

It is Time to Scale it Up: From Seed Social Ventures to Non-profit Organizations

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Abstract

Seed social ventures' (SSVs) scale-up requires expansion of impact or size. In order to understand how SSVs scale-up to become well-established social organizations (NPOs), we examined donors' preference and choice processes at two stages in an organizations' life. Using simulated crowdfunding choice among several organizations differ by their lifecycle stage, we compared the attributes involved creating preference and choice processes. 403 questionnaires were collected online of US respondents using Prolific. The results enabled us to learn how organizations can adjust appeal strategies to solicit donors throughout the course of their lives. Our results suggest that while NPOs can focus on their reputation when choosing a campaign message, SSVs should focus on their impact for creating preference, but this difference does not hold for choice processes.

Keyword: social ventures, fundraising strategy, donations

Track: Public Sector and Non-Profit Marketing

Introduction

Entrepreneurial ventures have been the catalyst for growth and rapid expansion in both the business and social sectors (Austin, Stevenson, & Wei-Skillern, 2006). In order for a business or social opportunity to take form and evolve into a venture, it must identify the conditions in which a new product or service can be brought into actualization. While for a business venture, a worthwhile opportunity includes large potential market size and attractive industry, for a social venture, a market failure or social need assures adequate market size. Hence, the challenge of social ventures is whether it is possible to obtain the resources required to realize that underlying social need. To guarantee this, an entrepreneurial venture must focus on profit creation (Certo & Miller, 2008).

Seed social ventures (SSVs) are entrepreneurial acts that combine social mission with a business-like discipline, novelty, and innovation (Dees, 1998). For a social venture to create an impact, it must be scalable; thus, scalability is frequently a top priority for their investors (Austin, Stevenson, & Wei-Skillern, 2006). SSVs scale up by obtaining more resources, handling larger budgets, and by creating greater impact reaching more individuals (Uvin, Jain, & Brown, 2000). However, many SSVs have found scaling up difficult since economic, social, and political systems of support are usually lacking (Dees, 2007).

An SSV's capability to develop strong financial capacities at the establishment stage is likely to be an indicator of its long-term sustainability. Hence, recruiting seed money is crucial for future success (Sharir & Lerner, 2006). Nevertheless, SSV leaders often are more concerned with the inspirational aspect of the venture, forming the social vision, and defining the desired outcome in terms of impact, at the same time neglecting financial aspects of cash flow, long-term returns, and forecasting (Brown & Murphy, 2003; Ridley-Duff 2009). Due to this negligence, many

SSVs are not financially independent and must be supported by private donations and public grants (Fedele & Miniaci, 2010).

Several scholars have investigated the motives that encourage donation behavior. One of the common explanations is built upon the exposure to other people's donation behavior. For example, social information regarding others' donations has a significant influence on donation frequency, structure, and value (Martin & Randal, 2008). Karlan and List (2007) examined the effectiveness of a matching grant on capital raising and found that a matching offer positively affected both the willingness to donate and the revenue earned in each appeal. Moreover, research on pro-social behavior suggested that higher donation rates are more likely to take place when there is information available regarding the number of people who have already donated (Frey & Meier, 2004). In an experiment conducted by Croson and Shang, (2008) participants adjusted the amount of their donation according to information about the amount other people donated. If an organization already has established a public reputation, the willingness for others to donate to their cause increases (Bekkers and Wiepking, 2011). This mechanism may explain "how the rich get richer" by describing the circular process in which well-established SVs' access to resources may assure their financial sustainability and future access for capital. As a result, we postulate that well-established social ventures (NPOs) are more successful in recruiting capital than SSVs.

In this paper, we examine the differences between donor's preferences and choice processes when they considering donating money to SSV's and NPO's.

Hypotheses

H1: Donors' perceive well-established NPOs better than they perceive SSVs for all attributes.

H2: Donors' overall preference towards well-established NPOs will be higher compared to overall preference towards SSVs.

H3: Donors are more likely to choose to donate to NPOs than to SSVs.

H4: Donors' preference process will be based on different attributes when referring to well-established NPOs compared to SSVs.

H5: Donors' choice process will be based on different attributes when referring to well-established NPOs compared to SSVs.

