The Hidden Cost of Venture Capital

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ABSTRACT: Founders, employees, consumers, and even funders increasingly expect businesses to pursue social goals alongside financial performance. Yet even the most committed firms have found it difficult to maintain social performance over time. Scholars in economics, management, and law have put forth several explanations for this "mission drift," including inappropriate governance, poor management, lack of genuine commitment, and threat of takeovers. Puzzlingly, research to date primarily focuses on later-stage firms, even though the events and decisions that take place in a firm's early stages can critically impact retention of its social performance.

Drawing from over five years of qualitative field research at six firms, this Article argues that a company's early-stage financing can have lasting consequences for social performance. I find that the structure of venture capital ("VC")—the most prestigious and coveted form of startup funding—shifts organizational focus toward prioritizing rapid growth and exit, implicitly crowding out firm social performance. I find this dynamic occurs even when VCs package themselves as "impact investors" committed to preserving social performance. This study underscores the need to reorient impact VC models

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and startup corporate governance to avoid losing sight of social aspirations. It also has implications for corporate law and finance more broadly, challenging whether the current legal system operates optimally to achieve efficiency, promote innovation, and serve societal goals.

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INTRODUCTION

Plum Organics is a baby food company that was founded as a startup with strong social[1] goals—to help improve infant and toddler nutrition—alongside

1. For conciseness, this Article uses the term "social" to encompass both social and environmental goals a company might pursue in addition to financial performance.

its financial goals.[2] The startup was financially successful, raising millions of dollars of venture capital ("VC").[3] It was also socially successful, demonstrating its social commitments in various ways. For example, Plum raised money not just from traditional VCs,[4] but also from socially oriented VCs that supported, and even sought out, the startup's social mission.[5] It certified as a B Corporation ("B Corp") (currently the highest third-party standard for social impact in business)[6] and incorporated as a public benefit corporation to embed social goals in the firm's governing documents.[7] Plum also implemented several social initiatives, including a "buy one, give one" model, donating one baby food package for each premium one sold.[8]

Reflecting this success, Plum Organics achieved a $250 million exit when Campbell Soup acquired the company in June 2013,[9] only six years after the startup's founding.[10] After the acquisition, Plum was the first certified B Corp to be owned by a publicly traded company.[11] The firm had thrived for years, both socially and financially, earning praise in 2015 as a "shining example of how a company can marry purpose with profit."[12]

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2. Meghan French Dunbar, *How Baby Food Maker Plum Organics Scaled Up Without Giving Up on Social Responsibility*, SOCAP DIGIT. (Apr. 4, 2015), https://web.archive.org/web/20240420040853/https://socapglobal.com/2015/04/how-baby-food-maker-plum-organics-scaled-up-without-giving-up-on-social-responsibility [https://perma.cc/Z3KY-DD2A]; B Corp., *Plum Organics to Become a Public Benefit Corporation in DE*, YOUTUBE, at 2:02 (July 18, 2013), https://www.youtube.com/watch?v=8auuwdNaPKI [https://perma.cc/AML2-4DPW] (describing Plum's public benefit as "ensuring that every little one has the right nutrients at the very first bite in their life").

3. *See* PITCHBOOK, PLUM ORGANICS PRIVATE COMPANY PROFILE 1 (2023) (on file with author).

4. This Article uses the terms "venture capital," "VC" and "VCs" interchangeably to refer not only to the type of private capital that startup ventures raise, but also to the venture capital funds or investors that supply this capital.

5. *Plum Organics*, *supra* note 3. One VC was Catamount Ventures, which "invested in early-stage, mission-oriented companies" and has a "keen eye toward building a healthy planet and education for all." CATAMOUNT VENTURES, https://www.catamountventures.com [https://perma.cc/AW5N-LNFA]. Another VC was Prolog, which describes itself as "[v]enture [c]apital for [h]ealthy [l]iving" and "back[s] startups focused on supporting healthy lives in a healthy world." PROLOG, http://www.prologventures.com [https://perma.cc/2KE6-4443].

6. Anthony Tagliente, *Better Know a Deal: A First for Benefit Corporations*, TRIPLE PUNDIT (Aug. 5, 2015), https://www.triplepundit.com/story/2015/better-know-deal-first-benefit-corporations/32796 [https://perma.cc/TTL7-VPHR] (noting Plum Organics' B Corp status). Plum Organics no longer appears on B Corp's website because, as described below, it lost its B Corp status after its acquisition by Campbell. *See infra* notes 9, 13.

7. *We Are Plum*, PLUM ORGANICS, https://plumorganics.com/we-are-plum [https://perma.cc/XTL6-EGZG].

8. *Id.*

9. Press Release, Campbell Soup Co., Campbell to Acquire Plum Organics, a Leading Premium, Organic Kids Nutrition Company (May 23, 2013), https://www.campbellsoupcompany.com/newsroom/press-releases/campbell-to-acquire-plum-organics-a-leading-premium-organic-kids-nutrition-company [https://perma.cc/J8L6-SDRH].

10. *Id.* (noting that Neil Grimmer began Plum Organics in 2007).

11. Marc Gunther, *Checking in with Plum Organics, the Only B Corp Inside a Publicly Traded Company*, GUARDIAN (Aug. 6, 2014, 7:45 AM), https://www.theguardian.com/sustainablebusiness/2014/aug/06/campbells-soup-plum-organics-pouch-baby-food-benefit-corporation [https://perma.cc/UME9-JJVH].

12. Dunbar, *supra* note 2.

But just a few years after the acquisition, Plum's social performance started to fade. This decline was marked in particular by the decision to quietly discontinue B Corp Certification, a serious blow that is rare among once-certified firms and indicates a meaningful change in company direction.[13] Shortly thereafter, Plum's financial success also slowed. Campbell sold Plum to Sun-Maid at a loss in 2021.[14]

Plum Organics is not alone. Startups that pursue both social and financial goals are on the rise.[15] In fact, nearly one in every three newly founded ventures around the world aims to create social impact.[16] In addition, VC impact investors, who seek to deploy capital into startups that achieve both social and financial returns,[17] are also steadily increasing.[18] The pursuit of social goals in startups has expanded from a niche pursuit or a "nice to have" to one that founders, employees, consumers, investors, and suppliers increasingly expect as they start, work for, patronize, fund, or supply a startup.[19]

Yet despite increasing expectations for social performance, and firms going to great efforts to preserve social performance, it has proven very difficult for firms like Plum Organics to maintain their social performance

13. Plum Organics is no longer listed on the B Corp website. *See Find a B Corp.*, B CORP., https://www.bcorporation.net/en-us/find-a-b-corp/?query=plum%20organics [https://perma.cc/8XUV-BBNC]. This loss is particularly meaningful because generally, the "[a]ttrition rates [of] companies choosing to relinquish B Corp status . . . are minimal." Anjli Raval, *The Struggle for the Soul of the B Corp Movement*, FIN. TIMES (Feb. 18, 2023), https://www.ft.com/content/0b632709-afda-4bdc-a6f3-bb0b02eb5a62 [https://perma.cc/XAE4-BDC2].

14. Press Release, Campbell Soup Co., Sun Maid Growers of California Acquires Plum Organics from Campbell Soup Company (Mar. 31, 2021), https://www.campbellsoupcompany.com/newsroom/press-releases/sun-maid-growers-of-california-acquires-plum-organics-from-campbell-soup-company-2 [https://perma.cc/8WPP-V5HL]; Campbell Soup Co., Annual Report (Form 10-K) (Sept. 23, 2021).

15. Many terminologies describe the pursuit of social goals in business, including, for example, environmental, social, and governance ("ESG"); B Corps and public benefit corporations; corporate social responsibility; hybrid organizations; and more. These terms have nuances, distinctions, and overlaps, and some have become controversial in public and academic discourse. This Article refers to all these firms as "firms that pursue social goals."

16. Brian Groom, *A Third of Start-Ups Aim for Social Good*, FIN. TIMES (June 14, 2018), https://www.ft.com/content/d8b6d9fa-4eb8-11e8-ac41-759eee1efb74 [https://perma.cc/U9JX-WDNS].

17. *What Is Impact Investing?*, FID. CHARITY, https://www.fidelitycharitable.org/guidance/philanthropy/impact-investing.html [https://perma.cc/SP3F-DNRQ].

18. ARIANE VOLK, INT'L FIN. CORP., INVESTING FOR IMPACT: THE GLOBAL IMPACT INVESTING MARKET 2020, at 1 (2021), https://www.ifc.org/content/dam/ifc/doc/mgrt/2021-investing-for-impact-fin2.pdf [https://perma.cc/3N9P-FVZ4] ("Over the last decade, impact investing has gained prominence as an approach to investing that aims to achieve both financial returns and social and/or environmental goals."). It is hard to estimate total assets under management for VC impact investing, but a 2020 study estimates "$245 billion of investments by 895 privately managed funds investing in private equity (PE), venture capital (VC), real assets, real estate, infrastructure, or private debt." *Id.*

19. *See generally* Michal Barzuza, Quinn Curtis & David H. Webber, *Shareholder Value(s): Index Fund ESG Activism and the New Millennial Corporate Governance*, 93 S. CAL. L. REV. 1243 (2020) (arguing that millennials have broken from prior generations in demanding socially responsible investment, employment, and consumption from firms); Michal Barzuza, Quinn Curtis & David H. Webber, *The Millennial Corporation: Strong Stakeholders, Weak Managers*, 28 STAN. J.L. BUS. & FIN. 255, 275 (2023) (describing "the rising demand of employees, consumers, investors and the public in general that creates pressure for firms to promote" social performance).

over time.[20] For example, firms like Etsy (e-commerce supporting female micro-entrepreneurs)[21] and Rally Software (software life cycle management solutions with its own impact foundation)[22] both began as venture-backed startups that later struggled to retain their social goals after going public or getting acquired. This phenomenon—most commonly known as "mission drift" or "amoral drift"—is well documented in the fields of economics, management, and law.[23] Why is it so difficult for firms to retain social performance as they grow?

Scholars in economics, management, and law have identified a number of potential explanations. Perhaps these firms did not effectively craft protective corporate governance structures or contract well enough for protective measures with their acquirers.[24] Perhaps corporate law fails to adequately enable firms to preserve social performance.[25] Perhaps the problem stems from the threat of hostile takeovers or activist investors, who coerce prosocial firms to abandon their social goals.[26] Or perhaps the problem is managerial, pointing to poor executive leadership or ineffective post-acquisition integration by parent companies.[27] Although these explanations offer important insights into the problem, they primarily focus on later-stage firms while overlooking firms at the beginning of the business life cycle. Yet events and decisions in the early stages of a firm can have a critical impact on the retention or loss of

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20. Of course, some startups with social goals may succeed, or at least appear to succeed, at scale. Whether and how these firms succeed is an important area for future research, including recently IPO'ed B Corps like Vital Farms, Lemonade, Allbirds, and Warby Parker, private-equity-acquired firms like Toms, and strategically acquired firms like Stonyfield Organic.

21. Nikita T. Mitchell, *Etsy Made Mistakes, but Its Commitment to Social Responsibility Wasn't One of Them*, QUARTZ (July 20, 2022), https://qz.com/work/1146365/etsy-made-mistakes-from-which-other-b-corps-can-learn [https://perma.cc/7AEZ-G8B8].

22. Tamara Chuang, *Colorado's Newest Billion-Dollar B Corp Is Part of a Movement to Make a Social Impact — and Profits*, COLO. SUN (Nov. 21, 2019, 5:05 AM), https://coloradosun.com/2019/11/21/colorado-billion-dollar-b-corps-guild-education [https://perma.cc/Q4GK-KUTE] (noting that "Rally Software . . . dropped off the [B Corp] list sometime after getting acquired in 2015 by CA Technologies").

23. *See* Alnoor Ebrahim, Julie Battilana & Johanna Mair, *The Governance of Social Enterprises: Mission Drift and Accountability Challenges in Hybrid Organizations*, 34 RSCH. ORG. BEHAV. 81, 82 (2014) (explaining the concept of "mission drift" in the field of management); Oliver Hart & Luigi Zingales, *Companies Should Maximize Shareholder Welfare Not Market Value*, 2 J.L. FIN. & ACCT. 247, 256–57 (2017) (explaining the concept of "amoral drift" in the field of economics); Emilie Aguirre, *Beyond Profit*, 54 U.C. DAVIS L. REV. 2077, 2147 (2021) (explaining the concept of mission drift in the field of law).

24. An example of contracting with an acquirer in a way that protects the firm's social goals is Unilever's acquisition of Ben & Jerry's. *See* James E. Austin & Herman B. "Dutch" Leonard, *Can the Virtuous Mouse and the Wealthy Elephant Live Happily Ever After?*, 51 CAL. MGMT. REV. 77, 94 (2008). However, it should be noted that Ben & Jerry's was in an unusual position of having built up over twenty years of brand equity and public recognition at the time of its acquisition and was not acquired as a traditional startup.

25. *See, e.g.*, Aguirre, *supra* note 23, at 2147 (2021) ("[B]usiness law is not designed to enable companies with objectives beyond profit to scale up. Most importantly, business law lacks a durable commitment mechanism to enable long-term pursuit of multiple objectives.").

26. Hart & Zingales, *supra* note 23, at 256–57 (explaining how the threat of takeovers can prompt prosocial firms to make antisocial decisions).

27. *But see* Austin & Leonard, *supra* note 24, at 79–81.

firm social performance far into the firm's future.[28] As a result, overlooking a firm's early stages may generate significant gaps in our understanding of mission drift.

Drawing from over five years of qualitative field research at six firms, this Article argues that the way a company finances its operations in its early stages can have an outsized impact on its retention of social performance over time.[29] In this study, I find that VC—the most prestigious and coveted form of startup funding—is structured to crowd out social performance by creating a time-pressured focus on growth and exit. I argue that after securing VC funding, startups shift organizational focus away from maximizing firm social and financial value to align instead with investor objectives that prioritize rapid growth and exit. Even where startup leaders remain demonstrably committed to achieving social performance and their VCs do not oppose—and may even support—firm social goals, the attentional shift toward growth and exit ultimately displaces other organizational objectives, undermining social performance. As a result, I theorize that the VC structure implicitly crowds out firm social performance due to its time-constrained exit orientation, creating pressures that supplant or weaken firm social goals. Importantly, the Article shows how these dynamics occur even when VCs present themselves as impact investors committed to the pursuit of social performance in business. In this study, I find that impact VCs make faulty assumptions about the nature of firm social performance while retaining the traditional VC reliance on growth and exit to drive returns, ultimately creating similar barriers to social performance as traditional VCs.

To make these arguments, I leverage qualitative field research methods to study these startups from their early stages and as they grow over time. Qualitative field research methods represent a unique methodological approach in business law that can provide unusual insight into the inner workings of startups, a category of firms that is typically highly shrouded due to few disclosure rules, little regulatory oversight, and a culture of secrecy.[30] The Article builds a primary dataset that draws from over 150 semi-structured interviews, five years of ethnography and observations, and hundreds of archival materials at six firms, including startups, their VC funders, their acquirers, and other firm stakeholders.[31] Because it is typically difficult to access startups' internal operations in this way, these methods provide unprecedented insight into startup firms, accomplishing what large-scale quantitative methods and traditional

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28. *See infra* Section II.B.

29. Harvard University's Institutional Review Board (IRB19-1761) approved this research.

30. *See, e.g.*, Darian M. Ibrahim, *Corporate Venture Capital*, 24 U. PA. J. BUS. L. 209, 233–34 (2021); Press Release, U.S. Sec. & Exch. Comm'n, SEC Adopts Dodd-Frank Act Amendments to Investment Advisers Act (June 22, 2011), https://www.sec.gov/news/press/2011/2011-133.htm [https://perma.cc/387L-4VXG] (describing the exemptions for venture capital fund advisors under the Dodd–Frank Act).

31. It is important to note that the primary aim of these methods is not hypothesis testing and generalizability but rather understanding the mechanisms behind traditionally elusive processes at play. This is a feature, not a bug. *See infra* Section III.A.

legal analysis struggle to achieve in this context.[32] In addition, because this data is highly unusual in the field of corporate law, this Article provides a rare opportunity to inform legal doctrine with real-world understanding.

Drawing from my novel qualitative dataset, this Article shows how the VC model creates a focus on time-pressured growth and exit that weakens or eliminates social performance over time. These time, growth, and exit pressures occur for several reasons. First, startups are not yet self-sustaining businesses and must seek outside funding to survive until they are profitable on their own. Generally, startups seek this funding from VC investors who provide a large and prestigious boost of capital in exchange for an equity stake in the firm. VCs often also receive preferential payout terms, board seats, and other control or veto rights.[33] As a result, VCs obtain significant power—formal and informal—over a firm's trajectory. In addition, VC funds are structured as limited-life funds, usually lasting about ten years.[34] VC investors need to provide a liquid return to their investors by the end of this timeframe.[35] They provide these returns by achieving a lucrative exit, either by going public or getting acquired.[36] To achieve a lucrative exit, startups must demonstrate rapid hypergrowth potential that will result in multiples of return on investment within a limited timeframe. The VC model is therefore oriented around achieving growth and exit as quickly as possible.[37] This Article shows how these time, growth, and exit pressures structurally prioritize firm financial growth over firm social performance in a way that often ultimately crowds out firm social goals.

Importantly, this dynamic can occur even for impact investor VCs who are committed to preserving firm social performance.[38] The Article finds that impact VCs may make faulty assumptions that firm social performance grows in a linear relationship with firm financial performance, and that there are no

32. Because data of this type are otherwise extremely challenging to obtain, field research methods represent one of the best and only ways to understand the inner workings of startups and their VCs and acquirers. *See* Amy C. Edmondson & Stacy E. McManus, *Methodological Fit in Management Field Research*, 32 ACAD. MGMT. REV. 1155, 1159–62 (2007); Anastasia Shesterinina, *Collective Threat Framing and Mobilization in Civil War*, 110 AM. POL. SCI. REV. 411, 413–14 (2016) (describing "immersive" field research as the only way to get at complex organizational dynamics in the absence or unreliability of quantitative data).

33. *See* Robert P. Bartlett III, *Venture Capital, Agency Costs, and the False Dichotomy of the Corporation*, 54 UCLA L. REV. 37, 52–56 (2006).

34. *See infra* Section I.B.

35. *See* Ronald J. Gilson, *Engineering a Venture Capital Market: Lessons from the American Experience*, 55 STAN. L. REV. 1067, 1071 (2003) ("At the close of the partnership's fixed term, liquidation is mandatory.").

36. *See* Bartlett, *supra* note 33, at 40 ("VC investments are made in private companies developing new businesses with the goal of moving these companies to public equity markets either through an IPO or an acquisition by a publicly traded corporation."); Aguirre, *supra* note 23, at 2113 ("The VC model relies on the most promising companies going public or getting acquired and doing so within a relatively short timeframe, so that VCs can achieve a liquidated return within the lifetime of the fund—usually around seven to ten years.").

