# Examining the selection criteria for equity finance investment in social enterpri...

Research Methodology

The main purpose of this section is to discuss how the primary research has been carried out and the rationale for the choice of methodology. The conclusion of the literature review showed that there are currently no publically agreed criteria for social venture capital funding and very little in the way of conclusive advice for social enterprises attempting to raise this kind of funding. As a result, it is important to gather primary data to facilitate the development of robust conclusions and to answer the research questions.

When proposing a research methodology for an in-depth study such as this, Saunders et al. (2009) suggest that it is practical to build the research methodology and research design in such a way that it supports the overall aim and objectives of the research. As such, every aspect of the methodology must reflect the overall purpose of the research, and be geared towards answering the research question and accomplishing its objectives (Neuman, 2000).

This chapter therefore outlines the methodology through which the research objectives were met, and the question answered. Several important factors, such as the researchphilosophy, design, strategy and data collection are highlighted. Issues relating to the research's validity, generalizability and reliability are also discussed.

Research Philosophy

According to Easterby-Smith et al (2008), it is important to understand the research philosophy being adopted in management research, as it helps clarify how the research should be designed, approached, and how data could be collected and analysed. Easterby-Smith et al also note that an understanding of the research philosophy could help the researcher in creating, designing and identifying research that may not in line with past experiences.

Based on the research aims and objectives, the researcher deemed it most appropriate to adopt an interpretivist philosophy. This is due to the overriding aim of this research, which is to understand the reasons behind social enterprise funding, thus implying that there is a need to understand human responses to a situation, thereby making the result of the findings potentially subjective in nature (Denzin and Lincoln, 2003). Saunders et al (2009) note " interpretivism is an epistemology that advocates that it is necessary for the researcher to understand differences between humans in our role as social actors"

The researcher will need to make sense of the subjective and socially constructed meanings expressed by respondents, as per the interpretivist philosophy (Saunders et al, 2009). The interpretivist perspective can be argued to be decidedly appropriate when it comes to management research due to the complexity and uniqueness of business situations (Saunders et al, 2012; Neuman, 2000). As a result of this choice, the positivist philosophy would not be adopted in this study, as it would be ineffective to adopt a philosophy that observes and generalises social reality (Robson, 2002). Collis

and Hussey (2003) also argue that the positivist philosophy cannot help understand the inner feelings, attitudes and human emotions behind social enterprise investments, as these could differ from one investor to another.

Research Approach

According to Collis and Hussey (2003) a research that adopts an interpretivist philosophy should be inductive in its approach. An inductive approach to research can help to gain an understanding of human interpretation to events, which is especially useful in management research, where the attitude andmotivationof stakeholders matter (Saunders et al, 2009). As this study is concerned with understanding how social enterprise investors determine their investment criteria, then it is useful for this research to adopt an approach that makes it possible to understand human emotions and attitudes, compared to the deductive approach that is usually based on generalised scientific principles andacademictheories (Bryman and Bell, 2007).

Research Purpose

As the aim of this study is to identify what social venture capitalists look for in an investment opportunity, this lends itself very much to an exploratory research methodology. According to Robson (2002, pg. 59), " an exploratory research is a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in a new light." Saunders et al (2009) also state that an exploratory research is useful if the aim of the research is to understand a problem, find out what's happening,

or when the researcher is particularly unsure about a research problem. As such, an exploratory study is an ideal design, as it helps to answer this research's question more effectively.

An exploratory study has been chosen compared to descriptive studies – which portray accurate events of people, events or situations (Robson, 2002), because this research seeks to ' find out' and not to ' narrate'. Furthermore, the literature review already shows that there is insufficient information on selection criteria on social enterprise investments, which defeats the purpose of a descriptive study. The same also applies to explanatory studies, where the emphasis is to study a situation and explain the relationship between two or more variables (Saunders et al, 2009). This study is not designed to assess the relationship between variables, but rather to understand investor attitude. An exploratory study is therefore the most effective form of answering the research question.

