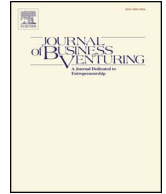


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Funding the story of hybrid ventures: Crowdfunder lending preferences and linguistic hybridity

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ABSTRACT

Prosocial crowdfunding platforms are venues for individual lenders to allocate resources to ventures that specifically pursue economic and social value. In a setting where hybridity is expected, do crowdfunders respond positively to category-spanning ventures, or do they prefer to fund ventures that are more clearly situated within a single category? Drawing on theory rooted in category membership and spanning, our hypotheses test whether prosocial crowdfunding lenders will more quickly allocate resources to hybrid microenterprises that communicate their hybridity, or to those that communicate a single one of their dual aims. Our study demonstrates that even in such a setting, crowdfunders lend more quickly to microenterprises that position themselves within a single linguistic category in which the social is emphasized over the economic. This suggests that how hybrid organizations position themselves in their linguistic narratives has a significant impact on resource allocation by external prosocial audiences.

1. Executive summary

Creating and delivering both social and economic value has become a key area of academic interest in entrepreneurship. Much of this research has revolved around the concept of organizational hybridity. Hybrid organizations frequently mix characteristics of market and non-market elements. The explosion of research on hybrid organizations has explored how they build an organizational identity, manage their dual performance objectives, and remain accountable to multiple stakeholders. Yet there are challenges to organizational hybridity because when ventures pursue both social and economic aims they fit poorly into established categories. Hybrid ventures prototypically span categorical boundaries. Category-spanning ventures may thus have greater difficulty 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.

We draw from the literature on categories to focus specifically on the linguistic features of hybrid organizations in the current study. The categories perspective focuses attention on how hybrid organizations communicate the value they pursue and how external audiences respond to that positioning. We consider hybrid organizations seeking capital through an online prosocial crowdfunding platform in which they present venture narratives. We ask, are lenders more likely to fund ventures that communicate linguistic plurality in their narratives, or do they prefer to fund ventures that communicate a single linguistic category? We explore this question by observing the funding patterns of microenterprises through an online crowdfunding platform, Kiva. The tagline of

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Kiva is to create “loans that change lives” by linking individual lenders to disadvantaged microentrepreneurs. The platform is recognized for identifying hybrid microenterprises with a strong social mandate combined with financial sustainability goals as funding targets. Further, the platform itself draws a skewed sample of socially conscious lenders, who have chosen Kiva instead of more formal investment or charitable outlets. We demonstrate that prosocial crowdfunding lenders will more quickly fund microenterprises that evoke either a social or an economic category rather than appealing to both categories simultaneously.

Our findings make three key contributions. First, we contribute to the literature on hybrid organizations and categorization by focusing on how communication of linguistic category spanning influences resource allocation from external audiences in a context where hybrids are an expected form. Second, we contribute to the literature in entrepreneurship by exploring how categorical positioning in prosocial crowdfunding might be related to crowdfunding outcomes, explained by theories outside of entrepreneurship. Finally, we empirically contribute to the entrepreneurship literature by answering calls for rigorous quantitative studies of how entrepreneurs might best communicate blended value to external resource providers. Combined, these contributions allow us to understand when and how entrepreneurs' linguistic positioning of social and/or economic categories align successfully with audience expectations.

2. Introduction

Creating and delivering both social and economic value has become a key area of academic interest in entrepreneurship (e.g., Grimes et al., 2013; Shepherd, 2015). Much of this research has revolved around the concept of organizational hybridity. Hybrid organizations are “the offspring of two different species,” (Doherty et al., 2014: 418), such as mixing characteristics of market and non-market elements (Battilana and Dorado, 2010; Brandsen and Karre, 2011; Powell, 1987). The explosion of research on hybrid organizations has explored how they build an organizational identity, manage their dual performance objectives, and remain accountable to multiple stakeholders (Battilana and Dorado, 2010; Ebrahim et al., 2014; Pache and Santos, 2013). Even those who promote the value of hybridity note the many challenges of being multiple things to multiple people (Kraatz and Block, 2008; Battilana and Lee, 2014). Much of this can be traced to the fact that when ventures pursue both social and economic aims, they fit poorly into established categories. Hybrid ventures prototypically span categorical boundaries. As a result, audiences are less able to make sense of such organizations and are less likely to view them as appealing (Hsu et al., 2009). Category-spanning ventures may thus have greater difficulty garnering resources from external audiences, especially in the form of capital, than ventures that fit cleanly into established categories (Zahra and Wright, 2016). This aligns with research on hybrids that suggests that communicating plural values to external resource providers is fraught with challenges because the messages may be confusing (Battilana and Lee, 2014; Wry et al., 2014).

In this paper, we draw from the literature on categories to focus specifically on the linguistic features of hybrid organizations. The categories perspective focuses our attention on how hybrid organizations communicate their value and how external audiences respond to that positioning (Curchod et al., 2014; Wry et al., 2014). We consider specifically hybrid organizations that seek to create both economic and social gains. The organizations we study receive their working capital through prosocial crowdfunding, where many individuals lend based on venture descriptions through an online platform. Thus, the present study distinguishes between hybridity in action—which is held constant through placement on a prosocial crowdfunding platform—and hybridity in linguistic positioning, which differs between ventures. The key factor driving capital allocation in this context is how lenders interpret the words used to describe the ventures in online narratives. Yet there is currently a lack of clarity regarding the degree to which audiences understand and accept category spanning through linguistic positioning. Lenders will base their decisions on whether they have the “capacity to make coherent sense of the categorical combinations they observe” (Durand and Paoletta, 2013: 1112). We ask, are lenders more likely to fund ventures that communicate linguistic plurality in their narratives, or do they prefer to fund ventures that communicate a single linguistic category? Our hypotheses test how lenders respond to ventures' plurality versus singularity in linguistic positioning (i.e., a social or economic category).

We explore this question by observing the funding patterns of microenterprises through an online prosocial crowdfunding platform, Kiva. Microenterprises are very small, independently owned and founded largely to generate income for the owner (Friar and Meyer, 2003). The financial success of microenterprises facilitates improvement in standard of living by enabling entrepreneurs to afford necessities for social development (e.g. healthcare, education and sustainable electricity). As such, these microenterprises represent a hybrid of economic and social value (Emerson, 2003). The tagline of Kiva is to create “loans that change lives” (Kiva, 2017) by linking individual lenders to disadvantaged microentrepreneurs. The selection of Kiva allows for a conservative test of resource allocation in category-spanning microenterprises. The platform is recognized for identifying hybrid microenterprises with a strong social mandate combined with financial sustainability goals as funding targets. Further, the platform itself draws a skewed sample of socially conscious lenders, mostly from developed countries, looking specifically for the opportunity to lend to microentrepreneurs from disadvantaged backgrounds, typically operating in adverse environments. These individual lenders have chosen Kiva instead of more formal investment or charitable outlets. A core premise is that these prosocial lenders expect a mix of social and economic activities from all the microenterprises, and what makes the difference in their evaluations is the linguistic emphasis a microenterprise places on social and/or economic categories. Given the appropriateness of microenterprises that pursue social and economic activities in this context, our findings regarding linguistic differences are particularly notable. We demonstrate that prosocial crowdfunding lenders will more quickly fund microenterprises that evoke either a social or an economic category through their linguistic positioning rather than appealing to both categories simultaneously.

Our findings make three key contributions. First, we contribute to the literature on hybrid organizations and categorization. Much research on hybrids has explored the features of social ventures themselves, such as their hiring practices (Battilana and Dorado,

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