37. As one executive explained, a "type of really aggressive growth . . . is expected in most startups." Interview with Participant PM36 (Oct. 19, 2022).

38. *See supra* note 17 and accompanying text.

trade-offs between social and financial performance in startups.[39] These assumptions lead impact VCs to follow the traditional VC investment model centered around time-constrained growth and exit, recreating the same structural barriers to social performance as traditional VCs.[40] This study uncovers how these impact VC assumptions are fundamentally flawed.[41] In fact, social performance and financial performance do not scale in a linear fashion, with social performance requiring its own special considerations and expertise to scale. In addition, firms experience significant and inevitable trade-offs between social and financial performance, even as startups. This research shows how impact VCs' choice to simply select firms with a socially oriented business model is insufficient as an investment strategy to preserve firm social performance.

Uncovering these dynamics provides a new dimension to research on the law of entrepreneurship and the pursuit of social goals in business. Current discourse in startup law and finance primarily defaults to private contracting to protect idiosyncratic firm preferences or prosocial objectives.[42] In contrast, the organizational and methodological approaches advanced here counsel the importance of structural reorientation of the broader startup law and finance ecosystem to better address barriers to retaining social performance. Such structural reorientation could include reformulating VC investment models, improving corporate governance mechanisms, and regulating impact investment. In addition, this Article has implications for corporate law and finance more broadly, challenging whether the current legal system operates optimally to achieve efficiency, promote innovation, and best serve societal goals.

This Article proceeds as follows. Part I provides an overview of startup law and finance, including startup governance, the structure of the VC model, and impact investment. Part II explicates the problem of retaining firm social performance and outlines current explanations in law, management, and economics, then describes why these explanations fall short. Drawing from qualitative field research, Part III argues that the time constraints, growth expectations, and exit orientation of the VC model create pressures that crowd out firm social performance, even in firms backed by impact VCs who are committed to preserving social performance. To help address these

39. *See, e.g.*, Interview with Participant PM82 (May 25, 2023) ("[Y]ou have the potential impact you can make and it almost scales up and down based on how successful the company is."); *see also* Maoz (Michael) Brown & Lauren Kaufmann, *Impact Underperformance*, *in* WHY IMPACT MANAGEMENT? 36, 37 (Salesforce & Mission Invests. Exch. eds., 2022), https://missioninvestors.org/sites/default/files/resources/IMP_Report_WhyImpactManagement_FINAL_150_0.pdf [https://perma.cc/866F-86GZ] (explaining how most impact investors make "ex-ante determinations" that social impact will grow as long as they choose "impactful" firms and those firms "continue to grow after investment").

40. *See* Interview with Participant PM82 (May 25, 2023); *see also* Brown & Kaufmann, *supra* note 39 ("[M]ost impact investors assume impact performance to be positive as long as (1) they believe in their initial designation of investees as impactful enterprises and (2) these enterprises continue to grow after investment.").

41. *See infra* Section III.C.

42. Jill E. Fisch, *Stealth Governance: Shareholder Agreements and Private Ordering*, 99 WASH. U. L. REV. 913, 913 (2021) ("Corporate law has embraced private ordering—tailoring a firm's corporate governance to meet its individual needs.").

shortcomings, Part IV proposes potential solutions, including reorienting VC investment models, improving corporate governance mechanisms, and regulating impact investment.

I. OVERVIEW OF STARTUP LAW AND FINANCE

To understand firms with objectives beyond profit, it is important to understand the basic progression of the business life cycle. This Part explains how startup firms typically begin, sustain and scale their performance through VC financing, and eventually exit to operate at scale. It also explains how impact investors have emerged to support firms that generate both social and financial performance.

A. Typical Startup Governance

The term startup refers to a diverse set of businesses and can be difficult to define concisely. Most generally, a startup can be thought of as an earlier-stage company founded by an entrepreneur with an innovative idea who seeks to develop, validate, and scale the business relying on capital secured from outside investors, usually VCs.[43] Typically, startups aim to achieve rapid high growth over a period of a few years and then exit through a strategic acquisition or initial public offering ("IPO") that provides a high rate of return for both founders and investors.[44]

Surviving as a startup is notoriously difficult, with failure rates estimated as high as seventy-five to ninety percent.[45] Acute resource constraints make startups highly dependent on outside funders to survive.[46] Generally, startups seek this funding from VC investors who provide a large boost of capital in

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43. *See, e.g.*, Elizabeth Pollman, *Startup Governance*, 168 U. PA. L. REV. 155, 164 (2019) ("Startups are typically started by entrepreneurs and backed by outside investment with the goal of developing an innovative product or service . . . ."); SCOTT KUPOR, SECRETS OF SAND HILL ROAD: VENTURE CAPITAL AND HOW TO GET IT 21, 27 (2019) (describing tech startups as "basically innovative product or service companies" that take outside investment such as VC, which affects their governance structure and leads to exit through strategic acquisition, IPO, or bankruptcy); Joseph Bankman & Ronald J. Gilson, *Why Start-Ups?*, 51 STAN. L. REV. 289, 289 (1999) (describing a "prototypical start-up" as a founder with an idea who sells a portion of that idea to venture capitalists).

44. *See, e.g.*, Pollman, *supra* note 43, at 164, 174.

45. *See* Mary Jo White, Chair, U.S. Sec. & Exch. Comm'n, Keynote Address at the SEC-Rock Center on Corporate Governance Silicon Valley Initiative (Mar. 31, 2016), https://www.sec.gov/news/speech/chair-white-silicon-valley-initiative-3-31-16.html [https://perma.cc/N895-ETY5] (noting that nine out of ten startups fail); Elizabeth Pollman, *Startup Failure*, 73 DUKE L.J. 327, 329 (2023) (noting venture-backed startups fail at a rate of about seventy-five percent); Faisal Hoque, *Why Most Venture-Backed Companies Fail*, FAST CO. (Dec. 10, 2012), https://www.fastcompany.com/3003827/why-most-venture-backed-companies-fail [https://perma.cc/4CSD-SDRB] ("[A]s many as 75 percent of venture-backed companies never return cash to investors . . . .").

46. Ibrahim, *supra* note 30, at 210 ("[S]tartups only flourish if they receive funding. An innovative idea, no matter how promising, needs capital to be developed, and entrepreneurs need help navigating the transition from startup to large company."); Mark A. Lemley & Andrew McCreary, *Exit Strategy*, 101 B.U. L. REV. 1, 15 (2021) (explaining that banks and public markets are "conservative institutions" that do not fund risky ventures like startups, and that "[v]enture capital fills that gap," and explaining how VCs "regularly evaluate and fund opportunities others won't touch").

exchange for an equity stake in the firm and often preferential payout terms, board seats, and other control or veto rights.[47] VC is the most prestigious form of startup financing. It is both elusive and exalted.

Securing VC funding is exceedingly difficult, with less than one percent of startups successfully raising VC.[48] But although VC is extremely difficult to secure, it is also generally a vital prerequisite to startup success. It is quite rare for a startup to achieve long-term viability without securing VC.[49] These acute resource constraints are due in large part to startups spending more money than they generate in revenue, often for the first many years of a company's existence.[50] While startups are still cash flow negative (that is, spending more money than they make), they are often heavily reliant on outside investors to keep them afloat.[51]

If VC is so difficult to attain, why don't startups seek capital from other sources? Other forms of capital are not generally open to investing in such risky ventures at the amounts needed. Banks generally decline to make loans

47. *See* Bartlett, *supra* note 33, at 42 ("[A] VC investor negotiates specific economic and control rights with a start-up company . . . when making an investment."); Pollman, *supra* note 43, at 173 ("[VCs] use staged financing that can incrementally transfer control[,] . . . contract for convertible preferred stock that comes with voting rights, liquidation preferences, . . . other protective terms[, and] . . . negotiate for designated board seats for information, monitoring, and voice or control."); Michael Klausner & Stephen Venuto, *Liquidation Rights and Incentive Misalignment in Start-Up Financing*, 98 CORNELL L. REV. 1399, 1403 (2013) (explaining that later-stage VC "investors tend to seek more certain returns" in exchange for their investment "and may try to use expansive liquidation rights to achieve that objective" (footnote omitted)).

48. *See* Laura Entis, *Where Startup Funding Really Comes From (Infographic)*, ENTREPRENEUR (Nov. 20, 2013), https://www.entrepreneur.com/article/230011 [https://perma.cc/FG39-PZGC] ("[A] measly 0.05 percent [of startups] are funded by VCs.").

49. Ibrahim, *supra* note 30, at 211 ("Venture capitalists are the go-to financiers for startups due to their dedicated funds for startup investment – an extremely risky endeavor – along with their decades-long experience in this area and connections . . . necessary to grow and develop rapid-growth startups to a successful exit.").

50. For example, eyeglasses company Warby Parker, vacation rental company Airbnb, and rideshare company Uber took nearly a decade to have even one profitable year. Others, like meal kit delivery company Blue Apron, were never profitable as startups and remain unprofitable today. *See* Lucinda Shen, *Warby Parker Raises $245 Million for a $3 Billion Valuation*, FORTUNE (Aug. 27, 2020, 1:47 PM), https://fortune.com/2020/08/27/warby-parker-3-billion-dollar-valuation-245-million-funding [https://perma.cc/TP3J-PXXD] (describing how Warby Parker took seven years to hit profitability despite hundreds of millions of dollars of investment and a $3 billion valuation); Dennis Schaal, *Airbnb Notches First Full-Year Profit*, SKIFT (Feb. 14, 2023, 6:40 PM), https://skift.com/2023/02/14/airbnb-notches-first-full-year-profit [https://perma.cc/W8LL-EUZF]; *About Us*, AIRBNB NEWSROOM, https://news.airbnb.com/about-us [https://perma.cc/3EMP-B4SX] (stating that Airbnb was founded in 2007); Michelle Chapman, *In a First for Uber Since Becoming a Public Company, an Annual Profit.*, ASSOCIATED PRESS (Feb. 7, 2024, 12:47 PM), https://apnews.com/article/uber-ride-sharing-drizly-pandemic-89bffab62943o6ed3845588o3afa4b16 [https://perma.cc/EN85-3YC6]; Katherine Bowers, *Can Blue Apron Develop a Recipe for Profitability?*, UVA DARDEN IDEAS TO ACTION (Jan. 3, 2023), https://ideas.darden.virginia.edu/blue-apron-case-in-point [https://perma.cc/E4XR-DFGA].

51. The way VCs stage their financing also ensures that startups are continually reliant on outside investors for future rounds of capital. *See* Bartlett, *supra* note 33, at 52–53 (describing VC investing stages).

to startups because of their high chance of default.[52] Other sources of equity capital, such as bootstrapping (where founders fund the companies themselves) or angel investors (who deploy limited amounts of capital in the earliest stage startups) may be a good starting point but usually have an upper limit on investment that is well below a firm's longer-term capital needs. Similarly, crowdsourcing campaigns have popularized in recent years after the Jumpstart Our Business Startups Act ("JOBS Act") legalized their use in 2014.[53] But the law restricts companies from issuing more than one million dollars of crowdfunded securities in a year and generally limits the amount each individual investor can invest per year.[54] In comparison, VC funds deploy millions of dollars of capital to each startup in which they invest.[55]

B. The Structure of the VC Model

VC firms can deploy such large amounts of capital because of how they are structured. To form a VC fund, a set of general partners ("GPs") raises money from outside investors who become limited partners ("LPs") in the fund.[56] LPs generally consist of institutional investors like pension funds and university endowments, as well as family offices, sovereign wealth funds, and high-net-worth individuals.[57] Investment in startups is generally limited by federal law to "accredited investors" who meet minimum income or net worth requirements, or else meet certain professional requirements to be eligible to invest.[58] Each investor therefore has substantial amounts of liquid capital to

52. Lemley & McCreary, *supra* note 46, at 15; Darian M. Ibrahim, *Should Angel-Backed Start-Ups Reject Venture Capital?*, 2 MICH. J. PRIV. EQUITY & VENTURE CAP. L. 251, 257 (2013) (stating that while some capital-light firms may be able to forgo VC, in many sectors, "venture capital is still very much a necessity").

53. The JOBS Act was passed in 2012, but the part of the law legalizing equity crowdfunding was not implemented until 2014. Jason D. Rowley, *Venture Capital Guide: Who Gets to Invest in Startups?*, CRUNCHBASE NEWS (Oct. 31, 2018), https://news.crunchbase.com/venture/venture-capital-guide-who-gets-to-invest-in-startups [https://perma.cc/3BBK-WWGQ].

54. *Id.*

55. NVCA, NVCA 2022 YEARBOOK 6 (2022), https://nvca.org/wp-content/uploads/2022/03/NVCA-2022-Yearbook-Final.pdf [https://perma.cc/D4RR-A5XX] (reporting median VC deal sizes of $10 million for early-stage startups and $16 million for late-stage startups in 2021).

56. *Understanding Venture Capital*, FUNDERSCLUB, https://fundersclub.com/learn/guides/vc-101/understanding-venture-capital [https://perma.cc/B2ZY-S6XE].

57. Individual investors (including family offices) generally must qualify as "accredited investors" to invest in startups, meaning they must meet minimum income or net worth requirements to be eligible to invest. Matt Preuss, *25 Limited Partners Backing Venture Capital Funds + What They Look For*, VISIBLE (Apr. 17, 2023), https://visible.vc/investor-blog/limited-partners-list [https://perma.cc/D7KU-E4M3].

58. *Accredited Investors*, U.S. Sec. & Exch. Comm'n (June 13, 2025), https://www.sec.gov/education/capitalraising/building-blocks/accredited-investor [https://perma.cc/63YM-BT3Z]. The financial criteria include: "[n]et worth over $1 million, excluding primary residence (individually or with spouse or partner)" or "[i]ncome over $200,000 (individually) or $300,000 (with spouse or partner) in each of the prior two years, and reasonably expects the same for the current year." *Id.* Professional criteria include investment professionals, family offices, among a few other (sophisticated) categories. *Id.*

invest. They typically invest five million to fifty million dollars each in a fund, with VC funds ranging from several million dollars to billions of dollars each.[59]

GPs must deploy the capital they have pooled to achieve a lucrative return on investment for their LPs. They do so by investing equity capital in a selected portfolio of high-potential startups and then attempting to help guide those firms to a lucrative exit. To do so, VCs typically negotiate for formal monitoring and control rights that are disproportionate to their level of stock ownership, including board seats and veto powers.[60] VCs also exercise strong power and influence—irrespective of their formal contractual rights—as the controllers of the purse strings in a close-knit market oriented around reputational effects, repeat transactions, and long-term relationships.[61]

GPs are compensated in two ways. They charge LPs both a management fee (usually two percent of assets under management and paid regardless of how the portfolio performs) and a performance fee (a GP bonus that is usually twenty percent of any profits generated).[62] This system is known colloquially as "2 and 20."[63] It highly incentivizes maximizing the exit potential of the portfolio in order to collect twenty percent of any payout. The VC investment model is therefore highly exit-focused, portfolio-dependent, and time-bound. VCs generally follow a high-risk, high-reward portfolio investment strategy, actively investing in a number of startups, but banking on only a small number to quickly deliver home runs that carry the entire portfolio.[64] This model is known as the "power law" of VC.[65] Only about "6% of a VC's investments,

59. Estimates on average or median fund size vary. *See, e.g.*, *Understanding Venture Capital*, *supra* note 56 ("On average, a single fund contains $135 million."); NVCA, *supra* note 56, at 12 (estimating that the median VC fund in the United States in 2021 totaled about $50 million, while an unprecedented ten funds closed on $2 billion or more).

60. VCs are usually preferred stockholders who negotiate for more favorable rights than common stockholders such as employees, founders, or other less sophisticated players. *See* Pollman, *supra* note 43, at 173; Jesse M. Fried & Mira Ganor, *Agency Costs of Venture Capitalist Control in Startups*, 81 N.Y.U. L. REV. 967, 971, 987, 1020 (2006); Robert P. Bartlett III, *Shareholder Wealth Maximization as Means to an End*, 38 SEATTLE U. L. REV. 255, 263–66 (2015) (describing how VCs use "an array of contractual devices" to ensure adequate power over a startup). Syndication of investments also increases the likelihood that VC investors will enjoy *collective* control over the startup. *See* Bartlett, *supra* note 33, at 42, 55–56.

61. Brian Broughman & Jesse M. Fried, *Carrots and Sticks: How VCs Induce Entrepreneurial Teams to Sell Startups*, 98 CORNELL L. REV. 1319, 1336–37 (2013) ("VCs are repeat players in both funding entrepreneurs and hiring professional executives for startups. Neither entrepreneurs nor professional managers will want to displease the VCs, all else being equal."); Fried & Ganor, *supra* note 60, at 1001 (describing the negative reputational effects of publicly opposing VCs, for example, through litigation).

62. Elvis Picardo, *Two and Twenty: Explanation of the Hedge Fund Fee Structure*, INVESTOPEDIA (Nov. 25, 2024), https://www.investopedia.com/terms/t/two_and_twenty.asp [https://perma.cc/4EN5-QA9J].

63. *Id.* Often GPs also must exceed a hurdle, usually around eight percent, before collecting any percentage of the payout. *See infra* note 80.

64. PETER THIEL, ZERO TO ONE: NOTES ON STARTUPS, OR HOW TO BUILD THE FUTURE 86–87 (2014) (discussing the "power law" and noting that "the best investment in a successful fund equals or outperforms the entire rest of the fund combined"); Pollman, *supra* note 45, at 329 (explaining that about three-quarters of startups fail).

65. THIEL, *supra* note 64, at 86–87.

representing 4.5% of dollars invested, generate[] approximately 60% of total returns" for VCs.[66]

Startups are risky ventures, and many firms in the selected portfolio will fail. For example, in a portfolio of ten firms, it would not be unusual for five to fail and provide no (or just a nominal) return to investors.[67] The VC investment model is therefore dependent on at least one startup achieving a massive return and a few others achieving medium- and small-sized returns.[68] The VC model depends on the collective performance of the entire portfolio and on the successful startups generating as high a liquid return as possible through lucrative exit.[69]

In addition, the model is highly time-bound. It not only relies on the most promising companies going public or getting acquired, but on doing so as quickly as possible.[70] For example, an investment that results in a 10x return in one year is more valuable than an investment that results in a 10x return in ten years. As time to exit increases, VC funds either need more home runs or bigger home runs to achieve the same rate of return.[71] This time-bound metric is known as the internal rate of return.[72] Internal rate of return is a principal metric by which VC funds measure success and is critical evidence for achieving successful raises from LPs for future funds.[73]

GPs are further limited by their fund timeline. Funds usually last about ten years (or a few years longer with increasingly common extensions), at which point they must liquidate and provide returns for their LPs.[74] For LPs,

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66. *See* SHAI BERNSTEIN, RAMANA NANDA & ALLISON CIECHANOVER, NEWVIEW CAPITAL AND VENTURE CAPITAL SECONDARIES 2 (2019) (citing Chris Dixon, *Performance Data and the 'Babe Ruth' Effect in Venture Capital*, ANDREESEN HOROWITZ (June 8, 2015), https://a16z.com/performance-data-and-the-babe-ruth-effect-in-venture-capital [https://perma.cc/EFZ7-CLP3]).