Data Collection

Saunders et al. (2009) suggest that when gathering primary data for an inductive exploratory study, it is normal that much of the data will be qualitative in nature. While there is a considerable amount of quantitative data around the subject of venture capital and social enterprise, these statistics are not sufficient to clarify investment criteria. A further issue with quantitative data is that this research does not seek to reconcile hypothesis and as a result, a methodology needs to be chosen that produces qualitative data. To answer the research question, and to develop a better

understanding of this new development for both the social VC and social enterprise industries, it is important to collect data that is rich in opinion and explanation (as recommended by Morris and Wood, 1991). Qualitative data collection is therefore the most appropriate for this research.

As it is anticipated that much of the primary data gathered for this study will be qualitative in nature, Saunders et al. (2009) suggests that there are several techniques for gathering primary data. These include inter alia interviews, surveys, focus groups, case studies, and participantobservation. To obtain rich data that will be sufficient to allow for analysis, the development of themes, and sufficient contrast of opinion, techniques such as questionnaires and general surveys with large samples are unlikely to be effective (Morris and Wood, 1991). Firstly due to the fact that they will not provide the necessary opinion to answer the research question but more importantly due to the fact that there is a limited sample of available respondents with the necessary experience in their industry, as will be clarified in the data sources section of this methodology.

While both the VC industry and the social enterprise ' movement' are well established, the actual link between them is relatively new and as a result it is important to select a technique that allows for the development of theories to emerge during data collection and analysis. A longitudinal study would potentially be ideal as would thecase studymethod, since both of these allow for the opportunity for the discovery of interesting new ideas and theories (Adams and Schvaneveldt, 1991). A longitudinal study is not appropriate for this dissertation due to the time constraints, and so a cross-sectional study is

more appropriate. While there was the potential to carry out a case study of either a social VC fund or a social enterprise, this would have only provided information around one organization. To effectively analyse the link between two industries it is more appropriate to gather data from a broad cross section of organizations and links to avoid either any bias or " isolate opinion" (Collis and Hussey, 2003).

According to Belk (2008), the main weakness of qualitative data collection is that it can be limited by insufficient resources. This means that because interviews are resource intensive, a narrower range of opinion is gathered. However Collins & Hussey (2003) argue that if the interviews are well structured even though they only gather the opinions of a relatively small research population the depth and breadth of data gathered and the fact that it is contextually relevant is certainly sufficient in terms of data validity and reliability for an exploratory study such as this.

Having established the time limitations and the issue that the potential sample is limited but should be sufficiently broad, interviews emerge as the most appropriate methodology. As Sanders et al (2009) explains, there are a number of different ways that aninterviewcan be conducted. It is first important to establish which structure of interview is the most appropriate. There are three main categories of interview structure, and these are: structured, semi-structured and unstructured. The primary distinction between them being the level of freedom given to the researcher in terms of asking different questions to interviewees, and varying the length allowed for the responses (Saunders et al, 2009).

The literature showed that there is no clarity as to either the criteria used for funding or for the advice to those seeking funding, and as a result there needs to be the opportunity for the interviewees to express opinion and provide information that moves beyond the confines of a set of structured questions. To develop new and interesting theories, it is essential that the interviews allow for different responses (Robson, 2002). However, this dissertation has a limitation of length which prevents unstructured interviews from being an appropriate technique as it could potentially allow for too much data to be collected making analysis overly complex or it could prevent the necessary focus on the issues related to the research question. Semi-structured interviews allow for sufficient data to be collected while also providing the flexibility that is necessary for the researcher to develop both original insight and sufficient opinion for the analysis (Bryman and Bell, 2007).

Data Sources and Data Collection Techniques

Since it has been established that the author shall conduct semi-structured interviews, it is important at this stage to re-visit the research questions, which are as follows:

When evaluating social enterprises for equity investment, which criteria are considered most important
Do social venture capitalists differ in their evaluation criteria compared to commercial venture capitalists

Secondary research question:

What are the drivers for the social venture capitalists

A questionnaire has been developed accordingly and used as a guideline, allowing for flexibility of the discussion and giving the respondents room to reject certain questions or focus on questions that was within their expertise, whilst still ensuring answers to the more critical questions. This semi-structured format is favourable also because it allows for discretion and prioritization intime management, without the need to interrupt or inconvenience the respondent (Neuman, 2000).

Primary data has been gathered using said questionnaire, from five individuals that are responsible for screening social enterprises in the UK for access to equity investment. Five interview respondents were seen as ideal for a number of reasons. Firstly, this research is exploratory in nature; secondly, time constraints would have made it difficult to gather and analyse data from more than five respondents; and lastly, it was difficult to gain access to these individuals.

