

Master's Thesis

-Summary-

Success Factors and Impact Measurement of Social Entrepreneurship – An Empirical Analysis

University: TU München & HEC Paris

Student: Tonio Rost

Contact details: tonio.rost@hec.edu

Munich, September 26, 2014

T. Rost

0. Abstract

This paper aims to identify success factors of social entrepreneurship and to derive implications for impact measurement. It builds on the existing literature on commercial and social entrepreneurship in order to develop and operationalize a framework to measure success of social entrepreneurship. Five hypotheses were derived from the literature review and were then tested using a dataset of 76 social entrepreneurs. The study has empirically validated the dominance of content goals for social entrepreneurs. Moreover, four regression models revealed that “full-time employment”, “venture experience”, “performance-related sources of income” and “team-size” were statistically significant success factors of social entrepreneurship. These findings shed light on the value creation processes of social ventures and suggest a twofold conclusion: First, social entrepreneurship, at least partially, demonstrates similar success factors as commercial entrepreneurship. Second, more simplified and standardized methods to measure performance of social ventures are necessary to accelerate growth for social entrepreneurship.

1. Introduction

Social entrepreneurship¹ has been on the rise in recent decades and the number of social entrepreneur networks in the world show constant progress. In the 1980s, with Ashoka the first network started to appear and in 2012 already 63 social entrepreneur networks at the global level have been identified (Convergences, 2015). There is an increasing interest in social entrepreneurs, typically referred to as entrepreneurs who catalyze social transformation and their social ventures, which try to deliver solutions for societal problems, mainly in the following industries²: Poverty, environment, healthcare, education, civic engagement and economic development. Social entrepreneurs arguably place higher value on the creation of social than on economic value (Dorado, 2006; Schuler & Cording, 2006). Likewise, social ventures are organizations with an embedded social purpose (Christie & Honig, 2006; Peredo & Chrisman, 2006; Peredo & McLean, 2006), which are not limited to a particular

¹ Social entrepreneurship is treated in this paper as a collective term which comprises the social entrepreneur and the social venture.

² Social entrepreneurs often refer to the terms areas or sectors. We use the term industries throughout in this paper in order to emphasize comparability with commercial entrepreneurship literature.

judicial or organizational form (Birch & Whittam, 2008; Chell, 2007; Mair & Marti, 2006).

Based on an investigation of Ashoka, the largest global network of social entrepreneurs, the three biggest barriers for the growth of social entrepreneurship are limited forms of initial financing, a lack of targeted follow-up financing for social ventures and limited transparency for the allocation of public-financing (Höll & Oldenburg, 2011). Central elements for these financial hurdles are the different notions of success for social ventures. There is a consensus among practitioners that delivering social impact is the primary reason why social entrepreneurs exist, but there is no consensus about the meaning of success for a social entrepreneur and his social venture, neither internally nor externally for involved stakeholders (e.g. potential investors). In addition, there is a strong need for methods with which to measure the performance of social entrepreneurship, both *ex ante* (i.e. probability of success) and *ex post* (i.e. control of success).

Scholars have stressed the importance of specifying and clarifying organizational goals for ventures as prerequisites in order to operate successfully (Berson & Avolio, 2004; Roth & Ricks, 1994). Dacin, Dacin and Matear (2010) claim that the topic: “What is the appropriate measure or metric of social entrepreneurial success?” is one of the highest-rated research topics in the field of social entrepreneurship based on a content-analytic approach among 327 identified topics for future research, which has not been addressed until now (Gras, Mosakowski & Lumpkin, 2011).

In general, social entrepreneurship has grown as an academic field as shown by articles in top-tier journals on social venture franchising (Tracey & Jarvis, 2007), social entrepreneurship partnerships (Seelos & Mair, 2007), community-based enterprises (Peredo & Chrisman, 2006), social entrepreneur’s ethical concerns (Zahra et al., 2009), and commercial³ versus social entrepreneurship (Austin, Stevenson & Wei-Skillern, 2006; Vega & Kidwell, 2007). However, most research on social entrepreneurship has been case-based studies (Alvord, Brown & Letts, 2004; Boschee, 2001; Emerson & Twersky, 1996; Thompson, 2002; Weerawardena & Mort, 2006). That is, most of the papers to date utilize case studies as a means to explore the phenomenon of social entrepreneurship (Mair & Martí, 2006; Short, Moss & Lumpkin, 2009) and assertions about social entrepreneurship are mostly

³ Commercial entrepreneurship refers to traditional entrepreneurship (i.e. business start-up).

based on selected anecdotal examples. The lack of empirical studies places limits on our understanding of important prerequisites and outcomes of social entrepreneurship. Thus, this research provides quantitative empirical results and conclusions that can serve as a basis for further empirical work on the systematic definition and application of criteria for success.