67. Tomer Dean, *The Meeting That Showed Me the Truth About VCs*, TECHCRUNCH (June 1, 2017, 3:00 PM), https://techcrunch.com/2017/06/01/the-meeting-that-showed-me-the-truth-about-vcs [https://perma.cc/7JA2-F48S].

68. *Id.*; *see infra* Section III.B.

69. *See* BERNSTEIN ET AL., *supra* note 66, at 2–3; Interview with Participant PM82 (May 25, 2023) (The VC explained that "we have a lot of infant mortality. So a lot of companies fail very early. Yeah, it's a very typical profile for a firm like ours where it's a ton of investments. One or two really drive most of the returns, a couple more won't be okay and then you have maybe up to half that will actually just fail outright."); KUPOR, *supra* note 43, at 84 ("[D]epending on how well the GP is doing converting her other portfolio companies into profit, she might think differently about liquidity with respect to your company. How the fund is doing may also influence your GP's willingness to invest additional money in your startup or . . . seek an exit.").

70. Bartlett, *supra* note 33, at 73 n.132.

71. Lemley & McCreary, *supra* note 46, at 32.

72. Internal rate of return accounts for both the return generated and the time to generate the return by measuring the performance of an investment using a discounted rate of present value that accounts for cash flows that vary over time. Bartlett, *supra* note 33, at 73 n.132.

73. *Id.*

74. *See* Gilson, *supra* note 35, at 1071 ("At the close of the partnership's fixed term, liquidation is mandatory."). Though a ten-year fund is standard, VC funds in practice often extend for an additional one to two years by consent of the LPs, depending on how the rest of the portfolio has performed and the exit potential of the remaining firms. *See* BERNSTEIN, NANDA & CIECHANOVER, *supra* note 66, at 2. Such extensions depend largely on the idiosyncratic needs of

continuing to hold shares in a startup after the fund ends means holding a largely illiquid investment with little value.[75] If a fund is at the end of its life cycle, it may be more attractive to drive toward an exit to provide a liquid return that maximizes portfolio value, even if it does not maximize an individual firm's value.[76] The limited life of the fund therefore places significant pressure on startups to exit within an artificial timeframe driven by the VCs' incentives and constraints, rather than by maximizing long-term financial value (or social performance) of a particular startup.[77]

Finally, to be considered successful, VCs generally need to achieve an above-market overall return for their LPs, usually amounting to around twelve percent.[78] To achieve a twelve percent return over a ten-year timeline, they must generate a 3x return over the entire portfolio.[79] Mathematically, achieving this outcome requires at least one firm in the portfolio to achieve an exceptionally high exit (usually $1 billion or more), and a few others to achieve a medium-sized exit. Assume, for example, that a VC fund invests $10 million in each of ten startups and ends up with a twenty percent stake in each. Of the ten startups, imagine all achieve a medium-sized exit of $100 million. The overall return would equal *(10 x $20 million) = $200 million*, or a 2x return.[80] A portfolio that achieves a 2x return on investment over ten years yields only about a seven percent return for its LPs[81]—not even beating the stock market average.[82] At that

the VCs. Interview with Participant PM82 (May 25, 2023) ("I don't know really any funds that actually are wound up cleanly in 10 years. It just doesn't happen.").

75. Darian M. Ibrahim, *The New Exit in Venture Capital*, 65 VAND. L. REV. 1, 8 (2012). There are secondary markets for private equity, but for the most part, the lucrative returns on investment for LPs (and GPs) come from exiting the firm and making many multiples on their original investment.

76. *See* Bartlett, *supra* note 33, at 72–73 (describing the "common pattern among VC funds" to "initially liquidate[] profitable investments and later liquidate[] losing investments" in order to "focus on accelerating positive returns and delaying negative returns").

77. Gilson, *supra* note 35, at 1074.

78. *See* Dean, *supra* note 67.

79. This figure is calculated by raising the annual return rate (1.12) to the power of the fund length (10 years) to calculate the total return (~3x). Or, expressed mathematically: $1.12^{10} = 3.1$. *See id.*

80. It is important to note that these simplified figures probably *under*estimate the return needed to make the fund profitable, because they do not include certain additional costs to the GPs, including, for example, a hurdle (usually about eight percent) that must be overcome before the GPs can take any percentage of the profits generated. These figures also do not explicitly include paying back committed capital and management fees to the LPs. Many thanks to Tjarda Molenaar, Managing Director of the Dutch Private Equity and Venture Capital Association, for providing helpful insight into this topic.

81. Again, this is calculated by raising the annual return rate (1.07) to the power of the fund length (10 years) to calculate the total return (~2x). Or, expressed mathematically: $1.07^{10} = 1.97$. *See* Dean, *supra* note 67.

82. These numbers are oversimplified, but the point remains. For a more complex investigation into private equity more broadly, see generally Ludovic Phalippou, An Inconvenient Fact: Private Equity Returns & The Billionaire Factory 3 (July 15, 2020) (unpublished manuscript), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3623820 [https://perma.cc/G5NP-YD4R] ("[S]ince at least 2006, net of fees performance of [private equity] funds matched that of public equity markets. Despite this lack of clear outperformance, the fee structures are such that a few individuals shared a large performance-related bonus payment, known as Carry." (footnote omitted)).

point, LPs may as well invest in a stock market index fund to achieve a less risky seven to eight percent average return—and avoid the management fees and transaction costs associated with investing in VCs.[83]

But it is highly unlikely that all ten startups would achieve a medium-sized exit.[84] Take instead the more realistic scenario that five startups fail and return $0, three startups achieve a medium exit at $150 million, one startup achieves a larger exit at $250 million, and the last startup is exceptional and achieves a $700 million exit. The overall return would equal *20% x [(5 x $0) + (3 x $150 million) + (1 x $250 million) + (1 x $700 million)] = $280 million.* This return is still $20 million shy of a 3x return. Imagine instead a third scenario where the exceptional firm achieves an exit of $1 billion rather than the $700 million exit. Now the overall return equals $340 million, finally exceeding the 3x return.[85] These stylized examples show that LPs need at least one remarkable exit plus several medium to large exits to achieve a justifiable rate of return for the fund.

Shortening fund timelines would reduce that pressure. For example, a six-year fund would require only about a 2x return to generate a twelve percent return for investors. Yet the current trend is for fund lifetimes to get *longer*, not shorter.[86] Indeed, some estimates put the average fund lifetime closer to twelve to fourteen years today, rather than ten, particularly with the frequency of fund extensions granted.[87] In addition, with current trends resulting in fewer and fewer IPOs, sky-high exits are becoming increasingly rare.[88] These factors make VC funds less and less profitable. Indeed, about ninety-five percent of VC funds provide less than a 3x return, not even exceeding the stock market average.[89] With the 2 and 20 model,[90] VCs therefore bear little downside risk and much upside potential, while LPs bear most of the downside

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83. *See id.* at 2 (delineating the significant management and transaction costs associated with private equity more generally).

> Institutional investors provide the equity via funds, and thus need to do due diligence on them, hire fund lawyers, consultants, etc. The funds hire lawyers, too, go on road shows, may hire placement agents, sponsor conferences and events, and so on. As shown in this paper and elsewhere, [private equity ("PE")] funds charge at least $50bn to invest $200bn.

Id.

84. Scholars and professionals estimate between seventy-five to ninety percent of startups fail. *See supra* note 45 and accompanying text.

85. In other words, *20% x [(5 x $0) + (3 x $150 million) + (1 x $250 million) + (1 x $1 billion)] = $340 million*. This figure represents an annual return of approximately thirteen percent: $(1.13^{10} = 3.4)$.

86. This trend is occurring due to the confluence of several factors, including larger fund sizes in the face of fewer fundraising opportunities as well as slower and fewer exits. Jessica Hamlin, *Private Capital Fundraising Timelines Are Getting Longer and Longer*, PITCHBOOK (Dec. 12, 2023), https://pitchbook.com/news/articles/private-capital-sluggish-fundraising-timelines [https://perma.cc/H4EG-WCXN].

87. *See* Dean, *supra* note 67.

88. Elisabeth de Fontenay, *The Deregulation of Private Capital and the Decline of the Public Company*, 68 HASTINGS L.J. 445, 447 (2017).

89. Dean, *supra* note 67.

90. *See infra* Section II.B.

risk: They are on the hook for management fees and other costs no matter how the fund performs, and have a much lower chance of a meaningful payout given the dearth of funds returning 3x.[91] These factors result in considerable pressure on the successful startups to deliver a huge exit and carry the portfolio.

C. VC IMPACT INVESTMENT

In recent years, as the number of companies pursuing social goals has increased, another category of investment known as "impact investing" has gained traction. Impact investing refers generally to any investment that seeks to generate social and environmental impact alongside financial returns.[92] Impact investing is a broad term that can apply to any investment category and has been steadily increasing within the VC community. Impact investor VCs often specialize in particular markets, such as biotech, renewable energy, education, or agrifood, among many others.[93]

VC impact investing typically follows the same basic VC model described above. It is generally exit focused, relies on a small number of home runs to drive returns for the entire portfolio, and operates on roughly a ten-year timeline.[94] The primary impact VC compensation structure typically follows the standard 2 and 20 model (although some firms do create additional, usually modest, impact-oriented compensation incentives).[95] Impact VCs actively

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91. LPs generally have fiduciary duties to maximize financial returns for their own investors. But at present, LPs seem very willing to not get paid, with their returns on investment rarely exceeding the average market return. Lemley & McCreary, *supra* note 46, at 1, 32; *see* Dean, *supra* note 67; *see also* Phalippou, *supra* note 82, at 4 (showing how "both before and after 2006, PE funds have performed in line with comparable publicly traded stocks" and that part of the reason this investment continues nonetheless is because "many individuals want to avoid embarrassment; think of a pension fund board admitting paying billions of Carry in order to achieve the same returns as public equity markets"). Private equity funds are a broader category of funds that include venture capital. *See* Sean Ross, *How Is Venture Capital Regulated by the Government?*, INVESTOPEDIA (Sept. 6, 2022), https://www.investopedia.com/ask/answers/013015/how-venture-capital-regulated-government.asp [https://perma.cc/VP7H-JVMG] ("Venture capital is a form of financing through funding called private equity.").

92. The Global Impact Investing Network ("GIIN") defines impact investments as "investments made with the intention to generate positive, measurable social or environmental impact alongside a financial return." *What You Need to Know About Impact Investing*, GLOB. IMPACT INVESTING NETWORK (Jan. 24, 2025), https://thegiin.org/impact-investing/need-to-know [https://perma.cc/LT52-2XKE]. The term "impact investing" was coined during a 2007 Rockefeller Foundation convening, though the practice of investing for social and financial impact has been around for much longer. JUDITH RODIN & SAADIA MADSBJERG, MAKING MONEY MORAL, at xviii (2021); *see* Anirudh Agrawal & Kai Hockerts, *Impact Investing: Review and Research Agenda*, 33 J. SMALL BUS. & ENTREPRENEURSHIP 153, 153 (2021).

93. Interview with Participant PM82 (May 25, 2023) ("The difference probably is our focus on a specific sector and the outcome we want to make from the investments in that sector. . . . [F]rom that perspective, I think that's different from your typical fund, which is maybe more diversified, general technology investors who don't have that impact.").

94. *Id.* (citing a VC impact investor explaining how "typically, these are 10-year funds and they have an ability to extend it after 10 years," just like traditional VCs).

95. For example, an impact VC may have an "impact carried interest incentive" that financially penalizes GPs if the portfolio does not achieve certain impact metrics. That financial penalty is then donated to NGOs in the same impact area as the VC fund. *Id.*

manage their portfolios, negotiate for control rights and board seats, and are a large driver of firm trajectories and exit decisions. And to be considered successful, impact VCs must generally return the same above-market percentage (and 3x return) as traditional VCs.

The key difference is that impact VCs deploy capital in firms they believe will achieve social impact as well as lucrative financial payouts. The prevailing impact VC assumption is that if a startup's business model achieves social impact, that impact will necessarily scale as the firm grows.[96] This assumption is critical to the impact VC investment thesis that seeks to achieve social performance alongside lucrative financial returns.

II. THE PROBLEM OF RETAINING SOCIAL PERFORMANCE

Despite increasing expectations from founders, employees, consumers, and even funders for businesses to pursue social performance alongside financial performance, it has proven very difficult for firms to maintain their social performance over time. Scholars in economics, management, and law have identified several explanations, pointing to inappropriate governance, poor management, deficiencies in corporate law, a lack of true firm commitment, the threat of takeovers, and a short-termist environment. Yet these explanations are incomplete. This research has primarily focused on later-stage firms, despite scholarship suggesting that studying firms in their earlier stages may be critical to understanding the loss of social performance over time. As a result, existing explanations miss a crucial element of why firms struggle to retain social performance over time.

A. *CURRENT EXPLANATIONS*

Retaining social performance is extremely challenging, even for firms that go to great lengths to preserve it. Scholars in economics, management, and law have identified several explanations for this phenomenon. These explanations tend to focus on later-stage and publicly traded firms, for which data is more easily available.

Within the field of economics, Professors Oliver Hart and Luigi Zingales have offered insight into the difficulties in retaining social performance, a phenomenon they term "amoral drift."[97] Professors Hart and Zingales observe how boards that prefer to make prosocial choices can be foisted into antisocial choices when markets for corporate control are unrestricted.[98] As markets for corporate control have faced greater restrictions in recent decades due to increased regulation and firms adopting greater takeover defenses, they predict that amoral drift will have decreased in severity.[99] But they also predict that

96. *Id.* ("[Y]ou have the potential impact you can make, and it almost scales up and down based on how successful the company is."); *see* BROWN & KAUFMANN, *supra* note 39, at 37.

97. Hart & Zingales, *supra* note 23, at 256–57.

98. *Id.* at 255–58 (explaining how unrestricted markets for corporate control force prosocial boards to make antisocial decisions).

99. *Id.* at 257 (explaining that because takeover markets have become more restricted, "amoral drift may be less serious than it once was").

amoral drift will persist due to a prevalent belief among boards and investors that their fiduciary duties require them to maximize shareholder value, as opposed to shareholder welfare.[100] Under this formulation, a firm leader would be driven to make antisocial choices for fear of shareholder litigation, even if this fear is unfounded.[101]

Several streams of literature within the field of management also address the difficulty of retaining firm social performance, including especially the literatures on hybrid organizing and corporate social responsibility. The hybrid organizing literature refers to the loss of social performance in favor of financial performance as "mission drift."[102] It explains how several sources can contribute to mission drift, including improper firm governance and management practices. For example, many studies in hybrid organizing have uncovered the perils of inappropriately structuring the board of directors and point out the critical importance of devising supportive management strategies for maintaining firm social performance.[103] Within the literature on corporate social responsibility, Professors Magali A. Delmas and Vanessa Cuerel Burbano have noted the rising prevalence of firms that intentionally mislead the public about their social and environmental performance, known as "greenwashing."[104] Their research suggests that these firms often lack a true commitment to social performance and engage in greenwashing to gain an inauthentic veneer of respectability.[105]

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100. *Id.* ("[A]moral drift may still exist to the extent that company boards and asset managers *think* (mistakenly in our opinion) that they have a fiduciary duty to maximize shareholder value.").

101. *Id.* at 263.

102. Ebrahim et al., *supra* note 23, at 82 (explaining that organizations pursuing core social objectives "are at risk of losing sight of their social missions in their efforts to generate revenue, a risk referred to as mission drift").

103. Wendy K. Smith & Marya L. Besharov, *Bowing Before Dual Gods: How Structured Flexibility Sustains Organizational Hybridity*, 64 ADMIN. SCI. Q. 1, 13–24 (2019) (showing the importance of a board with both social and financial representatives to avoid mission drift); Anne-Claire Pache, Julie Battilana & Channing Spencer, *An Integrative Model of Hybrid Governance: The Role of Boards in Helping Sustain Organizational Hybridity*, 67 ACAD. MGMT. J. 437, 438 (2024) (showing how a "protective board structure and relational leadership processes" helped avoid mission drift); Ebrahim et al., *supra* note 23, at 93–94 (describing the prosocial and firm benefits of multiple stakeholder board representation); Julie Battilana, Marya Besharov & Bjoern Mitzinneck, *On Hybrids and Hybrid Organizing: A Review and Roadmap for Future Research*, *in* THE SAGE HANDBOOK OF ORGANIZATIONAL INSTITUTIONALISM 128, 128–29 (Royston Greenwood, Christine Oliver, Thomas B. Lawrence & Renate E. Meyer eds., 2d ed. 2017) ("identifying common themes in the antecedents, challenges, opportunities and management strategies associated with hybridity" and successfully avoiding mission drift). *See generally* Wendy K. Smith, Michael Gonin & Marya L. Besharov, *Managing Social-Business Tensions: A Review and Research Agenda for Social Enterprise*, 23 BUS. ETHICS Q. 407 (2013) (reviewing best practices to avoid mission drift).

104. Magali A. Delmas & Vanessa Cuerel Burbano, *The Drivers of Greenwashing*, 54 CAL. MGMT. REV. 64, 64 (2011).

105. *Id.* at 71–72 (noting that "firms face pressure from both consumers and investors to appear to be environmentally friendly and thus face incentives to communicate positively about their environmental performance, particularly as there are few legal or regulatory ramifications for doing so" and that the competitive nature of the market pressures the firm "to positively communicate about its environmental practices and greenwash").

Legal scholars have also noted the difficulty of retaining firm social performance. Professors Lucian Bebchuk and Roberto Tallarita have pointed out how many firms that claim to pursue objectives beyond shareholder profit have ulterior motives of self-enrichment for managers.[106] This perspective would also attribute the "loss" of social performance to a lack of true commitment. Professor Einer Elhauge first identified how the threat of corporate takeovers can hasten antisocial firm performance, laying an early foundation for Professors Hart and Zingales to build on a decade later.[107] In previous work, this Author has argued that deficiencies in corporate law disable firms from meaningfully pursuing social performance when they operate on a large scale.[108] Professors Elizabeth Pollman and Dorothy S. Lund have shown how a "corporate governance machine" comprised of "law, institutions, and culture" transforms prosocial firm behavior into activity that instead seeks to serve shareholder value.[109] This work underscores how losing firm social performance can be attributed to the broader context within which firms operate.