The semi-structured interviews were conducted over the phone and in face-to-face environments, as per the respondents' preference. The questionnaire was shared beforehand allowing the respondents time to consider and prepare for the questions if need be, as well as to filter out respondents who were not well suited. Research participants were encouraged to expand upon their responses to allow the researcher to gather a wide range of data (Belk, 2008). The interviews were audio-recorded with consent and subsequently transcribed verbatim[1], in order to allow the researcher to focus on the

interview and fully engage with the respondent, without compromising on the accuracy of the data collected (Robson, 2002). This further allowed for the researcher to take note of additional non-verbalcommunicationto enrich the quality of data retrieved (Kvale and Brinkmann, 2009). At the end of each interview, a summary was developed in order to reflect upon the progression of the interview process and start developing any findings. This " stop and reflect" process in between interviews, as recommended by Saunders et al (2009), has allowed the researcher to adapt to this new knowledge and delve deeper into the research questions with each ensuing interview. This process has led to an additional set of questions on the questionnaire[2], with the aim of addressing four new research questions:

Is there in fact a market/demand for equity investment in social enterprise in the UK

Is there a supply/demand balance of social enterprises to social investment

How do SIFIs interact

What does the future of social investment look like

Once the data had been gathered, the author administered data reduction techniques (Miles and Huberman, 1994) by critically reviewing and selectively focusing on key parts of the extended text which are the transcripts. By extracting relevant pieces of information to answer our research questions, along with our notes throughout the interview process, the author was then able to codify the data, which was then subject to thematic analysis. Data collection, data analysis and the development and verification of the propositions have been very much an interactive and

interrelated set of processes, whereby actual analysis occurred throughout. The flexibility of this process was key to enabling more insightful data and propositions, as enabled by an inductive approach.

Issues of Reliability, Validity and Generalisability

Reliability denotes the extent to which findings from a research can provide consistent findings, if another study were to adopt its data gathering and sampling technique (Easterby-Smith et al, 2008). The major threats to research liability: respondent bias, respondent error, interviewer bias and interviewer error (Robson, 2002) were avoided by:

Sending the questionnaires to the respondents beforehand to avoid misinterpretation of intent or questions.
Audio-recording the interviews, and taking ' time-outs' to reflect on the answers and ask further questions.
Analyzing the data using data-reduction techniques, in order to prioritize the key findings and avoid loss of data.

Validity, according to Saunders et al (2009) " is concerned with whether findings are really about what they appear to be about". The interview questions were based on the research question, thus linking respondent answers to the overall aim of the research. Furthermore, the respondents were accredited professionals with industry insight on social enterprise investments. As a result, they were most fit to answer the interview questions. This helped ensure the data collected and analysed was valid.

Generalisability measures the extent to which research findings are generalizable to other research settings (Saunders et al, 2009). Due to the inductive nature of this study, it is the researcher's opinion that the findings of this research are generalizable to social enterprise investments in the UK. The findings from this research could help explain how investors determine what social enterprises they would invest in the UK. This is due to socio-economic factors that may differ from one country to another.

Ethics

With any primary research it is imperative that matters relating to research ethics are taken into account (Denzin and Lincoln, 2003). This includes ensuring that research participants have a clear understanding of what the research will entail and their contribution to the research. Research participants have agreed to support the research voluntarily, and so Denzin and Lincoln (2003, p. 114) describe this as " informed consent". The author has explained the nature of the research and reassured research participants of their role. Furthermore, confidentiality will be maintained through ensuring anonymity of research participants throughout this dissertation, only divulging participants' names on a need to know basis to dissertation assessors. Not only is this ethical best practice, but Bryman & Bell (2011) also highlight the fact that it further ensures that the researcher gathers legitimate data which is not subject to inadvertent bias, for example a research participant feels that they must say nice things about their supervisor. In this instance because the research is heavily reliant on personal opinion then it is imperative that research ethics are observed.

Due to the respondents' varying assumptions in definition when referring to key research terms, such as " social enterprise" and " social venture capital", all questions were clarified in detail where necessary, and the author ensured an alignment of understanding prior to collecting data.

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