Method

We conducted an experiment to compare donors' perceptions, preference, and choice for SVs at different life stages. The experiment was designed as an online choice between alternatives, simulating a crowdfunding platform, and focused on SSVs and NPOs.

Participants

403 US citizens (45.1% female) between the ages of 18–74 ($M_{\text{age}} = 32.12$) were recruited using Prolific Academic (PA; www.prolific.ac). Participants received £1 for filling out the survey.

Procedure

To learn about the effect of the SV stage, we used the same description for both NPOs and SSVs but changed the framing of the venture to describe it either as a well-established organization (i.e., NPO) or as a new initiative (i.e., SSV). Questionnaires presented a set of four well-established organizations; Oxfam, CARE, Save the Children, and Red Nose Day. All four NPOs were selected as top leading organizations in the US with more than 500k followers of their official Facebook page. In addition, the questionnaires presented a set of four new initiatives: End Poverty Forever, Action for Kids, Help the Homeless, and No More Children Poverty. All four new initiatives had less than 10k followers, if any, according to their official Facebook page.

To assure differences were due to the organization's stage of life (NPO/SSV), for each well-established NPO, we created a parallel organization using an identical description but framed it as an SSV. For example, the first organization in the NPO set was Oxfam, described as follows: *“Oxfam is a well-established not-for-profit organization which uses a six-sided strategy to weave together the complex web of our efforts, and joining with others, we seek to overcome poverty. The injustice of poverty demands a powerful and practical response to address both its causes and its impact on peoples' lives.”* The first organization in the SSV set was Help the Homeless, and it was described the same, but framed as *a new not-for-profit initiative* instead of as a *well-established not-for-profit organization*.

Measures

Based on the attributes that were found to be significant and the literature review, we created a shorter version of a questionnaire referring to three distinct components that compose a donor's decision-making process: organizational, donor, and cause characteristics. To minimize potential multicollinearity, each of the components was represented by only 2–3 items. An example item is: *The organization has a positive reputation*. All items were answered on a 7-point Likert scale, ranging from 1 = low to 7 = high. Each respondent evaluated four organizations in total; two were framed as well-established organizations (i.e., NPOs) and the other two were framed as new initiatives (i.e., SSVs). Each respondent was randomly assigned to one of the two sets of four organizations (i.e., Set 1 or Set 2). In addition, we examined donation intentions when respondents chose only up to one organization to donate to.

Results

H1 – H3: Perceptions, Preferences and Choice Differences

We postulated that respondents would perceive the well-established NPOs more favorably than SSVs in all attributes measured. We used a familiarity control question to verify that the respondents were familiar with the NPOs and not familiar with the SSVs. The control question enabled us to examine, on top of all datasets, another subset, which we refer to as controlled, consisted of well-established ventures that donors were familiar with and new ventures that donors were not familiar with (n=1100).

As we hypothesized, the mean score on a 1 to 7 scale was significantly higher for well-established NPOs, as they were perceived to be professionally managed, had a better reputation and were a better fit for the beneficiary’s needs. Moreover, it seems that the respondents believed that it was more likely that their friends and family donate to well-established NPOs. However, we did not find significant differences for their perceptions of identification with an organization, their obligation to donate to that organization, and the perception that an organization helped the beneficiaries better or had a greater impact. Unlike the examination of all the respondents, in the controlled subset, we found significant differences for all the attributes (see Table 1).

Furthermore, a straightforward investigation of the overall preference for the organizations suggests that respondents prefer well-established NPOs over SSVs. Therefore, our results support H1 and H2. These perceptions and preference differences reflect the advantage of NPOs over SSVs when fundraising is discussed in a positioning perspective. A frequencies test discovered that respondents tended to choose established NPOs over SSVs both for the full dataset ($\chi^2_{1,1611}=67.0$, P-value=.000) and the controlled subset ($\chi^2_{1,1099}=158.6$, P-value=.000), supporting H3.