B. *Incomplete Explanations*

These explanations across several disciplines identify critical reasons why firms fail to retain social performance over time. Yet they remain incomplete. To date, this research has primarily focused on later-stage firms, while overlooking firms at the beginning of the business life cycle. But there are many reasons to believe that studying firms in their earlier stages is critical to understanding the loss of social performance over time. For example, concepts from management known as "path dependency" and "imprinting" represent key reasons why mission drift may present particular concerns in the earlier stages of a firm. As a result, failing to examine this phenomenon earlier in the business life cycle may generate significant gaps in our understanding of the causes and prevalence of mission drift.

Within the field of management, the concepts of path dependency and imprinting provide two key reasons to understand a firm's relationship to social performance in its earlier stages. Organizational path dependency refers to the process by which a firm's historical choices can become self-reinforcing

106. Lucian A. Bebchuk & Roberto Tallarita, *The Illusory Promise of Stakeholder Governance*, 106 CORNELL L. REV. 91, 97 (2020) ("[S]ome of the corporate support for stakeholderism might be partly motivated by the prospects that acceptance of stakeholderism would advance a managerialist agenda and/or deflect the demand for stakeholder-protecting external interventions.").

107. Einer Elhauge, *Sacrificing Corporate Profits in the Public Interest*, 80 N.Y.U. L. REV. 733, 819–22 (2005) (identifying takeovers as an impetus toward antisocial firm behavior, even when it conflicts with the interests of shareholders, due to a shareholder collective action problem).

108. Aguirre, *supra* note 23, at 2147 (arguing that "business law lacks a durable commitment to enable long-term [and large-scale] pursuit of . . . objectives" beyond profit).

109. Dorothy S. Lund & Elizabeth Pollman, *The Corporate Governance Machine*, 121 COLUM. L. REV. 2563, 2565–66 (2021) (describing "a complex governance system in the United States composed of law, institutions, and culture that orients corporate decision-making toward shareholders. . . . [and] powerfully drives corporate behavior" and explaining how this "corporate governance machine transformed corporate social responsibility into value-enhancing ESG" to serve shareholders).

dynamics that in turn become fixed or "locked in" to the firm.[110] Under this process, firm dynamics or strategies that may appear deterministic can actually be attributable to particular choices the firm made or conditions that occurred at the firm earlier in its history.[111] As a result, earlier decision-making or events can have long-lasting impacts on firm processes and dynamics. This phenomenon suggests the importance of studying firms in the beginning of the life cycle to understand how this period may influence the retention of firm social performance in the firm's later stages.

The management concept of imprinting also underscores the importance of studying a firm's early stages to better understand retention of social performance. Imprinting refers to a phenomenon whereby organizations assume aspects of their early-stage environments in ways that endure far beyond the firm's early stages.[112] As a result of imprinting, events or decisions that occur early in the business life cycle can have a lasting and underappreciated impact on the way a firm behaves, its strategic decisions, its organizational identity and culture, and other key components of its operations far into the future.[113] Understanding the environment in which an early-stage firm operates is thus critical to understanding how its social performance may function in its much later stages. This phenomenon further emphasizes the value of studying early-stage firms to better understand how and why mission drift may occur.

Empirically studying firms in their earlier stages also presents special challenges. These challenges perhaps partially explain gaps in knowledge vis-à-vis startups and social performance. Startups and VCs are subject to few disclosure rules and little regulatory oversight, making it difficult to gather reliable data about their internal operations.[114] In addition, these firms and funds are dominated by a culture of secrecy and provide little voluntary public data about their endeavors.[115] As one scholar notes, "the world of venture capital is long on lore and short on empirics."[116] As a result, startups and their VCs remain largely shrouded and difficult to understand comprehensively.[117]

110. Jörg Sydow, Georg Schreyögg & Jochen Koch, *Organizational Path Dependence: Opening the Black Box*, 34 ACAD. MGMT. REV. 689, 691–92 (2009).

111. *Id.*

112. Arthur L. Stinchcombe, *Social Structure and Organizations*, *in* HANDBOOK OF ORGANIZATIONS 142, 142–93 (James G. March ed., 1965).

113. Christopher Marquis & András Tilcsik, *Imprinting: Toward a Multilevel Theory*, 7 ACAD. MGMT. ANNALS 195, 196 (2013).

114. *See, e.g.*, Ibrahim, *supra* note 30, at 233–34. In addition to the limited disclosure requirements that apply to all private firms, under Dodd–Frank, VC is specifically exempted from the registration requirements of the Investment Advisers Act of 1940. 17 C.F.R. § 275.203(*l*)-1(a)(5) (2025).

115. For example, VC websites rarely share meaningful information about the details of the firm, its investments, or its LPs. To give another representative example, the only respondent in the entire five-year study who asked not to be recorded during his interview was a VC investor.

116. Ibrahim, *supra* note 30, at 234.

117. If the startup remains privately held or exits via acquisition, this lack of oversight and required data persist. Indeed, the demise in Plum Organic's social performance was largely indicated to the public through its failure to recertify as a B Corp, defying the generally very low attrition rates of recertification for these firms. Raval, *supra* note 13 ("Attrition rates [of] companies choosing to relinquish B Corp status . . . are minimal.").

Existing scholarship and data also have little to say about startup social performance, which remains a relatively novel phenomenon and is challenging to measure and assess.[118] Despite the potential importance of a firm's early stages to the ultimate retention or loss of social performance, we know little about the internal dynamics of startups and their VCs, and about how these dynamics may interact with social performance.

III. Venture Capital and Social Performance

Understanding a firm's early stages can have critical importance for understanding mission drift, yet studying the early stages also presents significant methodological challenges. Where an organizational phenomenon is nascent or idiosyncratically challenging to study, or both, there are often few sources of reliable existing quantitative data. Quantitative data also are not particularly well suited to answering research questions about interpersonal dynamics, how organizational processes unfold over time, and how organizational members experience and make sense of events. Instead, qualitative field research methods are particularly appropriate for these types of empirical settings and research questions. In this case, qualitative field research methods provide unique insight into the processes and inner workings of a category of firms that is typically highly shrouded (startups) and represents a relatively new phenomenon in the world (socially oriented startups). To achieve methodological fit, this study therefore employs over five years of qualitative field research methods at six startups, their VC investors, and their acquirers.

Leveraging the research findings, this Part argues that the way a company finances its operations in its early stages can have an outsized impact on its retention or loss of social performance over time. It theorizes that VC—the most prestigious and coveted form of startup funding—is structured in a way that crowds out social performance because it creates a time-pressured focus on hypergrowth and exit that inherently prioritizes financial performance and weakens social goals. It also theorizes that this dynamic occurs even when VCs package themselves as "impact investors" committed to pursuing social performance, due to incomplete impact VC assumptions about scaling startup social performance and key ways the impact investment model mirrors the traditional VC approach to growth and exit. This Part begins with an overview of methodological fit and the qualitative field research methods employed. Drawing from the study findings, it next shows how the current VC model threatens social performance, then turns to the unique and perhaps counter-intuitive threat that impact investors may also pose.

A. *Methodological Approach*

This Article employs qualitative field research methods. Field research methods, which may be quantitative or qualitative, refer to the process of

118. *See* Clara Barby et al., Measuring Purpose – An Integrated Framework 1 (2021) (unpublished manuscript), https://dx.doi.org/10.2139/ssrn.3771892 [https://perma.cc/8YNB-6WSA].

systematically collecting original data from real-world organizations.[119] In the organizational context, qualitative methods entail observing how events transpire in organizations and how members make sense of those events in order to generate broader theoretical insights about how and why organizational phenomena occur.[120] These methods provide rich insights that can help explain previously little understood firm outcomes. They also form a critical component of the broader methodological landscape, generating novel theoretical explanations that then form a basis for future qualitative and quantitative inquiries, serving as the building blocks for hypothesis testing.[121]

Although academics in management regularly use qualitative field research methods,[122] these methods are still uncommon in business law. In certain settings, qualitative field research methods offer distinctive value, providing deep insight into firms' internal operations in a way traditional legal and large-scale statistical analysis cannot accomplish. Matching the appropriate methods to a given research question—what management scholars refer to as achieving "methodological fit"—is of critical importance.[123] Qualitative field research methods are especially well-suited where reliable data can otherwise be difficult to access or where there is limited prior theoretical understanding, including where phenomena are nascent or challenging to study for idiosyncratic reasons.[124] These methods are also appropriate where a research question

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119. Edmondson & McManus, *supra* note 32, at 1155 (2007) ("We define field research in management as systematic studies that rely on the collection of original data—qualitative or quantitative—in real organizations.").

120. KAREN GOLDEN-BIDDLE & KAREN LOCKE, COMPOSING QUALITATIVE RESEARCH 5 (2d ed. 2007).

> [A]s qualitative researchers, we observe organizational events and members' interpretations of those events as they unfold. Indeed, what we offer in the way of distinctive knowledge is a view of events in organizations as process- and meaning based; we are uniquely situated to contribute to knowledge about how organizational phenomena occur, as well as what those phenomena mean. As qualitative researchers, we convert our engagement with this field into theoretical insights and ideas of interest and import to a disciplinary audience.

Id.; Edmondson & McManus, *supra* note 32, at 1155 (explaining that this methodological approach produces an analytical edge in theory generation, yielding insights that can form the basis for future qualitative and quantitative research and hypothesis testing).

121. Karen Locke & Karen Golden-Biddle, *An Introduction to Qualitative Research: Its Potential for Industrial and Organizational Psychology*, *in* HANDBOOK OF RESEARCH METHODS IN INDUSTRIAL AND ORGANIZATIONAL PSYCHOLOGY 99, 99–118 (Steven G. Rogelberg ed., 2002); Michael G. Pratt & Silvia Bonaccio, *Qualitative Research in I-O Psychology: Maps, Myths, and Moving Forward*, 9 INDUS. & ORG. PSYCH. 693, 696–98 (2016); Edmondson & McManus, *supra* note 32, at 1163. "The essential nature of the contribution of this type of work is providing a suggestive theory of the phenomenon that forms a basis for further inquiry." Edmondson & McManus, *supra* note 32, at 1163. "Instead of reasonably conclusive results, each study [examined in the article] provided suggestive theoretical insights to inform and inspire future research on an interesting phenomenon." *Id.* at 1165.

122. *See, e.g.*, Edmondson & McManus, *supra* note 32, at 1155 ("To advance management theory, a growing number of scholars are engaging in field research, studying real people, real problems, and real organizations.").

123. *Id.* at 1159–62.

124. *Id.* at 1159, 1161–62 (explaining that qualitative field research methods represent the best methodological fit for "developing insight about a novel or unusual phenomenon . . . and

seeks to understand the nature of interpersonal dynamics, how processes unfold over time, or how participants experience and make sense of events.[125]

In this case, the characteristics of the industries, phenomena, and research questions lend themselves most appropriately to qualitative field research methods. First, the startup and VC industries are typically highly shrouded due to few disclosure rules, little regulatory oversight, and a culture of secrecy, resulting in limited reliable quantitative data and making these firms otherwise challenging to study empirically. Second, the pursuit of social performance in firms, and particularly in early-stage firms, represents a relatively nascent phenomenon about which only limited prior theoretical understanding exists.[126] Third, the research questions in this study seek to understand the evolution of organizational events and processes and how organizational members interpret these processes. Here, qualitative field research methods can thus provide unprecedented insight into a set of firms otherwise difficult to access, into a phenomenon previously little understood, and into a set of research questions otherwise difficult to answer. For all three of these reasons, employing qualitative field research methods achieves appropriate methodological fit in this context.

This study employs over five years of qualitative field research at six firms and their VC investors and acquirers. These firms were selected to represent a broad range of experiences among startups, including an array of sectors, geographic locations, capital and ownership structures, and exit plans.[127] The data include in-depth study of two firms, which were intentionally selected to provide greater insight along two important dimensions. The first firm is called Buffer, a privately held firm selected because it has had unusual success at retaining its social performance over time as it scales. Buffer granted research

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explaining the occurrence of a surprising event," or for topics that "have attracted little research or formal theorizing to date, or else they represent new phenomena in the world").

125. *Id.* at 1161, 1163 (explaining that "[t]he types of research questions conducive to inductive theory development include understanding how a process unfolds," interpersonal dynamics, sensemaking, and experiential understanding).

126. Robert S. Nason, Sophie Bacq & David Gras, *A Behavioral Theory of Social Performance: Social Identity and Stakeholder Expectations*, 43 ACAD. MGMT. REV. 259, 260 (2018) ("There is little consensus about how to measure the criterion of social performance . . . .").

127. All sample startups stated social goals at their inception, all secured outside equity capital, and all were currently startups or had recently exited. The sample includes companies in several sectors, including consumer-packaged goods ("CPG"), food and beverage, computing systems, and cryptocurrency. Some startups spanned more than one sector. The startups were also dispersed across the United States, and some had significant workforces overseas. Five of the companies were incorporated as traditional corporations and one was incorporated as a public benefit corporation. The sample represented both capital-intensive and capital-light industries, an important variation due to these sectors' differing relationships with VC financing. Capital-light firms, such as those in the tech sector, are less dependent on raising high amounts of outside funding. Meanwhile, capital-intensive firms, such as in the life sciences or CPG, need higher amounts of capital over a much longer time frame to succeed. Ibrahim, *supra* note 52, at 257. They also had varying orientations to the pursuit of social objectives: Some had social goals tightly linked to their core business models, while others' social goals were no less salient but were more differentiated from the core business model. *See infra* Section III.B. These firms also represented various stages of the business life cycle, including earlier- and later-stage startups and recent exits by acquisition. The one major gap is that the sample did not include any firms that pursued an IPO. Publicly traded startups with social goals are an important area for future research.

access to understand how firm leaders had managed to succeed in retaining social performance. The second firm is called Pantry Mate, a pseudonym for a tech startup, which granted near total research access to observe how its social performance would fare as the firm scaled.[128] It was not known ex ante how Pantry Mate would perform, and it was selected for the study to offer real-time understanding of how these processes would unfold and how members made sense of them.

The study includes ethnography, interviews, and archival field research methods.[129] It employs a technique known as "triangulation," which entails collecting data along different dimensions to produce a more complete picture of the phenomenon studied.[130] Here, triangulation combines observation, semi-structured interviews, and archival data analysis. This triangulation therefore simultaneously captures observed experiences (observations), self-reported experiences (interviews), interpersonal dynamics (observations), *and* changes over time (observations, longitudinal interviews, and archival data). This approach helps achieve a more robust dataset, not only enabling more accurate understanding of how events actually occurred and how participants behaved, without solely relying on participants' recollections or memorializations, but also providing insight into how participants experienced and made sense of these events.

I conducted observations over the course of five years at Pantry Mate, beginning in December 2019 when the firm was just over one year old. I conducted one month of full-time, in-person ethnographic research over January and February 2020 at the company's offices.[131] In March 2020, the entire company transitioned to working remotely and I began part-time remote observation, which I continued until January 2025.[132] For the period from

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128. This fieldwork was conducted from December 2019 to January 2025.

129. Edmondson & McManus, *supra* note 32, at 1158–62.

> In studies where theory is nascent or immature, researchers do not know what issues may emerge from the data and so avoid hypothesizing specific relationships between variables.
>
> Because little is known, rich, detailed, and evocative data are needed to shed light on the phenomenon. Interviews, observations, open-ended questions, and longitudinal investigations are methods for learning with an open mind. . . . Data collection may involve the full immersion of ethnography . . . .

Id. at 1162.

130. NORMAN K. DENZIN, THE RESEARCH ACT: A THEORETICAL INTRODUCTION TO SOCIOLOGICAL METHODS 291 (Donald W. Burden, Lyle Linder & Susan Gamer eds., 2d ed. 1978) (defining triangulation as "the combination of methodologies in the study of the same phenomena"); Todd D. Jick, *Mixing Qualitative and Quantitative Methods*, 24 ADMIN. SCI. Q. 602, 602 (1979) (explaining how through triangulation "organizational researchers can improve the accuracy of their judgments by collecting different kinds of data bearing on the same phenomenon").

131. For this stage of research, I went every day to Pantry Mate's offices, where I had my own key card and desk. I shadowed the CEO, sat in on company meetings, joined individual employees on calls, and even sat in on hiring interviews with prospective employees. I joined company social events, both during the workday and outside normal working hours. I also interacted with members of the company's outside advisory board, investors, customers, consultants, and outside counsel.

132. During remote participant observation, for example, I attended virtual company meetings, participated in company events, and engaged in calls with team members. I observed visual and

June 2022 to October 2024, I collected data at Pantry Mate in conjunction with a research partner.[133]

The study interviews include approximately 150 interviews conducted from fall 2017 to October 2024. The majority of these interviews come from Pantry Mate, with the rest coming from Buffer and the additional four firms.[134] Interviewees included all levels of employees, ranging from interns to CEOs. They also included VC investors, impact investors, board members, corporate executives of multinational companies that acquire startups, the CEO of a social enterprise, corporate law attorneys, and nonprofit and NGO leaders.[135] In addition to providing insight about the individual firms, these interviews also provided broader understanding of the larger context in which prosocial firms operate. Archival methods entailed analyzing hundreds of proprietary and public company documents. These data include, for example, financial statements, investor pitch decks, sales data, intranet sites, Slack channels, blog posts, employee handbooks, mission and vision statements, and internal slide decks, among others. They also include firm financing and valuation data, which I cross-referenced with PitchBook, a research database covering private capital markets.[136] Collectively, these triangulated qualitative field research methods provide an original and unusual understanding of how startups with social goals operate.

B. Crowding Out Social Performance

In this study, I find that after receiving VC funding, startups shift organizational focus away from maximizing firm social and financial value to align with investor objectives that prioritize rapid growth and exit. Even where

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audio recordings of departmental meetings, leadership team meetings, and one-on-one meetings that the company made available to me. The recordings also enabled me to attend meetings asynchronously, allowing a wider range of attendance and minimizing my impact as a researcher.

133. This research partner is Julie Yen, Assistant Professor of Management and Organizations, Boston University Questrom School of Business.

134. I conducted interviews at Pantry Mate from October 2019 to October 2024 (with Julie Yen from June 2022 to October 2024), and at the five additional companies from fall 2017 to June 2023.

135. All interviews lasted between thirty minutes and over two hours, with an average of around one hour. They followed a preset interview guide to ensure all respondents answered a substantially similar set of questions. Interviews took place over Zoom or in person and were recorded and professionally transcribed for further analysis. The interview guide included questions about participants' workdays, perception of their firm and its social purposes or ways in which they interacted with prosocial firms, and challenges encountered. I analyzed interviews using inductive data analysis and principles of grounded theory. *See generally* BARNEY G. GLASER & ANSELM L. STRAUSS, THE DISCOVERY OF GROUNDED THEORY: STRATEGIES FOR QUALITATIVE RESEARCH 1 (1967) (explaining how to discover theory from data that is "systematically obtained and analyzed in social research," which they call "grounded theory"); JULIET CORBIN & ANSELM STRAUSS, BASICS OF QUALITATIVE RESEARCH: TECHNIQUES AND PROCEDURES FOR DEVELOPING GROUNDED THEORY (3d ed. 2008) (offering technical approaches for researchers to analyze, interpret, and build grounded theory from their data); KATHY CHARMAZ, CONSTRUCTING GROUNDED THEORY: A PRACTICAL GUIDE THROUGH QUALITATIVE ANALYSIS 2–4 (2006) (explaining how to analyze field data to generate grounded theory).

