FA"). This variable indicates the amount of money that the crowdfunder would be prepared to invest into the project. This variable was set to zero if the crowdfunder did not wish to invest into the project.

4.2.2. Independent variables

The two conceptualization of hybridity are composites unit of measure based on the perceived venture's grade of membership of both the social welfare and commercial categories. It is derived from the Grade of Membership (GoM), which is the widely used standard metric for a member's focus on any given category (Hannan, 2010). The GoM generally tells us to what extent an entity possesses the membership-defining properties of a category.

In this study, we developed a new indicator to take into account the participants' *Perceived* Grade of Membership (PGoM) of a social venture. Respondents noted the level to which the new social venture within the experiment fitted their own representation of either a welfare organization (defined as a socially driven venture) or a commercial venture (defined as a commercially driven venture).

We considered that prospective funders perceived the venture as a **High-Intensity Hybrid** organization, combining strong social and commercial rationales if, on a scale from 1 to 5[1], they chose the option 4 or 5 to both following questions: "*To what extent does the new venture fit your own conception of a socially driven organization?*" and "*To what extent does the project fit your own conception of a commercially driven organization?*"

The second conceptualization is the **High-Relative Hybrid Approach**, which would only look at the presence to equal degrees of the two orientations. The dummy variable, *High Hybrid Relativity*, was set to 1 if the perceived social and commercial were evaluated at the same level by prospective funders in the scale from 0 to 5.

Goals: This is a set of variables that measure crowdfunder motivations in reference to a specific use situation (s) at a time point (t) on the crowdfunding platform. Participants were asked to what extent the following statements described their state of mind at the time (in relation to their activity on the platform). Following Bock et al. (2012), we measured each item on a standard five-point Likert scale, ranging from "not at all" to "absolutely". The five goal variables are: "**Goal 1**"—investing for a financial return ; "**Goal 2**"—supporting a cause; "**Goal 3**"—helping relatives; "**Goal 4**"—being part of a community; and "**Goal 5**"—for fun.

Familiarity with hybrids: This is a variable that catches the degree of familiarity of prospective funders with hybrid organizations combining social and commercial orientations. This variable was constructed on a five-point Likert scale.

Control variables: Following previous studies on crowdfunding, we used standard control variables, the "**Age**" , "**Gender**" (1 if the funder is a female), the "**Entrepreneur**" variable is a (1 if the funder has an entrepreneurial experience), the "**Initiate**" (1 if the funder has already

[1] Where 1 is "*does not fit my conception at all*" and 5 is "*fits my conception very well* ".

invested through a crowdfunding platform and the “**Average investment size**” variable, which measured the average amount that the funder had generally invested through the crowdfunding platform. Moreover, the “**Information on the project**” variable measured, on a five-point Likert scale, to what extent crowdfunders considered that the pitch contained enough information for them to pass a judgement. Finally, we also added a dummy variable called “**Campaign country**”, (1 if the campaign took place in France and 0 if it took place in Belgium).

4.3. Statistical analysis

We use three different regression models to investigate the impact of hybrid categorization on our three dependent variables. First, using the *dummy investment* as the dependent variable, we opt for a probit model, which is the relevant model to use with dummy dependent variable. Then to investigate the impact of the hybrid categorization on the crowdfunders’ evaluation of the project, we use a classic OLS model (after having standardized (mean-centered) all variables). Finally, we followed Wry and Lounsbury (2012) and used a tobit model to study hybrid categorization impact on the amount crowdfunders are willing to invest into the project (**Funding Amount)**. As is generally the case for expenditure data, Funding Amount (FA), is better modeled as lognormal (lnFA). To overcome the zero-threshold issue (which does not have log value), we followed Cameron and Trivedi (2009), who proposed to set all censored observations of the dependent variable (FA) to an amount slightly smaller than the minimum uncensored value of the lognormal transformed variable (lnFA).

5- Results

Table 1 shows that 47% of the whole sample or 111 participants (49+5+32+25) perceived the venture as hybrid using the *high-intensity hybrid* conceptualization, i.e. combining both strong social and commercial rationales. The percentage of hybrid is slightly lower using the *high-relative hybrid* approach since 41% of the whole sample or 97 participants (1+2+49+25) perceived the venture as hybrid using this alternative approach.

Table 1: Frequency distribution of the social and commercial PGoM (converted into dummy variables).

PGoM of social category	PGoM of commercial category					
	1	2	3	4	5	Total
1	0	0	0	0	2	2
2	0	**1**	1	3	2	7
3	1	6	**22**	12	3	44
4	1	9	25	**49**	5	89
5	1	11	23	32	**25**	92
Total	3	27	71	96	37	234

Note: Data within the rectangle are considered as perception of *high-intensity hybrid*; bold data are considered as perception of *high-relative hybrid*.

Table 2 provides descriptive statistics of the main variables in the sample.