Attribute	Full data			Controlled		
	NPO	SSV	P-Value	NPO	SSV	P-Value

Identify with the organization	4.97	4.93	.569	5.38	4.89	.000
Professionally managed	5.00	4.55	.000	5.51	4.48	.000
Obligated to donate	3.46	3.33	.157	3.86	3.25	.000
Friends and family	3.90	3.58	.000	4.58	3.47	.000
Positive reputation	5.07	4.53	.000	5.64	4.47	.000
Beneficiaries' needs	4.73	4.53	.005	5.13	4.48	.000
Significant impact	4.33	4.28	.467	4.74	4.20	.000
Help the beneficiaries	4.38	4.25	.136	4.74	4.18	.000
Preference	4.60	4.34	.001	5.09	4.25	.000

Table 1: Attributes' Perceptions' and preference comparison between established NPOs and SSVs

H4 – H5: Preference and Choice Processes

The processes of creating preference and choice according to McFadden (1986) are based on the interaction between the perceptions of the attributes and their importance. As expected, when we examined the entire data, we found that all attribute perceptions were positively correlated with overall preference and choice. Moreover, the correlations between perceptions of the attributes suggest that there might be a halo effect, meaning that respondents did not distinguish between the various attributes, but perceived the organization as a whole. However, in examining the processes, we found some differences between NPOs and SSVs. We estimated the importance of attributes by running a hierarchical linear model¹ (HLM) of them on overall preference. Once again, we compared the whole dataset with the controlled subset with respect to a respondent's familiarity with the organizations. For the full dataset, we found that all the attributes were important in creating preference, and correlated positively and significantly with a preference towards the organization (see Table 2). Considering the differences between the processes of

¹ The repeated measures of perception and preference for four organizations per respondent created a dependence between organizations in the analysis. We used the hierarchical model to allow random effects of respondents.

NPOs and SSVs, the results suggest that although all the attributes were significantly important, there was a trade-off between positive reputation and the impact of donations. In other words, the venture's reputation had less importance in creating a preference for an SSV, but their impact was more important compared to an NPO. Running the same model on the controlled subset, we found fewer attributes to be significant, professionally management for example, but the attributes' trade-off for an SSV did not change. Investigating the choice process, respondents' identification with the organization increased the probability of choosing the organization in the full dataset and the controlled subset. Moreover, positive reputation increased the probability of choosing the organization in the full dataset and the controlled subset (marginally) as well. To this end, it seems that if donors need to choose only one organization, the message should focus on identifying with the organization for all ventures since there were no differences found between NPOs and SSVs.

	Preference		Choice	
	Full Data	Controlled	Full Data	Controlled
Identify with the organization	0.22**	0.26**	0.19**	0.32**
Professionally managed	0.11**	0.05	0.05	-0.08
Obligated to donate	0.07**	0.01	0.1	0.05
Friends and family	0.08**	0.09**	0.05	-0.03
Positive reputation	0.26**	0.29**	0.34**	0.26*
Beneficiaries' needs	0.17**	0.17**	0.06	0.12
Significant impact	0.1**	0.04	0.01	0.11
Help the beneficiaries	0.14**	0.19**	0.03	0.07
Identify with the organization* SSV	-0.02	-0.07*	-0.03	-0.17
Professionally managed* SSV	-0.02	0.03	0.04	0.11
Obligated to donate* SSV	-0.03	0.03	-0.05	0.05
Friends and family* SSV	0.03	0.02	0.06	0.12

Positive reputation* SSV	-0.11**	-0.16**	-0.2	-0.16
Beneficiaries' needs* SSV	0.05	0.08	0.12	0.03
Significant impact* SSV	0.11**	0.17**	-0.13	-0.23
Help the beneficiaries* SSV	-0.01	-0.07	0.01	-0.02
Constant	-0.6**	-0.46**	-4.89**	-4.47**
Schwarz's Bayesian Criterion (BIC)	3682.7	2537.1	1430.1	968.5

Table 2: HLM for perceptions over preference results

General Discussion

SSV scale-up requires an expansion of impact or size. In this paper, we explored SSV scale up to become a well-established NPO by examining donors' preference and choice. We conducted an online experiment which reveals some differences mainly in preference creation process between SSVs and NPOs. According to the differences we found, we recommend processing the advertising appeal accordingly. Our data and analysis provide convergent support for our five hypotheses. *Our limitations* are in the scope of this research that focused on the donors' perception of the project at its various stages (SSVs vs. NPOs). In addition, we did not carry out an actual donation, and as a result, we examined only the deposition of intention of a donation. Therefore, *further studies* should continue to investigate the actual donation stage, as well as other elements of the crowdfunding interface.

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