136. PITCHBOOK, https://pitchbook.com [https://perma.cc/GTE9-SEDM]. I cross-referenced financing information on PitchBook with proprietary information obtained from the startups.

startup leaders remain demonstrably committed to achieving social performance and their VCs do not oppose—and may even support—firm social goals, the attentional shift toward growth and exit ultimately displaces other organizational objectives, undermining the pursuit and achievement of social performance. As a result, I theorize that the way a company finances its operations in its early stages can have an outsized impact on the retention or loss of social performance over time, with VC financing implicitly crowding out firm social performance due to its time-constrained exit orientation.

In a venture-backed startup, achieving financial sustainability or profitability is not the goal. Instead, the VC model relies on achieving rapid growth over a short time period to generate a lucrative exit of IPO or acquisition and provide a large return on investment for VCs and their LPs.[137] Under this model, two factors matter most: time to exit and size of exit. As one Pantry Mate executive explained, securing VC requires that firm members achieve "really aggressive growth" in the shape of a "hockey stick" in order to complete an eventual grand exit.[138] In this study, the prioritization of growth and exit came to dominate startup organizational focus shortly after firms secured VC funding. As a result, the VC model created an attentional shift to achieving financial growth that deprioritized—often implicitly—social performance goals. This observation links to a broader phenomenon in which VC preferences significantly shape founder behavior post-funding, such that the emphasis on hypergrowth significantly undermines a startup's ability to continue pursuing social impact.[139]

The acute resource constraints and limited personnel at venture-backed startups magnify this effect. After securing VC, startups experienced a new external directive, whether explicit or implicit, to focus primarily on growth and exit. Because these firms have limited resources and personnel and high risk levels, they have little slack remaining to continue cultivating social performance. Firm leaders and employees often rationalized this shift, claiming they will focus on social performance again once the firm has additional resources to do so, but that in the meantime, they need all hands on deck to meet the ambitious growth targets required by the VC model. These resource constraints thus compound the VC model's structural prioritization of firm financial growth and exit. In order to achieve the speedy growth needed to sustain VC investment, startups must focus their limited attention and resources on achieving growth over retaining social performance. Paradoxically, securing the prestigious VC funding that initially enables these firms' survival also creates an existential threat for startups that seek to achieve social performance.

137. *See supra* Part I.

138. Interview with Participant PM36 (Oct. 19, 2022) (citing an executive who explained that there is a "type of really aggressive growth that is expected in most startups . . . . They're all a hockey stick, right? Everybody wants to suddenly double, and double, and double sales. Well, how do you do that forever?").

139. *See generally* Emilie Aguirre & Michael Burstein, An Inducement Theory of Venture Capital (June 10, 2025) (unpublished manuscript) (on file with author) (showing how VC funding constrains even founders who have deep preferences to achieve social impact).

Buffer's experience illustrates these phenomena. Buffer was founded with a social purpose to promote worker well-being and radical transparency in tech, in addition to its business model that seeks to provide social media optimization to its customers.[140] After securing VC funding, Buffer's leadership decided to pursue a pathway of sustainable financial growth and profitability that would enable the firm to continue prioritizing social performance simultaneously with financial performance.[141] As Buffer's founder noted: "We opted for calm company growth [and] . . . . [w]e became very profitable . . . . in contrast to the more traditional venture-backed startup path of having . . . the goal to maximize growth rate above all else."[142] Through this approach, Buffer successfully achieved firm profitability while also implementing additional social initiatives, including a four-day workweek to benefit its employees' well-being.[143]

Buffer also provided its employees with intermediate liquidity, reducing potential internal pressures at the firm to rush toward a lucrative exit.[144] This choice is atypical, because most startups use VC funding to fuel rapid growth and propel the firm toward a lucrative exit—not to provide liquid payouts to the team.[145] This sort of large payout is usually only available when the firm successfully exits, at which point the proceeds compensate early team members for the higher risk and often lower salaries they had assumed in working for a startup.[146] The choice to provide intermediate liquidity better enabled sustainable, long-term growth by releasing potential internal pressures from employees to exit. In these ways, Buffer thus carefully attempted to address apparent hurdles to maintaining its firm social and financial performance.

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140. It offers a tool kit to help customers build a social media audience by managing accounts, scheduling posts, and enabling data analysis and engagement across several social media platforms. BUFFER, https://buffer.com [https://perma.cc/7E4T-QV7X].

141. Joel Gascoigne, *We Spent $3.3M Buying Out Investors: Why and How We Did It*, BUFFER (Aug. 29, 2018), https://buffer.com/resources/buying-out-investors [https://perma.cc/AL8Y-668G].

142. As the founder noted,

> We opted for calm company growth that allows team members to bond and have time to become productive, rather than having a large portion of the team be completely new to Buffer. We became very profitable and started to work on longer-term projects to diversify our product offerings and revenue sources. This was in contrast to the more traditional venture-backed startup path of having a burn rate and relying on continual rounds of funding with the goal to maximize growth rate above all else. We could have hired outside senior leadership, grown the team considerably and pushed for hyper growth, but I believed that it was not the best path for Buffer.

Id.

143. Umber Bhatti, *What It's Like Working a Four Day Work Week and How We Spend Fridays Off*, BUFFER (July 11, 2022), https://buffer.com/resources/four-day-work-week [https://perma.cc/R79H-HHU4].

144. Gascoigne, *supra* note 141.

145. *Id.*

146. Employees and founders generally take a greater risk working for and founding a startup, trading lower salaries and greater volatility for the chance of a large liquid payout later if the company hits it big. *See* Pollman, *supra* note 43, at 171–72, 174. By using VC to compensate early team members, Buffer tempered the need to drive to exit so that employees could get payouts (and be able to, for example, make a down payment on a house, pay college tuition for their children, and so on).

The strategic decision to focus on sustainable social and financial growth over fast and lucrative exit created tension with Buffer's VC.[147] As Buffer's founder described, "the decreased growth rate . . . began some challenging conversations with [the VC]. Buffer was not on a traditional venture-funded path anymore, and . . . this made us less interesting in the eyes of our lead investor."[148] This misalignment between Buffer and its VC occurred despite Buffer having contracted carefully to protect its firm values and the parties agreeing ex ante on the importance of retaining firm social performance. For example, Buffer took just $3.5 million of funding over one round (known as "Series A"), giving up just a six percent stake in the firm to its VCs—the smallest amount of any of the firms studied.[149] Buffer did not provide an investor board seat, ensuring its founder and insiders retained full control over company decision-making.[150] The founder also went to great lengths to select a nontraditional VC with a social orientation and a stated commitment to achieving social goals in business.[151]

Yet these measures proved insufficient to protect firm social performance. Even with these measures in place, Buffer's leadership team learned that growing sustainably to maximize both social and financial firm value conflicted impermissibly with the VC objectives of prioritizing growth and exit. Securing minimal amounts of VC, negotiating founder-friendly terms, and partnering with a socially conscious VC did not remove the relentless growth and exit constraints of the VC model. These conflicts also occurred even though Buffer had become "very profitable," indicating that successful financial performance also does not insulate a firm from the VC growth and exit pressures.[152] When the founder resisted pursuing rapid growth and exit to prioritize sustainable social and financial performance, its VC made it "clear" that the startup "had become less of a fit for VC funding."[153] Buffer's experience throws into sharp relief how a VC commitment to preserving startup social performance—including contractually—can prove inadequate when firm objectives come into conflict with the underlying VC model.

The conflict between Buffer and its VC eventually led to the termination of their relationship.[154] Having already tried and failed to protect the firm contractually, Buffer's founder ultimately came to the conclusion that he

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147. Gascoigne, *supra* note 141.

148. *Id.*

149. It raised this money on a $60 million valuation. *Id.*

150. *Id.*

151. *Id.* Buffer's lead VC was socially oriented, but perhaps not to the same extent as Pantry Mate's impact VC. *See* COLLABORATIVE FUND, https://collabfund.com [https://perma.cc/PZT3-96FD].

152. Gascoigne, *supra* note 141; *see also* Aguirre & Burstein, *supra* note 139, at 9–10 (showing how VC funding displaces firm goals away from profitability and toward achieving VC objectives).

153. Gascoigne, *supra* note 141. Buffer was "less of a fit for VC funding" because "[m]onth by month [it] increased [its] financial sustainability by growing [its] profit margin. [It] also worked hard to create and promote a culture where team members could enjoy their work for years without leading to burnout." *Id.* This quote underscores the mismatch in this case among VC, financial sustainability, and worker well-being. *Id.*

154. *Id.*

needed to remove the VC investors in order to retain firm social and financial goals.[155] He spent $3.3 million, about half of the firm's cash on hand, to buy out nearly all its VC investors.[156] This move was highly unusual for a startup. It reflected the founder's desire to grow sustainably at a pace that accommodated scaling both social and financial performance, rather than focusing on achieving hypergrowth and exit to the exclusion of other goals.[157] This decision underscores the founder's understanding that the only way to avoid redirecting organizational focus toward hypergrowth exit and away from social performance and profitability was to eliminate the VC. This extreme calculus underscores the pervasive influence of the VC model—an influence that could not be overcome even through ex ante contractual negotiations to preserve founder control or explicitly protect social performance.

Importantly, Buffer's experience underscores how threats to social performance emerge implicitly in the context of VC funding. The failure of the protective measures implemented in this case instead points to a deeper structural misalignment at play. Here, the VC agreed ex ante to protective measures to preserve social performance post-Series A. Yet the central drive toward growth and exit built into the VC model still infiltrated the startup's organizational attention, ultimately threatening to redirect focus toward VC objectives and supersede any other social or financial objectives that the startup and VC had previously articulated and committed to protect. The structural elements of the VC model impeded the ongoing success of firm social performance, such that the founder perceived his only option to be to eliminate the VC in order to preserve firm social goals. This experience suggests a fundamental and implicit mismatch between the VC investment model and the pursuit of social performance and sustainable financial growth. Yet this mismatch is not overtly communicated or imposed—the VC effect on startup organizational focus presents somewhat more subtly, in a way that is difficult to ascertain without intimate access to a startup's inner workings. This subtlety explains why it may be more difficult for empirical research to identify this effect and more difficult for firms to overcome at the individual level.

All of the firms in this study exhibited these shifts in organizational focus toward growth and exit that undermined their social performance after securing VC funding. Their experiences all reflect the often subtle but direct link between VC funding and pressure to focus on growth and exit in a way that inherently deprioritizes firm social performance. For example, one startup

155. *Id.*

156. To do so, the founder exercised a downside protection clause that the parties had negotiated in their Series A round. *Id.* ("With healthy profits leading to our bank balance growing from $2 million to over $5 million, we could see that we were on a path towards being able to afford the 9 percent downside protection return for our Series A investors."). In the end, the buyout represented a return of 40.5 percent of 3.5 years for the VCs. *Id.* ("We gave every Series A shareholder the option to sell their shares at the agreed return. The resulting valuation was $80.8 million, representing a 40.5 percent return over three-and-a-half years.").

157. *Id.* In fact, this approach led to conflict between the cofounders, with one cofounder eventually departing from the firm over the choice to pursue profitability over hypergrowth.

originally pursued a business model to sell fresh food and vegetables in both high- and low-income markets. The high-income markets would subsidize the low-income markets to fulfill the founder's vision of a socially oriented business model. An employee emphasized the prosocial nature of the business, explaining how "a large part of the company's DNA was not just access for paying individuals," but also for low-income communities.[158] But after receiving VC—including VC from socially conscious investors—the founder soon changed the business model to target only more lucrative high-income areas.[159] In addition, he enacted a new policy requiring all decisions be considered only from a financial perspective, and not a social one.[160] An employee described the shift. She explained how, originally, she was tasked with leading an initiative to partner with a local government entity to serve children in low-income communities. This initiative was one of the "biggest [projects] that [she] was asked to push," and it was driven by a "need to fix the system" and "to start at the bottom to change how kids see food."[161] Yet after a round of VC funding, she had to abandon the project in response to a new firm policy that "if it's not profitable, we can't do it."[162] Employees expressed disappointment with the founder's decisions and questioned his sincerity.[163]

These findings underscore the role of the VC model in deprioritizing this firm's social goals. By this point, the founder had taken on significant amounts of VC—over one hundred million dollars over several rounds of funding.[164] The pressure to provide a return compounded with each fundraise, with each subsequent funding round multiplying the required exit the founder would need to achieve in order to satisfy his VCs.[165] Social performance emerged as a sacrifice to the enormous pressure to achieve growth and exit—a pressure that intensified with each subsequent funding round as the likelihood of a lucrative exit declined and the timeline to exit increased.

Another firm experienced explicit pressure to remove firm social goals almost immediately after securing VC funding, illustrating that sometimes this effect may be overt rather than subtle.[166] The socially oriented founder desired to achieve the social goal of building a more democratic internet in part through its cryptocurrency business model, alongside other initiatives.[167] The founder chose to raise a small amount of VC, but to partner with VCs that

158. Interview with Participant FH1 (Oct. 6, 2021).

159. *Id.*

160. *Id.*

161. *Id.*

162. *Id.*

163. *Id.* (explaining disillusionment and lack of trust with the founder).

164. *See* PITCHBOOK, FRESH HARVEST PRIVATE COMPANY PROFILE 1 (2024) (on file with author) (pseudonym used to comply with IRB).

165. *See supra* Section I.B.

166. E-mail from Participant DN1 to Emilie Aguirre, Assoc. Professor of L., Duke Univ. Sch. of L. (Feb. 19, 2021, 2:14 PM) (on file with author); Interview with Participant DN1 (Feb. 25, 2021) (explaining how the founder "sees what he is doing as a social imperative, not a financial one" and had a desire to "stay true to that social motivation" while facing pushback from financially motivated VCs).

167. *See supra* note 166 and accompanying text.

exclusively focused on achieving financial outcomes because he believed they would provide him with financial expertise to complement his social expertise.[168] Yet the combination soon proved difficult. The founder almost immediately deadlocked with the VCs over his desire to "stay true to [his] social motivation" and their conflicting desire to focus on growth and exit.[169] The VCs' structural power made it very difficult for the founder to resist the investors' preferences and continue pursuing social performance as long as they were present in the firm.[170]

Pantry Mate provides another key example. Pantry Mate is a tech startup that sells software in the food service industry.[171] It was founded with a core commitment to social performance alongside financial performance. In addition to solving an efficiency problem in the food service industry, its founders seek to reduce food waste and improve worker well-being, both for their own employees and for workers in the notoriously high-stress food service industry.[172] Pantry Mate's founders have devoted significant resources to social performance throughout the company's existence.[173] Part of this

168. *See supra* note 166 and accompanying text.

169. *See supra* note 166 and accompanying text.

170. *See supra* note 166 and accompanying text.

171. Pantry Mate's customers have included a range of companies, from traditional restaurants, caterers, and ghost kitchens (a food facility that has no in-person dining and operates only for meal delivery), to institutional settings, such as universities and large corporate commissaries.

172. Back-of-house kitchen operations are not only highly economically inefficient, they also generate extreme amounts of food waste and create high stress among food service workers. Commercial kitchens are one of the highest contributors to greenhouse gas emissions and carry among the highest stress and worst mental health conditions of any job. *See Fight Climate Change by Preventing Food Waste*, WORLD WILDLIFE FUND, https://www.worldwildlife.org/stories/fight-climate-change-by-preventing-food-waste [https://perma.cc/J74B-CG67]. From the beginning, the founders have claimed that committing to these social objectives is just as important as making a profit. They actively try to cultivate a "people first" culture that promotes wellbeing, work-life balance, and individual fulfillment. Employees often cite this approach as a key reason they joined the company. Interview with Participant PM22 (Jan. 30, 2020) (one cofounder explaining that social purpose is "pretty much why [he's] involved. . . . [I]f we're not effecting positive change globally, then what else are you really supposed to be doing in life? . . . I wouldn't be affiliated with anything that didn't have a greater purpose.").

173. For example, as an early-stage startup, the founders hired a Head of Sustainability. They pursued and secured a state grant to partner with a nonprofit to help track and improve their customers' food waste diversion. Interview with Participant PM32 (Jan. 31, 2020) ("And in this [state grant] project that I'm leading, I have a really great opportunity to learn from the kitchens that we're working with about what food waste is emerging and how they're handling it using both the [partnered nonprofit] and [Pantry Mate's software]."); Interview with Participant PM22 (Jan. 30, 2023) ("The food waste is being tracked through the [state grant], and now we're mapping it."). The founders implemented surveys tracking the software's impact on their customers' workers' stress levels. They even piloted a four-day work week initiative to try to improve their own workers' well-being. Observations of Participant PM05 (May 18, 2022); Julie Yen & Emilie Aguirre, Narrative Inversion: How Win-Win Framing and Measurement Shape Conflict over Social Initiatives 16 (July 25, 2025) (unpublished manuscript) (on file with author) (explaining the CEO's rationale to other executives, "It's come up for me in [thinking] about company culture, company values. . . . [O]ur 'why' is to improve the lives of workers in the food service industry. To me that starts with our own employees."). The initiative was not a result of any perceived problem with employee satisfaction. Observations of Participant PM05 (June 17,

commitment included seeking out a socially conscious VC investor as part of the firm's Series A funding. Pantry Mate's founders ultimately elected to raise over fourteen million dollars in Series A financing from both a traditional VC and a socially conscious impact VC.[174]

Despite ongoing demonstrated commitments to firm social goals, including partnering with a socially conscious VC, Pantry Mate has struggled to retain social performance after securing Series A. The company demoted and then laid off its Head of Sustainability—even though the impact VC voiced concerns over the decision and required the startup leaders to formulate a plan to protect social performance moving forward.[175] Pantry Mate also implemented ambitious social initiatives, then discontinued them after encountering resistance from organizational members concerned about the impacts on investor returns—despite these initiatives having the full support of the founders and VCs.[176] Approximately two years post-Series A, the VC impact investor expressed the concern that Pantry Mate is no longer a fit for its investment portfolio because of the weakening of the firm's social performance.[177] Even so, Pantry Mate's founders continue to profess their ongoing commitment and personal motivations to achieve social performance, and they continue attempting to ascertain how to preserve firm social goals.[178]

At the same time, the founders struggle to balance social performance with the pressure to grow, exit, and provide financial returns to its VCs.[179] Critically, Pantry Mate's founders and employees have cited to the pressure associated with being a venture-backed startup for each decision to weaken or eliminate an aspect of the firm's social performance post-Series A.[180] One

2022) ("I don't think we have a problem with employee satisfaction right now, but I just want to maximize that.").