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Dependent variables					
High Hybrid Intensity (dummy)	234	0.47	0.50	0	1
High Hybrid Relativity (dummy)	234	0.414	0.49	0	1
Funding Amount (€) (FA)	234	105	357	0	5000
LnFA (*with Cameron & Trivedi specification*)	234	3.59	1.32	2.30	8.52
Dummy Invest	234	0.60	0.49	0	1
FA if > 0	141	174	448	10	5000
Project evaluation	234	3.85	0.95	1	5
Variables of interest					
Familiarity with hybrids	234	3.05	1.24	1	5
Goal 1: To invest	234	2.41	1.44	1	5
Goal 2: To support a cause	234	3.87	1.20	1	5
Stigmatization Com. (Dummy)	234	0.51	0.50	0	1
Stigmatization Soc. (Dummy)	234	0.17	0.38	0	1
Non-coherence (Dummy)	234	0.56	0.50	0	1
Control variables					
Other goals					
Goal 3: To help relatives	234	3.03	1.47	1	5
Goal 4: To interact with community	234	1.67	1.05	1	5
Goal 5: For fun	234	2.07	1.21	1	5
Prospective funders' characteristics					
Initiate (dummy)	234	0.66	0.48	0	1
Average investment size (AIS)	234	302.42	1345.88	10	20000
lnAIS	234	4.62	1.22	2.30	9.90
Gender (Female)	234	0.49	0.50	0	1
Age	234	42.95	13.89	19	80
Entrepreneur	234	0.40	0.49	0	1
Other controls					
Information on the project	234	3.85	0.98	1	5
Campaign country	234	0.62	0.49	0	1

Finally, Table 3 presents the results of the Probit and OLS regressions.

Table 3: Regressions

VARIABLES *Model*	(5) Dummy Invest (Probit)	(6) Dummy Invest (Probit)	(2) Project evaluation (OLS)	(3) Project evaluation (OLS)	(9) lnFA (Tobit)	(11) lnFA (Tobit)
High Hybrid Intensity (dummy)	0.637**		0.464**		0.851**	
	(0.191)		(0.117)		(0.256)	
High Hybrid Relativity (dummy)		0.387*		0.181		0.429
		(0.180)		(0.114)		(0.251)
Familiarity with hybrids	-0.0133	0.0200	-0.00608	0.0174	-0.0902	-0.0459
	(0.0807)	(0.0800)	(0.0470)	(0.0482)	(0.107)	(0.108)
Goal 1: To invest	-0.0244	0.00308	-0.0572	-0.0350	-0.0144	0.0227
	(0.0709)	(0.0697)	(0.0459)	(0.0477)	(0.0954)	(0.0961)
Goal 2: To support a cause	0.0497	0.0554	0.0776	0.0791	0.0836	0.0798
	(0.0801)	(0.0818)	(0.0472)	(0.0506)	(0.111)	(0.113)
Goal 3: To help relatives	-0.0675	-0.0562	-0.0303	-0.0280	-0.0743	-0.0633
	(0.0635)	(0.0630)	(0.0383)	(0.0392)	(0.0862)	(0.0884)
Goal 4: To interact with community	0.242**	0.222**	0.0728	0.0627	0.220*	0.202
	(0.0991)	(0.0958)	(0.0480)	(0.0515)	(0.126)	(0.128)
Goal 5: For fun	-0.100	-0.0835	-0.00685	0.00469	-0.153	-0.135
	(0.0785)	(0.0765)	(0.0479)	(0.0487)	(0.106)	(0.108)
Initiate	-0.242	-0.174	0.00918	0.0566	-0.317	-0.209
	(0.203)	(0.199)	(0.114)	(0.115)	(0.267)	(0.271)
ln(Average investment size)	-0.0101	0.00697	-0.0136	-0.00198	0.394***	0.416***
	(0.0767)	(0.0763)	(0.0478)	(0.0501)	(0.105)	(0.107)
Gender	0.00965	0.0243	0.0308	0.0528	-0.258	-0.220
	(0.190)	(0.188)	(0.118)	(0.124)	(0.266)	(0.271)
Age	0.00902	0.00810	-0.000159	-0.000375	0.0160	0.0153
	(0.00751)	(0.00756)	(0.00416)	(0.00437)	(0.00992)	(0.0101)
Entrepreneur	0.0318	0.0675	0.0387	0.0632	0.227	0.258
	(0.196)	(0.194)	(0.119)	(0.122)	(0.264)	(0.268)
Information on the project	0.298***	0.356***	0.377***	0.428***	0.507***	0.602***
	(0.0952)	(0.0920)	(0.0677)	(0.0688)	(0.135)	(0.135)
Campaign country	-0.290	-0.187	-0.111	-0.0483	-0.545*	-0.427
	(0.214)	(0.208)	(0.129)	(0.132)	(0.290)	(0.295)
Constant	0.318	0.321	-0.189	-0.134	3.257***	3.308***
	(0.247)	(0.252)	(0.146)	(0.153)	(0.326)	(0.344)
Observations	234	234	234	234	234	234
(pseudo)R2	0.122	0.0992	0.283	0.240	0.0778	0.0670

Robust standard errors in parentheses, ** p<0.01, * p<0.05,

Table 3 shows that the categorization of the venture as a hybrid tend to positively influence the investment decision in both case, even if the coefficient is larger in high-. Nevertheless, only the categorization of the venture as a high-intensity hybrid, combining strong social with strong commercial logics, has a positive and significant influence on the amount invested by crowdlenders.

6- Contribution

Our paper makes several contributions. First, our findings confirm the potential of social ventures to obtain funding, if they combine strong social and commercial rationales. While hybrid organizations are frequently defined based on the balanced between the different logics, our results suggest that this balance is not sufficient to convince crowdlenders in prosocial crowdfunding platform, high intensity is more efficient in terms of investment decision and funding amount than the equal combination of logics, i.e. high-relative hybrid. These findings deepen our understanding of investment decision-making regarding social ventures and provide new insights on the conditions underlying successful fundraising.

Second, we contribute to the categorization and organizational literature by highlighting the role of the different conceptualization of hybrid organizations in shaping investment decisions.

Finally, our findings have important practical implications for policy makers. Our results highlight the impact of subjective perceptions on the likelihood of nascent hybrid ventures to raise funding. Consequently, in addition to providing public funding to social ventures, a special effort could be made to foster positive audience perceptions of hybrids.

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