174. E-mail from Pantry Mate to Emilie Aguirre, Professor of L., Duke Univ. Sch. of L. (May 20, 2022, 12:03 PM) (on file with author).

175. The Head of Sustainability had already been eliminated from the company's executive team several months earlier, which had removed this employee and her sustainability perspective from company-level decision-making. This employee was also one of the company's longest-standing employees, one of its few female employees, and the most senior person terminated in the layoffs. The company preemptively undertook these layoffs in light of perceived challenges with the current macroeconomic climate. Observations of Participant PM05 (Apr. 6, 2023). This termination did not come at the request or urging of the VCs. Interview with Participant PM82 (May 25, 2023).

176. For example, the founders chose to roll back the four-day workweek initiative after three months despite overwhelming positive reported impact on worker well-being. *See* Yen & Aguirre, *supra* note 173, at 37 ("In the end, despite consensus that the 4DWW succeeded in improving well-being, the CEO's continued support, his own perception that there was not a problem with productivity, and his willingness to take a 'leap of faith' to achieve a win-win in the long-term, [Pantry Mate] ended its 4DWW."). The food waste diversion grant ended and was not replaced with a new initiative or tracking system. Interview with Participant PM32 (July 22, 2022).

177. Interview with Participant PM22 (Oct. 16, 2024).

178. *See id.* For example, the executive team implemented an improved customer stress survey to help assess and inform software development and quantify social impact and the impact VC required the founders to formulate a plan to preserve social performance, to take just two examples.

179. Interview with Participant PM36 (Oct. 19, 2022) (explaining the "really aggressive growth that is expected in most [venture-backed] startups").

180. Interview with Participant PM16 (Mar. 3, 2023).

senior manager called social initiatives a "problem," stating that "[i]f you want to be the slow grow, low risk route" you should not join a venture-backed startup.[181] Another employee explained how raising Series A made him "so panic stricken, because if anything, now it gets real, the scrutiny. There's that much more scrutiny" and "it's like, wait a second. We just raised a lot of money. That money's going to dry up very quickly, and we need to be so focused on success and winning here" rather than implementing social initiatives.[182] Within Pantry Mate, the fact of being a venture-backed startup has created an organizational focus among firm members to center investor objectives and prioritize rapid growth.[183]

Their reasoning helps explain the disconnect between the founders' attempts to continue firm social performance, the impact VC's stated desire to preserve social performance, and yet the continued weakening of firm social performance that persists post-Series A. These qualitative field research methods thus uncover a subtle but pervasive effect that the VC model has on firm social performance, and the mechanisms by which this effect takes place, shaping decision-making processes and the strategic orientation of firm members by continually guiding them toward an overarching objective to prioritize exit and returns to investors. The pressure to deprioritize social performance is pervasive in part because it is so often implicit, making it seem as though mission drift is attributable to other sources. Yet Pantry Mate's decisions to roll back social performance measures did not originate from a loss of founder commitment, nor from its VCs, who did not put any explicit pressure on the firm to jettison social performance. To the contrary, its impact VC explicitly urged the firm to retain its social performance and expressed increasing dismay over the course of two years when it perceived the social performance to be faltering.[184] Instead, these findings show how mission drift more subtly but pervasively links to the structure of the VC model and its effects on organizational focus.

Finally, for some firms in the sample, the elimination of social performance was not complete until the firms actually exited. The two firms in the study that eventually exited via acquisition illustrate this phenomenon. These firms managed to retain at least some aspects of their social performance while operating as venture-backed startups. Yet shortly after exiting via acquisition, they lost their social performance entirely. Current understanding in the literature would blame the acquisition itself, explaining how the acquiring

181. *Id.* ("If you're joining a start-up, you're not joining a regular company. . . . I think that's the problem with the four-day work week. . . . If you want to be the slow grow, low risk route, you can still do fantastically well joining a big company.").

182. Interview with Participant PM26 (Mar. 17, 2023) (also explaining that after raising VC, "[y]our burn rate goes up. You're hiring more—you're suddenly—decisions are make or break."); Interview with Participant PM26 (Nov. 3, 2022) (stating his belief that the company leaders "have taken their foot off the gas a long time ago. . . . [It] makes it really hard for us to raise a [Series B].").

183. Interview with Participant PM26 (Mar. 17, 2023).

184. Interview with Participant PM22 (Oct. 16, 2024).

firm failed to preserve or chose to eliminate the target's social performance.[185] Yet this explanation fails to recognize what this study uncovers: that the weakening of firm social goals actually began much earlier, after the firm secured venture capital. At these acquired firms, the focus on financial growth and the drive to exit subordinated social performance, prompting the firms to grow in a way that failed to create stable corporate structures to preserve firm social performance when operating at scale. As a result, if social performance still exists at the point of acquisition, it is highly vulnerable to elimination precisely because of the shifted organizational focus to growth and exit.

For example, at one firm, employees at the acquirer and target showed how the vulnerability of the target's social performance was linked to the pressure the firm experienced to pursue an exit that its leadership team did not desire. In this case, the drive to exit occurred due to unsatisfactory financial performance. As one employee at the acquirer stated, "The [startup] leadership team might've been a bit shocked and sad that it had come to the point that they had to sell," but "it was just a fact that . . . [the startup] was going to be acquired or they were going to be shut down."[186] That same employee explained how, prior to the acquisition, the firm's social purpose was "pretty critical, pretty important."[187] But as an employee at the target noted, "with growth, I can see [the social purpose] declining . . . [we're] going in that direction of losing the purpose."[188] As another noted, post-acquisition, the social purpose "has fallen to the wayside."[189] Although startup leadership would have preferred to continue operating privately and pursuing their "very strong mission," they were forced to exit via acquisition.[190] This startup was acquired just three years after raising Series A financing, underscoring their fast timeline to exit. Their inability to spend time focused on building operational structures that would effectively scale both firm social *and* financial performance ultimately forced the acquisition, which left the social performance entirely at the mercy of the acquirer and ultimately resulted in its decline.[191]

At the other firm that exited via acquisition, social performance also mostly disappeared shortly after acquisition.[192] This firm had been hailed as a paragon of social and financial performance and its acquisition celebrated as a shining

185. *See supra* Section II.A.

186. Interview with Participant H1 (Mar. 1, 2019) ("The reason for the acquisition is that they were bleeding money terribly.").

187. *Id.*

188. Interview with Participant GC2 (Apr. 8, 2019) ("[The acquirer] has pre-approved [several items] to be all conventional, but that's not our company. We shouldn't care as much about that bottom line vs. what we're promising our customers. Now instead of saying we're 100% organic, we're saying we're mostly organic. You can't be spending $80/case on Brussels sprouts, it needs to be $20/case, and if you can't get that (which is impossible), you have to go conventional.").

189. Interview with Participant H1 (Mar. 1, 2019).

190. *Id.*

191. Interview with Participant HT2 (Apr. 8, 2019); Interview with Participant HT1 (Mar. 1, 2019).

192. Interview with Participant PG1 (Oct. 8, 2018) (explaining that the target's social performance would soon be entirely eliminated). This firm soon lost its B Corp Certification. Its financial performance faltered shortly after, and the acquirer sold the firm at a loss.

example of the possibility of success for prosocial business.[193] Yet its social performance soon faltered.[194] A senior executive at the acquirer attributed the loss to the acquirer's executive team not understanding the value of social performance to the firm's success.[195] But the findings from this study show how additional factors predating the acquisition also seem to be at play. In particular, the unusual speed with which this firm exited after securing VC funding also sheds light on the vulnerability of its social performance post-acquisition. The acquisition took place only five years after the startup's founding and just 3.5 years after its first round of VC funding, a remarkably fast timeline that exposes the speed with which the firm had to grow its operations.[196] This compressed timeline underscores the pressure toward hypergrowth and exit built into the VC model, which shifts the organization's focus away from sustainably growing and preserving social performance and in favor of achieving a fast and lucrative exit. Viewing these firms' losses of social performance as solely the product of failed post-acquisition integration neglects the crucial role that VC plays in structuring those exits and in shaping strategic orientation at the firm in the lead-up to those exits.

C. *Even VC Impact Investors Fall Short*

These findings also help explain why VC impact investors who claim to value social performance also fall short in retaining firm social goals.[197] In this study, I find that although the impact VC model differs in key ways from the traditional VC model, impact VCs retain the traditional VC reliance on growth and exit to drive returns. I find that impact VCs differ from traditional VCs in that they incorrectly assume they can select portfolio firms whose social performance will necessarily scale as the firm grows. This assumption falls short. As a result, like traditional VCs, impact VCs shift organizational focus in their startups toward growth and exit, displacing other organizational objectives and undermining firm social performance.

This crowding out of social performance is hard to detect because it often occurs covertly, as impact VCs outwardly encourage their portfolio firms to maintain social performance. Though individual impact VCs do not set out to

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193. Interview by Interviewer 108 with Interviewee 109 and Interviewee 110 (Apr. 4, 2015) (on file with author).

194. Interview with Participant PG1 (Oct. 8, 2018).

195. Interview with Participant PG2 (Oct.15, 2018).

196. PITCHBOOK, PURE GOOD PRIVATE COMPANY PROFILE 14 (2023) (on file with author) (pseudonym used to comply with IRB).

197. There are a range of VC investors and significant market segmentation among them. Impact investors are an emerging class of VC firms that seek a blended social–financial return. VC impact investors generally fall into one of two categories. The first category uses a traditional VC investment model that relies on rapid growth and lucrative exit and attempts to target firms whose business models promise social impact. This category therefore presents the same exit problems as traditional VCs. The second category, known as "impact capital," is outwardly willing to trade off financial returns for social gains. These VCs are believed to attract less financially viable startups. This arrangement "implies a certain adverse selection: those who can, raise venture capital; those who don't seek impact capital." TARUN KHANNA, RAMANA NANDA, BENJAMIN R. ROTH & BRIAN TRELSTAD, GROWTH CAPITAL FOR SCALING SOCIAL ENTERPRISES 6–7 (2020).

eliminate firm social performance intentionally, and indeed even seek to preserve social performance, even genuinely committed impact VCs may crowd out social performance because their underlying investment model generally still prioritizes growth and exit as the ultimate objectives. Absent a dramatic (and unusual) departure from the basic VC model, impact investors and their portfolio firms are therefore subject to the same timeline, growth, and exit pressures as traditional VCs.

These findings show how impact VCs incorrectly assumed that firm social performance will necessarily scale as the firm grows. Impact VCs (and even traditional VCs) often expressed an assumption that a linear relationship exists between a business's social impact and its financial performance.[198] As Pantry Mate's VC explained, "if we sold ten of those [products], you're having only ten percent of the impact than if we sold a hundred of those, right?"[199] Other academic research has also documented that VCs make this erroneous assumption, illustrating how VCs presume that social performance inevitably grows as firms grow financially.[200] This assumption explains why impact VCs believe that they can support firm social performance without adjusting their underlying VC investment model, taking for granted that social impact will grow as the business grows.

Relatedly, VCs expressed a belief that startups with social goals experience minimal trade-offs between social and financial performance. As one VC stated, social and financial goals "are pretty aligned usually."[201] He explained that he did not think he had "ever in the board room come across a scenario where those two goals would be in tension. They are always quite aligned. Because the mission of what is good for the industry and society writ large typically lines up with what is good for individual [firms]."[202] Another impact VC noted that he could not think of any examples of social and financial trade-offs in his fund's portfolio of startups.[203] As a result of these assumptions, VCs reported no tensions between scaling social performance and driving toward growth and exit in their portfolio firms. Although these assumptions have a certain logic to them, they prove faulty in practice and ultimately contribute to the firms' loss of social performance.

1. Social Performance Does Not Scale Linearly with Financial Performance

First, social performance does not simply scale linearly with financial performance. In fact, the two often require different approaches to scale

198. Interview with Participant PM82 (May 25, 2023) ("[Y]ou have the potential [social] impact you can make, and it almost scales up and down based on how successful the company is.").

199. *Id.*

200. *See* BROWN & KAUFMANN, *supra* note 39, at 37.

201. Interview with Participant PM83 (June 2, 2023).

202. *Id.*

203. Interview with Participant PM82 (May 25, 2023) ("I don't know that I can give you any examples in our portfolio simply because it's pretty young at this stage. And I think those kinds of situations would tend to arise when you get to be a much bigger company and you have to deal with bigger issues, facing bigger potential problems.").

successfully. All of the firms in the sample with impact VCs reflect this reality. For example, Buffer experienced fundamental conflicts between the fast growth and exit desired by its impact VC and the slower pace and special attention to scaling that its founder determined was necessary to retain the firm's social performance.[204] Indeed, it was only by eliminating its VC that Buffer felt able to retain its social performance alongside its financial performance.[205] Pantry Mate's impact VC also incorrectly assumed that social and financial performance would scale together. But they did not, with Pantry Mate losing key aspects of its social performance—including its Head of Sustainability, its four-day workweek, and its socially oriented state grant—soon after securing Series A.[206] When these social losses occurred, its impact VC expressed growing concern, seeking to implement a plan to get the firm back on track.[207] For the startup selling fresh vegetables in low-income communities, funders assumed that more vegetables sold would generate greater social impact. Yet after securing VC funding, the firm pivoted its business model away from selling in low-income communities to sell in more profitable high-income areas because of the need to grow and drive to exit.[208] The impact VCs who assumed firm growth would entail increased social performance were incorrect: Social impact actually *decreased* as this firm grew.

2. Startups with Social Goals Face Trade-Offs Between Social and Financial Performance

Second, these assumptions miss the fact that startups with social goals face inevitable trade-offs between social and financial performance and that these trade-offs compound as the firm grows.[209] Research in management has shown how these trade-offs occur for all firms with social goals, no matter how closely a firm may integrate its social goals into its business model.[210] Indeed,

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204. Gascoigne, *supra* note 141 (explaining that "Buffer was not on a traditional venture-funded path anymore" due in large part to its "decreased growth rate," "increased . . . financial sustainability" and hard work "to create and promote a culture where team members could enjoy their work for years without leading to burnout").

205. *Id.*

206. *See supra* notes 175–76 and accompanying text.

207. *See supra* Section III.B.

208. Interview with Participant FH1 (Oct. 6, 2021); *see supra* notes 148–54 and accompanying text.

209. Although before it had received VC funding, the firm

> 'had it all' and achieved growth alongside creating a unique culture with a fully remote team and high levels of transparency, it now started to feel like we had to choose between those things. It was suggested that some of the fundamentals that I had come to value could be removed to create a productivity environment that would increase the growth rate. I refused to compromise on the transparency and remote work aspects of our culture, so we started to explore slower growth goals, and what that would mean for the future of Buffer.

Gascoigne, *supra* note 141.

210. *See* Julie Battilana, Tomasz Obloj, Anne-Claire Pache & Metin Sengul, *Beyond Shareholder Value Maximization: Accounting for Financial/Social Trade-Offs in Dual-Purpose Companies*, 47 ACAD. MGMT. REV. 237, 238 (2022); Sarah Kaplan, *Beyond the Business Case for Social Responsibility,* ACAD. MGMT. DISCOVERIES 2–3 (Apr. 2, 2020), https://doi.org/10.5465/amd.2018.0220 [https://perma.cc/PQ7R-M7L2]; Aguirre, *supra* note 23, at 2082, 2086.

all of the firms that partnered with impact VCs experienced tensions between social and financial performance. For example, as part of Buffer's commitment to transparency, when the company formed, it made all employees' emails visible to all other employees.[211] But as Buffer scaled, this arrangement grew unwieldy, creating a serious trade-off between efficiency and transparency.[212] Ultimately, the firm decided to eliminate this particular transparency initiative, choosing to make company emails private and to manifest its commitment to transparency in other ways at the firm.[213]

Similarly, Pantry Mate's impact VC incorrectly assumed the firm would not experience social and financial trade-offs.[214] For example, the same impact VC who could not think of any tensions between social and financial performance in any of his portfolio firms also described being "very unsettled" when social performance faltered at Pantry Mate after the founders succumbed to perceived financial pressures and a need to "reduce costs."[215] The impact VC seemed implicitly to understand the tensions between social and financial performance: For example, his requiring the founders to articulate "a plan" as to how they would "make up the difference" from the loss of social performance suggests the impact VC knew these social decisions had occurred in favor of financial performance.[216] Yet he did not outwardly conceive of this example, or any others, as a trade-off between social and financial performance.[217] Thus, even as trade-offs materialized before them, impact VCs did not recognize them as such.[218]

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211. Kevan Lee, *The Advantages and Workflows of Fully Transparent Email*, BUFFER (June 16, 2014), https://buffer.com/resources/buffer-transparent-email [https://perma.cc/P5P4-AYCR].

212. Hailley Griffis, *Why Transparent Email Stopped Working for Us and What We Do Instead*, BUFFER (July 2, 2020), https://buffer.com/resources/instead-of-transparent-email [https://perma.cc/S9A7-K8DN].

213. *Id.*

214. Interview with Participant PM82 (May 25, 2023) (explaining that a company's social impact scales up and down in proportion to the success of its financial performance).

215. *Id.*

216. The impact VCs were "very unsettled by" the layoff the Head of Sustainability. He explained how he told the founder–CEO,

> "I'll support that, but only if you give me a plan on how you're going to make up the difference and make sure that you can continue to provide [the impact VC] with the data and the planning that we require." And so [the other co-founder] put up his hand and said, "I will take that over and make sure that we satisfy you on that." So it was definitely a discussion that we had.

Interview with Participant PM82 (May 25, 2023).

217. This tension is not the only one at Pantry Mate. To take one other example, the leadership team must decide whether to focus developer attention on producing software features that satisfy the needs of an important client, even if it comes at the expense of developing features that would generate additional social impact, such as reducing food waste. Although in theory selling more software will lead to greater social impact, for example by diverting more food waste, the relationship is not simply linear as assumed. Instead, it can vary depending on how the software is developed, which features are prioritized and advertised to clients, and the degree of support that the customer success team offers with regards to the various features.

218. *See also* BROWN & KAUFMANN, *supra* note 40, at 37–38 (explaining how impact VCs may assume social impact occurs based on "'gut feel'" or "hunches," and therefore overlook social underperformance).

Importantly, the Pantry Mate example also illustrates how when these inevitable conflicts arise, the growth and exit orientation of the VC model creates a powerful force to choose financial over social performance. The strength of an individual firm or impact VC's commitment may not be powerful enough to overcome the structural deprioritization of social performance built into the VC model. As a result, the VC model crowds out firm social performance even at firms with leaders and impact VCs with strong commitments to preserving social goals.

3. Social Performance Is Multifaceted

Impact VC assumptions about linear scale and the absence of trade-offs also ignore the fact that social performance is multifaceted. For example, at Pantry Mate, social goals include improving environmental sustainability and worker well-being. The operationalization and implementation of these goals evolve over time and as Pantry Mate grows, presenting additional tensions and trade-offs. For example, growing Pantry Mate's environmental sustainability impact can cut against its own workers' well-being when workers have to take on additional tasks, working hours, and stress to meet firm sustainability goals in addition to meeting financial performance targets. Simply assuming that growing financial performance will inherently increase social performance across all dimensions thus unhelpfully fails to account for the complexity of firm social goals and their evolution over time and as the firm grows.

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Together, these faulty assumptions create a false understanding for impact VCs vis-à-vis the structure of their investment models. Under the logic of these assumptions, impact VCs do not need to fundamentally alter their investment models because startups with social objectives do not face trade-offs among their social and financial objectives and will simply scale up social and financial performance linearly together. In this vein, one impact VC has created some incentives toward social performance, linking some of its GPs' compensation to the portfolio's overall social performance at the end of the fund and requiring GPs to donate a percentage of their proceeds to charity if they do not meet certain social returns.[219] Yet these incentives are somewhat nebulous. The VC has not predetermined its benchmarks for achieving social returns and declines to track social performance until closer to the end of its fund.[220] Perhaps even more importantly, these incentives do not change the underlying VC model, which ultimately still retains the basic structure of a ten-year timeline and 2 and 20 compensation.[221] As a result, it does not change the fundamental expectations and requirements of growth and exit for founders in the portfolio firms.[222] Under this model, even strong commitments from both the impact VC and firm leaders are insufficient to preserve firm social performance, with the VC model's implicit pressures and faulty assumptions

219. Interview with Participant PM82 (May 25, 2023).
220. *Id.*
221. *Id.*
222. *Id.*

prioritizing financial performance at the expense of social performance. Partnering with an impact VC may thus make little practical difference if the underlying investment model deprioritizes firm social performance and shifts organizational focus toward growth and exit.[223]

Startup founders, impact VCs, and employees also frequently justified deprioritizing or abandoning firm social goals by reasoning that if a firm does not exist, it cannot achieve any impact at all. As one impact VC put it, "[A] company with a huge impact potential that never sells anything and goes out of business has zero impact, right?"[224] This logic was a common refrain. For example, when Pantry Mate laid off twenty percent of its workforce due to perceived financial pressures and a contracted macroeconomic landscape, founders and investors cited to this logic as justification.[225]

But this rationalization risks becoming a carte blanche for prioritizing financial over social goals. Although it is true that some impact is better than none, it also true that *more* impact is better than *some* impact.[226] The logic of needing to preserve the company's existence in order to ensure it achieves any social impact creates a false dichotomy that can serve as a powerful justification for jettisoning firm social goals. Instead of determining how to achieve both sets of objectives in concert, by this logic, founders and investors have justification to abandon or weaken social goals and then claim doing so was necessary to avoid firm failure and having no social impact at all. This logic also further underscores the acute trade-offs among social and financial performance that startups face, and the fact that founders, VCs, and employees do in fact seem to recognize them implicitly despite their claims to the contrary.

Drawing from five years of empirical research, this Part theorizes that the current VC model structurally crowds out firm social performance due to the time-pressured focus on growth and exit built into the VC model. Because venture-backed firms face intense up or out pressure, in practice they must prioritize growth and exit over social performance. These qualitative field research methods also uncover how even for impact VCs that are outwardly committed to preserving social performance, the VC model creates structural pressures that weaken or eliminate firm social performance. To meaningfully support social performance, VCs must instead address the structural

223. *See* JU YOUNG LEE, SUMMARY, ARE WE ON THE SAME BOAT? SOCIALLY RESPONSIBLE INVESTING, IMPACT INVESTING, AND CATEGORY CO-OPTATION 2 (2019), https://www.ivey.uwo.ca/sustainability/students-teaching/phd-academy/past-academies/2019/2019-participants/ju-young-lee [https://perma.cc/MP7D-P4SW]. Whether and how recently IPO'ed socially conscious firms like Vital Farms, Lemonade, and Allbirds faced these conflicts with their VCs and whether and how they overcame them are important subjects for future work.

224. Interview with Participant PM82 (May 25, 2023).

225. Observations of Participant PM05 (Apr. 6, 2023) (explaining in an all-company meeting, "[w]e just need to be in the top 2% of companies. . . . It's not to mean that we don't have big visions, of course we do, that's why we can't lose sight of our vision and mission. We just have to shift gears now so that we can accelerate again."); Interview with Participant PM83 (June 2, 2023) ("Basically the company knew it had to make operating cuts to extend its cash runway because the fundraising market dried up, so basically we said you need to go make X% cuts and extend it by X months.").

226. Miranda Campbell Kerrigan provided extremely helpful insights on this topic.

impediments to success in their underlying investment model, to which this Article turns next.

IV. REORIENTING LEGAL DISCOURSE

Uncovering these dynamics adds a new dimension to research on entrepreneurship, venture capital, and the pursuit of social goals in business. At present, companies primarily default to firm-level contractual approaches to protect idiosyncratic firm preferences or prosocial objectives.[227] These ad hoc approaches assume startup leaders should simply "contract better" with VCs, including impact VCs, to protect firm social goals. They often treat the loss of firm social performance as a reflection of a lack of genuine commitment on the part of team leaders and VC investors. Yet this Article's findings suggest the importance of structurally reorienting the broader startup ecosystem to more effectively address barriers to retaining firm social performance. This Part offers proposals for legal and market solutions to adapt VC investment models, including impact investment, and to improve startup law and finance frameworks and tailor corporate governance mechanisms to promote retention of social performance.

A. New Investment and Corporate Governance Models

These data suggest the importance of formulating a VC investment model better tailored to the retention of social performance. It is important to note that the VC we take for granted today is functionally only a few decades old.[228] Although today we largely assume it is an optimal way to finance innovation and economic growth, in fact it is still relatively nascent and in need of ongoing assessment and evaluation.[229]

Although necessary, reformulating VC investment presents several challenges. Given the theorized limitations of shorter timelines, hypergrowth orientation, and focus on exit, the most obvious solutions would be to simply lengthen fund timelines and reduce emphasis on achieving speedy growth and exit. But such an approach would create impossible trade-offs for VCs.[230] As Section I.A showed, lengthening fund timelines increases the return needed to make a VC fund profitable, placing even more pressure on achieving sky-high

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227. Fisch, *supra* note 42, at 915–16.

228. MORGAN HOUSEL, THE PSYCHOLOGY OF MONEY 116–17 (2020) ("[T]ake venture capital. It barely existed 25 years ago.").

229. *Id.* ("What we know about investment cycles and startup failure rates is not a deep base of history to learn from, because the way companies are funded today is such a new historical paradigm.").

230. For instance:

> True, VCs need to get paid. And because they are high-risk investors, they reasonably want a high reward. Just taking dividends from the ordinary profits that a successful company makes is not enough to motivate VCs today. As one frustrated founder put it, VCs "deride private businesses that generate cash [not] because they're bad businesses, [but] because [VCs are] structurally incapable of profiting off of them."

Lemley & McCreary, *supra* note 46, at 10 (alterations in original).

exits.[231] Simultaneously reducing emphasis on achieving growth and exit would be at odds with compensating for lengthening the fund, creating untenable tensions. Without exceptional exits, lengthened funds undermine the attractiveness of VC investment. It is difficult to justify the high risk of investing in new, unproven ventures if there is little possibility of achieving above-market returns.

In addition, any new investment model needs to appeal to mainstream startup founders, LPs, and GPs, and avoid potential adverse selection problems. These players want to start and invest in meaningfully sized companies that appeal to conventional consumers and employees. Any source of capital that is perceived to be second-rate or ineffectual will not appeal to them and will not enjoy widespread uptake.[232] In summary, any viable solution will need to be both effective—addressing the fundamental theorized problems—*and* attractive to both founders and VCs (including LPs)—to ensure adequate uptake.

A complete and detailed proposal for a new VC investment model is beyond the scope of this Article.[233] But this Section provides a starting point. It proposes: (1) adjusting the traditional 2 and 20 fee arrangement to more meaningfully incorporate social performance metrics; (2) adjusting corporate governance to better align with firm social performance; and (3) linking startup leader compensation to social performance outcomes.[234]

1. Incorporating Social Performance Metrics into the Traditional 2 and 20 Fee Arrangement

First, LPs investing in both traditional and impact VCs should adjust the traditional 2 and 20 fee arrangement to better align VC incentives with firm performance. LPs may instead reconsider how they compensate their GPs.

231. Remember that a fund must generate a 3x return over ten years to be considered a good investment. Doing so is increasingly challenging, with ninety-five percent of VCs already returning less than 3x. Although shortening fund timelines reduces that pressure (for example, a six-year fund would require only about a 2x return to generate a twelve percent return for investors), *lengthening* fund timelines only increases the required return. Such a solution would create even more pressure for mega-growth. Dean, *supra* note 67.

232. *See, e.g.*, Kelly Kleiman, *"L3C" Spells "Caveat Emptor,"* STAN. SOC. INNOVATION REV. (Mar. 18, 2011), https://ssir.org/articles/entry/l3c_spells_caveat_emptor [https://perma.cc/6WEF-JDFS] (describing the failed experience and uptake of low-profit limited liability companies).

233. For more work in this area, see generally Aguirre & Burstein, *supra* note 139 (explaining the inefficiencies of the venture capital market and advocating for reform).

234. In addition to reformulating VC investment models, startup founders and investors may also consider implementing contract-based voluntary commitment mechanisms to help reinforce ongoing social performance. For example, they may consider implementing "green pills" that generate credible commitments to social or environmental goals, charter or bylaw commitments to certain social performance, or debt financing with restrictive covenants or poison puts that prohibit certain antisocial behavior or require certain prosocial behavior with catastrophic consequences for the firm if violated. The problem with these (and other) contractual mechanisms is that they do not address the root problem of structural misalignment with the VC model. In addition, if they require founders to adopt them ex ante, it may make it even more difficult for startups with social goals to attract VC funding they need to survive. *See* Aguirre, *supra* note 23, at 2116–47; John Armour, Luca Enriques & Thom Wetzer, *Green Pills: Making Corporate Climate Commitments Credible*, 65 ARIZ. L. REV. 285, 292 (2023).

The current 2 and 20 fee structure ensures that GPs earn lucrative compensation regardless of fund performance, plus twenty percent of any profits the fund makes. This structure ensures that GPs bear little downside risk while enjoying disproportionate upside benefits.[235]

Take a simplified example of a VC fund with $100 million of committed capital from LPs. Two percent annual fees to GPs amount to $2 million per year—and $20 million total over a ten-year fund. If the fund generated a modest $200 million return at its end (representing just a 2x return), the GPs would earn an additional $20 million.[236] In this simplified example, in total, the GPs would earn $40 million. They would do so while earning around a seven percent return for their investors—roughly equivalent to an average stock market return. These GPs would therefore be compensated $40 million for underperforming. Given that approximately eighty-five percent of VCs return 2x or less to their investors (including about fifty percent who return less than 1x), it may be time to reconsider VC compensation, and perhaps not just for startups with social goals but more broadly for traditional VC as well.

An adjusted compensation structure could reduce or otherwise restructure the standing management fees from the current two percent. One approach would be to simply reduce management fees to less than two percent. Another approach would be to restructure fees toward more of a contingency model that links VC compensation even more directly to portfolio performance—for example, by drastically reducing or eliminating standing management fees but increasing performance fees.[237] These changes would aim both to improve existing VC performance and to reduce the number of unsuccessful VC firms that currently oversaturate the market, enabling only those firms that perform well to survive.[238]

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235. *See* Phalippou, *supra* note 82, at 2–3. Again, the author writes generally about private equity firms (a category under which venture capital firms fall), so although there are key differences from VC specifically, the general themes remain the same. In addition, given that up to ninety-five percent of VCs do not generate a profitable return, the guaranteed two percent compensation enables a potentially vast swatch of underperforming VCs to remain in existence. Dean, *supra* note 67.

236. This amount represents *20% x $100 million*.

237. For example, many attorneys operate on a one-third contingency fee structure. It is important to carefully consider the potential unintended consequences of this idea before implementing, particularly given that high incentives have been shown to distort behavior. *See* JEFFREY PFEFFER, WHAT WERE THEY THINKING?: UNCONVENTIONAL WISDOM ABOUT MANAGEMENT 75 (2007) (finding incentives that are too large can distort behavior leading them to backfire, while rewards that are large enough to be noticed and provide an occasion for celebration and recognition can help better generate successful and intended outcomes); LUCIAN BEBCHUK & JESSE FRIED, PAY WITHOUT PERFORMANCE: THE UNFULFILLED PROMISE OF EXECUTIVE COMPENSATION, at ix (2004) ("Flawed compensation arrangements have been widespread, persistent, and systemic, and they have stemmed from defects in the underlying governance structure that enable executives to exert considerable influence over their boards."); Lucian Arye Bebchuk & Jesse M. Fried, *Executive Compensation as an Agency Problem*, 17 J. ECON. PERSPS. 71, 72 (2003).

238. Rethinking VC compensation could have broader positive spillover effects beyond startups with social goals. Lengthening fund timelines make it harder for VCs to perform successfully, and increased amounts of private capital enable VCs to underperform without being disciplined by the market. Traditional VCs, too, may be well served to reconsider VC compensation.

VCs could also consider including market rate redemption rights (or buyout clauses) for startup entrepreneurs in their standard terms sheets, like the one Buffer negotiated. These redemption rights would allow entrepreneurs the option of buying out their VCs at a reasonable interest rate, such as seven to ten percent. This approach could help diversify risk in an inherently risky asset class that often results in failure or barely achieves a market return. The faster a startup exercised the redemption right, the higher the percentage return the VC would achieve.

Still, this approach could significantly impact the VC profit model, requiring a shift in overall investment strategy. Changing VC compensation in these ways would require behavioral changes from VCs. If VCs wanted to continue investing the same amount of capital and take the same stake across the same number of firms, they would need to either change their investment criteria to pick more winning firms, improve their management of portfolio firms (including as board members), or reduce their expectations of returns.

Alternatively, VCs could change their investment approach, deploying less capital and taking a smaller stake across a larger number of firms. Mathematically, this approach requires a much smaller proportion of portfolio firms to achieve an exit, and also reduces the needed exit size.[239] For example, by investing less capital per firm across a greater number of firms, a VC fund could achieve a 3x return with fewer medium-sized exits and no need for an exceptional exit.[240] This approach would also enable the fund to weather a higher number of failures.[241] VCs could reduce their downside exposure while broadening their upside potential.

Because fewer startups would need to achieve an exceptional exit to result in a meaningful return for the fund, this approach would ease pressures on individual firms to grow and exit at all costs. It could have particularly positive effects for startups with social goals, which would likely especially benefit from alleviating arbitrary timelines and growth orientation. Indeed, adjusting compensation structures and investment strategies may better align VC incentives with the interests of both LPs and common shareholders to the benefit of the broader market. Creating a new investment model that better accounts for startups with social goals could help relieve expectations of

239. As Tomer Dean explains, "The assumption today is that VCs want to own 20-25 percent equity of any startup in which they invest, assuming they have cash to follow up. The reasoning being, if there actually is a realization event (exit/IPO), they want to score big." Dean, *supra* note 67. Imagine instead of investing $10 million in each of ten startups, a firm invested $1 million seed funding in each of fifty startups. It then follows up with $3 million in Series A for one-third of those firms, totaling $100 million and giving the VC roughly fifteen percent equity on average. If half of those Series A sell for $250 million each, it would yield a return of *(8 x $250 million x 0.15 percent = $300 million).* The fund would achieve over a 3x return with just eight (out of fifty) $250 million exits, rather than needing one out of ten firms to achieve a $1 billion exit. Thus, just fifteen percent of the portfolio needs to achieve a medium-sized exit for the fund to succeed, compared to half the portfolio needing to exit (including at least one huge exit and multiple medium exits) in the other scenario. *See supra* Part I.

240. Dean, *supra* note 67.

241. The ability to weather a higher number of failures would be necessary if shifting to earlier-stage investments where businesses may be even riskier.

accelerated growth and mega-returns for each individual firm while still creating lucrative opportunities for socially conscious investors.[242]

2. Adjusting Metrics and VC Compensation to Better Align with Firm Social Performance

In addition, the new compensation structure should incorporate meaningful social performance metrics, particularly for impact VCs. It could do so by linking VC compensation to verified achievement of predetermined social metrics continually throughout the lifetime of the fund. This structure could apply to either or both management fees and performance fees. At present, standard VC compensation generally incentivizes even impact investors to maximize financial returns over social returns. It also reinforces the faulty impact investor narrative that achieving financial performance will necessarily entail achieving social performance. VCs that seek to retain firm social performance across their portfolios should shift to better align their compensation schemes with achieving social performance outcomes.

Indeed, as referenced above, some impact VCs already align some of their compensation with achieving social metrics. One impact VC in the sample requires GPs to donate a portion of their carried interest (that is, their performance fee) to NGOs that align with their social impact goals if they do not meet a set of social performance indicators at the close of the fund.[243] A GP explained how the idea behind the incentive is that "even if [they] can't create the impact among [their] investments," they will divert some of their profits "towards achieving the same outcomes."[244] The impact investor commented how this approach "really aligns incentives" and is "pretty powerful."[245] At the same time, he also noted the practice does not appear to be widespread, stating that a lot of their LPs had "never heard of [it] before."[246] In addition, their approach only measures social performance at the end of the fund, and not during its lifetime, and it declines to create

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242. Doing so could help benefit public and private markets more broadly. Prior scholarship has identified how the VC investment model can lead to a broader set of problems for public and private markets. In addition, the decline in public equity has been well documented as a cause for concern. Deploying more patient capital, generating longer timelines, and yielding steadier returns can better enable startups to take the additional time needed to exit via IPO in today's markets, helping reduce problematic overreliance on acquisitions with systemic societal benefits for capital markets and more broadly. *See* Lemley & McCreary, *supra* note 46, at 1, 32 (arguing that the VC focus on exit is "pathological," and the rise in acquisitions and decline in IPOs is contributing to a harmful rise in market concentration and decrease in competition); Fried & Ganor, *supra* note 60, at 971 (describing the unusual nature of VC corporate governance and arguing that its dual-class share structure creates damaging agency problems and VC opportunism that corporate law currently struggles to address); Matthew Wansley, *Beach Money Exits,* 45 J. CORP L. 151, 153 (2019) (arguing that the capital structure of fast-growing startups makes them vulnerable to value-destroying acquisitions due to perverse founder incentives); de Fontenay, *supra* note 88, at 452 (arguing that the decline of the public company raises some causes for concern due to the lack of stable equilibrium).

243. Interview with Participant PM82 (May 25, 2023).

244. *Id.*

245. *Id.*

246. *Id.*

predetermined or standardized social metrics across the fund. Moreover, this donation approach may also create too much of an escape hatch for LPs, reducing incentives to achieve social performance in the fund if they know they can simply make it up via a sizeable (and tax deductible) donation that will satisfy their desire for social impact at the end of the fund.

This practice is a good start, but it would benefit from adjustments to help better incentivize social performance relative to financial performance across the portfolio and for the VCs. These adjustments could include more periodic monitoring and measurement throughout the entire lifetime of the fund and not just at the end; predetermining and registering social metrics; improving and standardizing social metric measurement; linking a high enough threshold of GP compensation to social performance; and also connecting startup leader compensation to achievement of social performance metrics.

First, by measuring social performance only at the end of the fund, VCs are not tracked and measured during the rest of the fund—for ten years or more. In addition, they may not adequately predetermine the social metrics to be used. For example, the same impact VC indicated that he did not know how his firm was performing on its social metrics because it was too early in the fund to determine and the social metrics were not clearly delineated at the outset.[247] He noted that "you typically don't know until the end or near the end of the fund" how the portfolio will perform and whether it will meet its social goals.[248] This delayed assessment does not allow for real-time understanding of social performance—unlike financial performance, which VCs track throughout the life of the fund using predetermined metrics. Measuring social performance at periodic intervals during the fund, creating clear metrics, and ensuring independent verification are critical to success. Doing so will also help place social performance on par with financial performance at the fund.

This experience also underscores both the challenge and the importance of improving and standardizing social metrics.[249] For example, despite Pantry Mate's efforts to measure its social performance and its commitment to tracking and understanding firm social performance,[250] it also has not yet managed to create standardized, consistent metrics to track firm social goals and compare

247. *Id.* In answering the question of whether the firm pre-lodges its social metrics and has to stick to them, and whether they had ever failed to meet their social goals, the VC commented that "the problem is it's too early to say because these take a long time to play out and we're still in the early stages. Our fund is still very, very young from an average age. So yeah, I can't answer that question today. We just don't know yet." *Id.*

248. *Id.*

249. Although progress is being made on developing meaningful and reliable social metrics, this measurement still remains largely ad hoc and lacks standardization in practice. It does not yet compare to the standardized and sophisticated financial metrics in use, such as stock price and EBITDA, that firms use to measure financial performance. Making progress in this area will be important to the success of startups with social goals and their VCs. *See* BARBY ET AL., *supra* note 118, at 1; *see also* ALNOOR EBRAHIM, MEASURING SOCIAL CHANGE 5–6 (2019) (proposing four frameworks for performance management in the social sector that offer a degree of standardization but can also be tailored to the particular circumstances of individual firms).

250. Yen & Aguirre, *supra* note 17673, at 18–20.

against a benchmark. As a result, it is unclear how the impact VCs will determine at the end of the fund whether this firm has met its social goals and the standard against which they will compare. Although measuring social performance is qualitatively different than measuring financial performance, VCs should work to improve the quality of their social metrics to be on par with their financial metrics, enabling better assessment and incentivization of firm social performance relative to financial performance.[251] Because impact VCs work with a range of startups on a repeat basis, they should work to create standardized metrics that can be tailored but also compared across firms.

A few other factors are also critical to successfully link VC compensation with achieving social metrics. The minimum threshold of VC compensation affected must be significant enough to meaningfully impact VC behavior, but not so significant that it distorts behavior.[252] If a VC implements a charitable donation backstop, the amount to be donated if the fund does not meet its social goals must be significant enough to incentivize GP behavior, and there must also be an enforcement mechanism to ensure the charitable donation occurs if the VC does not meet its social goals. In addition, if the fund receives any favorable tax status from the donation, it is not clear the donation would serve its intended incentivizing purpose, which must be addressed. It should also be further studied whether implementing a charitable donation backstop creates a moral licensing effect that enables impact VCs to neglect portfolio social performance.

3. Linking Startup Corporate Governance to Social Performance Outcomes

Finally, the new investment model should also consider adapting startup corporate governance. For example, it could link startup leader compensation to social performance metrics. This adjusted compensation should extend beyond the CEO to include the entire executive team. Firms may also benefit from including social performance metrics for employees so that the entire firm is aligned on the importance of these goals. Firms could parallel the approach used for VCs, linking compensation to periodic assessment of firm social performance. VCs should also consider adopting alternative board structures in their portfolio firms, including requiring socially oriented board members at startups with social goals. Research in management has shown the critical importance of such structures.[253] These board members could

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251. When implementing social metrics, it is important for firms to do so with attention to avoiding unintended consequences that can arise and relate to ambiguities in measurement. *See id.* at 31–44.

252. *See* BEBCHUK & FRIED, *supra* note 237, at ix; Bebchuk & Fried, *supra* note 237, at 72.

253. *See generally* Pache et al., *supra* note 103 (showing how a protective board structure can help retain both social and financial goals); Smith & Besharov, *supra* note 103 (showing the importance of implementing guardrails, including formal structural guardrails like boards, to protect simultaneous pursuit of social and financial goals); Julie Battilana, *Cracking the Organizational Challenge of Pursuing Joint Social and Financial Goals: Social Enterprise as a Laboratory to Understand Hybrid Organizing*, 21 M@N@GEMENT 1278, 1292 (2018) ("Organizational members are those who undertake activities on behalf of the organization; they include employees,

serve alongside the standard board of directors and would be responsible for championing the firm's social objectives. To be successful, such board members would need to be meaningfully empowered and not just nominal representatives.

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A new VC investment model admittedly also generates several potential drawbacks that are important to consider. For example, it is possible that a new model that better prioritizes social performance may risk sacrificing some financial returns from exit, especially in the short term. Although such an outcome may be net positive for society, it may admittedly be less appealing to VCs who take risk investing in startups, who seek to maximize their financial returns, or who falsely believe there are no trade-offs between social and financial performance. At the same time, for investors who are genuinely socially conscious, including impact investors, a trade-off that better ensures meaningful social performance may be extremely attractive, even if it compromises some financial return. At the same time, helping firms retain social performance may also *improve* financial performance at some firms, given that the relationship between social and financial performance is complex and often positively correlated.

Moreover, developing a new investment model better tailored to startups with social goals may also open up additional sources of socially conscious capital beyond current VCs and their LPs. Such an approach may attract, for example, foundations, family funds, and mission-driven finance organizations into the space. Organizations such as foundations that are legally required to demonstrate socially conscious investment[254] may not currently invest in startups because of the lack of accountability around social performance. Better retention and verification of social performance could broaden the pool of wealthy individuals, family offices, foundations, and other socially conscious investors seeking to deploy their capital in such firms.[255]

managers, and board members. In pursuing joint social and financial goals, hybrids need to mobilize individuals who can work at the intersection of both worlds—to understand the opportunities and challenges, speak the languages and embrace the values from the vantage points of the social and business sectors."); *id.* at 1295 ("Research suggests that the founders, the leadership teams and the boards of social enterprises can help address such governance challenges." (citing Ebrahim et al., *supra* note 23)); Ebrahim et al., *supra* note 23, at 95 ("The profiles of managers and board members, as well as the ways in which they are socialized when they join the organization, are critical components of the organizational governance of social enterprises and hybrid organizations in general.").

254. PRI MAKERS NETWORK, FREQUENTLY ASKED QUESTIONS ABOUT PROGRAM-RELATED INVESTMENTS, https://www.cdfifund.gov/sites/cdfi/files/documents/(19)-faqs-about-program-related-investments.pdf [https://perma.cc/R4P8-CV9Q].

255. Such a model could also provide startups with a sizeable tax advantage over accepting highly taxable grants. Determining a way to turn these grants into equity investments could be extremely attractive to a range of startups with social goals. In addition, where these new sources of capital provide convertible debt rather than equity, they may even provide an even more tax-friendly option for the startup with social goals. *9.4 Tax Accounting—Convertible Debt (After Adoption of ASU 2020-06)*, PWC VIEWPOINT (Sept. 30, 2023), https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/income_taxes/income_taxes__16_US/chapter_9_income_tax_US/94_convertible_debt_US.html [https://perma.cc/8ZFH-8WFP]; ALAN PALMITER, FRANK PARTNOY & ELIZABETH POLLMAN, BUSINESS ORGANIZATIONS: A CONTEMPORARY APPROACH 306–07 (3d ed. 2019).

In addition, these proposals may more effectively imprint firm social performance for the long term, even beyond the startup stage. Scholarship in management has shown how it is easier and more effective to imprint behaviors such as social performance into a company at its inception.[256] If the VC model presents structural barriers to success, it jettisons social performance at precisely the point in the business life cycle when it would be most impactful to retain it. Large companies face mounting pressures to implement social performance measures—pressures that continue to grow as Gen Z and millennials come of age.[257] Firms therefore face the whiplash of eliminating or weakening meaningful social performance at their early stages when they are easiest and most impactful to embed in the organization, only to face the much more difficult prospect of integrating social goals later, once the company is larger, more established, and more challenging to imprint. These proposals can therefore help reduce greenwashing and flimsy public relations exercises later in the business by supporting early and meaningful imprinting of social performance.[258]

Investors that are serious about generating social performance must rethink their underlying investment models to better achieve these goals. A reformulated model could help alleviate the theorized problems and strengthen the markets for socially conscious investment and firms with social goals more broadly. Indeed, VC funds that can successfully reorient their investment model to incorporate both social and financial returns on investment stand to create a lucrative new market for socially conscious LPs. Developing these new models is an important subject for ongoing work, and these proposals take an important first step toward better supporting social performance.

B. Regulating Impact Investors

In addition to the above proposed solutions, regulating impact investment may create greater investor accountability in this space. Although this solution is likely insufficient on its own to address the theorized problems, it is important to consider whether impact investors—who represent themselves as achieving both social and financial performance—should be held legally accountable to demonstrating meaningful commitments to social performance and not just financial performance. At present, impact investors are not subject to special regulatory oversight.[259] Any investors can represent themselves as impact investors, irrespective of whether they achieve demonstrated social impact or even implement processes to assess ongoing firm social performance. Indeed, many impact investors do not provide meaningful evidence or assessment of

256. *See* Stinchombe, *supra* note 112, at 142–93; Victoria Johnson, *What Is Organizational Imprinting? Cultural Entrepreneurship in the Founding of the Paris Opera*, 113 AM. J. SOCIO. 97, 97–98 (2007); PitchBook, *ESG in VC: Moving Beyond Talk to Action*, YOUTUBE, at 20:20–1:03:12 (Sept. 1, 2022), https://www.youtube.com/watch?v=o9fVM_BlwEM [https://perma.cc/4PFS-NLL7] (recording of "Panel 1: Demystifying ESG").

257. *See* Rachel Brewster, *Enabling ESG Accountability: Focusing on the Corporate Enterprise*, 2022 WIS. L. REV. 1367, 1371–72.

258. Barzuza et al., *The Millennial Corporation*, *supra* note 19, at 262, 275.

259. *See, e.g.*, Ibrahim, *supra* note 30, at 233–34; 17 C.F.R. § 275 (2025).

social impact. This gap between representation and outcome presents serious concerns about consumer and investor deception.

Proposed regulation could include changing impact investor fiduciary duties to encompass both social and financial performance. This expanded fiduciary duty would require impact investors to account for both social and financial performance in their portfolio management, rather than just financial performance. Recall that VCs generally take board seats in their portfolio startups and have fiduciary duties to the firm in addition to their LPs.[260] At present, these fiduciary duties impose a "standard of conduct for directors [that] requires that they strive in good faith and on an informed basis to maximize the value of the corporation for the benefit of its residual claimants."[261] VCs have similar fiduciary duties to their LPs who invest in their funds. Yet impact investors promise their LPs and their entrepreneurs not just financial returns but also social returns.

Impact VC fiduciary duties should reflect these promises. An expanded fiduciary duty would instead require impact VCs to balance the financial interests of their LPs with the social and financial goals stated in their portfolio firms' certificates of incorporation.[262] This requirement is precedented in corporate law and would parallel the legal requirement for benefit corporations, whose directors and managers have an expanded fiduciary duty to balance the financial interests of stockholders, the firm's stated public benefits, *and* the best interests of those the firm materially impacts.[263]

Regulating impact investors could also include codifying some of the above proposals around investor and startup leader compensation. For example, impact investors could be legally required to link a meaningful proportion of VC and startup executive compensation to firm and portfolio social performance. Regulation could also mandate VC and startup corporate governance structures to better account for social performance. For example, it could require portfolio startups to have social impact representation on their boards of directors, to incorporate as benefit corporations, and to memorialize firm social goals in their charters or articles of incorporation. They could also require third-party verification of ongoing portfolio firm social performance, including for example through B Corp Certification or

260. *See supra* Part I.

261. *In re* Trados, Inc. S'holder Litig., 73 A.3d 17, 40–41 (Del. Ch. 2013). The court goes on to say that the common shareholders are "the ultimate beneficiaries of the firm's value," not its preferred shareholders. *Id.* at 62. It disapproved the directors who "did not understand their job was to maximize the value of the corporation for the benefit of the common shareholders." *Id.*

262. Startups with social goals should state firm social performance goals in their certificates of incorporation, if not at the time of incorporation, then certainly by the time of VC investment.

263. Take, for instance, Delaware public benefit corporations:

> The board of directors shall manage or direct the business and affairs of the public benefit corporation in a manner that balances the pecuniary interests of the stockholders, the best interests of those materially affected by the corporation's conduct, and the specific public benefit or public benefits identified in its certificate of incorporation.

DEL. CODE ANN. tit. 8, § 365(a) (West 2020). Benefit corporations are known as public benefit corporations ("PBCs") in some jurisdictions, such as Delaware. *See id.*

other industry-leading certifications or third-party standards that relate to a fund's or startup's social goals. Impact investors themselves could also be subject to third-party verification of their overall startup portfolio social performance or have required social impact representatives in the fund.

Adjusting impact investor fiduciary duties, executive compensation, and fund and startup corporate governance structures would help create a more powerful framework for impact investor accountability and success. This proposed framework would also help provide guidance and guardrails to impact investors genuinely seeking to achieve firm social performance and provide accountability for impact investors who currently seek to take advantage of identifying as impact investors. It would also help ensure more accurate and standardized representation to LPs, startup founders and managers, and the general consuming public. These solutions could help better align VCs and common shareholders in their shared aims to maximize firm performance across both social and financial dimensions, while also helping ensure more accurate investor representations.

Together, these proposals for improving VC investment models, corporate governance frameworks, and impact investment schemes can help better promote social performance in startup firms and more broadly. These proposals begin to address the problems uncovered in the current VC model to better serve the rising number of socially conscious firms and their investors.[264]

CONCLUSION

Scholars have pointed out that companies will not make meaningful change on prosocial behaviors as long as institutional incentives remain as they are.[265] They have noted that at present, corporate actions are so tightly constrained by pressures to achieve competitive returns that social performance becomes a public relations exercise rather than meaningfully impacting a company's operations.[266] Typically, this analysis is limited to the paradigmatic large, multinational company.[267]

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264. The current shortcomings in VC may even warrant reconsideration more generally and not just for startups with social goals, as up to ninety-five percent of VC funds fail to provide a 3x return for their LPs. Improving VC in general remains a subject for future work. *See generally* Aguirre & Burstein, *supra* note 139 (explaining broader problems with the current VC model and proposing solutions for change).

265. *See* Brewster, *supra* note 257, at 1370; Jonathan R. Macey, *ESG Investing: Why Here? Why Now?*, 19 BERKELEY BUS. L.J. 258, 263–64, 282 (2022).

266. *See* Brewster, *supra* note 257, at 1373 ("If corporate actions are still tightly constrained by pressures to achieve competitive returns, then executives are likely to announce ESG pledges aimed at public relations but that do not fundamentally change the corporation's operations."); Macey, *supra* note 265, at 285–90 ("[T]he problem is that ESG allows managers and directors to serve nobody but themselves . . . .").

267. *See* Brewster, *supra* note 257, at 1368–69 (providing paradigmatic examples of two global companies); Macey, *supra* note 265, at 262 (referencing the top one hundred companies in the Americas, Europe, and Asia, and top 250 companies globally); Bebchuk & Tallarita, *supra* note 106, at 98 (arguing that the Business Roundtable Statement on stakeholderism (and corporate supporters of stakeholderism more generally) are "largely a rhetorical public relations move rather than the harbinger of meaningful change").

This Article uncovers how firm dynamics around social performance may originate much earlier, in the startup context. Using unique qualitative field research methods, it gives unprecedented insight into a highly shrouded yet important set of firms: startups and their VC investors. Drawing from over five years of qualitative field research, the Article finds that after receiving VC funding, startups shift organizational focus away from maximizing firm social and financial value to align with investor objectives that prioritize rapid growth and exit. Even where startup leaders remain demonstrably committed to achieving social performance and their VCs do not oppose—and may even support—firm social goals, the attentional shift toward growth and exit ultimately displaces other organizational objectives, undermining the pursuit and achievement of social performance. As a result, I theorize that the way a company finances its operations in its early stages can have an outsized impact on the retention or loss of social performance over time, with VC financing implicitly crowding out firm social performance due its time-constrained exit orientation. This VC structure creates pressures that are at odds with—and supplant or weaken—firm social goals. Importantly, the Article uncovers how these dynamics occur even when VCs present themselves as impact investors committed to the pursuit of social performance in business. It finds that impact VCs often follow the traditional VC investing model and make faulty assumptions about social performance, which creates similar barriers to social performance as observed with traditional VCs.

These outcomes do not occur because social performance is simply incompatible with for-profit business or with operating at a large scale, or because startup founders and VCs are simply not committed enough to achieving social performance. Rather, they occur because the predominant and most prestigious financing method—venture capital—structurally impedes social performance. As a result, successfully pursuing social goals in startups—and in business more broadly—will require a paradigm shift in the investment models, management, and legal and regulatory frameworks governing these firms. The Article proposes new VC investment models, improved corporate governance mechanisms, and regulation of impact investment to better address barriers to retaining firm social performance while also maintaining a robust market for early-stage firm investment.

More broadly, these findings and proposed solutions raise meaningful questions about the role of entrepreneurship in society and the goals it does and should seek to achieve. They question whether the focus on growth and drive to exit in the current system adequately achieve efficiency, promote innovation, and serve societal goals. They urge reexamining what it means to succeed as an entrepreneur and investor and whether generating monumental profit for the few should remain the highest goal, while producing sustainable growth and modest profits are considered "failing slowly."[268] They raise questions about how best to devise a system of corporate law and finance to generate valuable innovation alongside meaningful employment opportunities, equitable economic growth, and environmental sustainability.

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268. Lemley & McCreary, *supra* note 46, at 77.

They encourage reconsideration of the corporate law and finance frameworks that can help optimize not just for profit, but also for social impact. This analysis interrogates assumptions about the very nature of shareholder investment, while also suggesting that we can develop entrepreneurial, growth-oriented businesses that successfully commit to achieving social good under the right circumstances.