This study seeks to contribute to the existing literature by quantitatively investigating success factors of social entrepreneurship, primarily from the perspective of social entrepreneurs. In addition to the organizational dimensions, personal characteristics of social entrepreneurs are considered. Due to the lack of numerous empirical research in this field, we draw on concepts of commercial entrepreneurial research in order to develop and to operationalize theoretical constructs of social entrepreneurship, placing considerable emphasis on identifying the conditions unique to the area of social venturing. In order to do so, as well as to gain a broader perspective we consolidate selection criteria of social venture capitalists (SVCs) as a bridge between the social and commercial entrepreneurship literature. Subsequently, implications for impact measurement and reporting are derived, since controlling, performance measurement⁴ and reporting play a huge role regarding the evaluation of social ventures by stakeholders. Furthermore, we emphasize more on success factors than on impact measurement in this paper, since firstly the literature on KPIs (Key performance indicators) and social performance measurement systems (SPMS) for social ventures is highly fragmented and diverse and secondly, the implementation of KPIs and reporting methodologies in social ventures is still in its infancy. The present study can help social entrepreneurs and associated stakeholders gain a better understanding of the underlying value creation mechanisms in social entrepreneurship and may reduce the transparency gap between social entrepreneurs and its investors⁵.

The underlying research question, therefore, is: What are success factors for social entrepreneurship and what implications can be derived regarding the impact measurement of social ventures?

⁴ The terms performance measurement and impact measurement are used interchangeably in this study, since impact measurement is widely used among social entrepreneurship literature and is the equivalent to performance measurement of social ventures.

⁵ For simplification, the term investor will be used synonymous for all external resource providers associated with funding for social ventures (i.e. funders, SVC's, venture philanthropy, etc.).

2. Summary

The goal of this study was to identify success factors of social entrepreneurship and to derive implications for impact measurement. Therefore, we differentiate between success factors for social entrepreneurs and success factors for social ventures.

Regarding personality traits, our analysis reveals that social entrepreneurs consider content goals to be more important than formal goals and that this dominance of content goals has ambiguous effects on the success of social ventures. The following success factors have been identified: (1) Social and commercial venture experience and (2) full-time employment. In addition, we showed that in contradiction to commercial ventures, the personal attributes of “education”, “family role models” and “industry know-how” do not have a significant positive impact on the survival of social ventures. Regarding the organizational level, the identified success factors of social ventures are (1) team-size and (2) performance-oriented sources of income. According to our study, the implementation of impact reporting does not generate meaningful positive effects on a social venture’s performance.

3. Theoretical and Practical Implications

In the first part of this subchapter theoretical implications are derived, and in the second part, practical implications are discussed. This work adds knowledge to the three streams of literature on the definition of social entrepreneurship, success factors of social entrepreneurship and impact measurement and reporting. Special emphasis is put on the latter, in order to fully answer to the second part of the research question: “What implications can be derived regarding the impact reporting of social ventures?”

The analysis expands literature on the definition, boundaries and characteristics of social entrepreneurship by operationalizing the content goal dimension and by showing the dominating content goal proclivity of social entrepreneurs empirically. Although this relation between formal and content targets is widely accepted among researchers, the empirical investigations of it are very limited as of today. Alongside already conducted research on the similarities and differences between social and commercial entrepreneurship activities, this study enhances knowledge on the personal characteristics of social entrepreneurs. The findings in this study make it reasonable to assume that the entrepreneurial process in terms of opportunity

recognition, entrepreneurial intent and risk attitude are very similar between social and commercial entrepreneurs and therefore enlarge the work of Mair and Noboa (2006), Meyskens et al. (2010) and Robinson (2006). Thus, social and commercial entrepreneurs should not be viewed as two completely different types of entrepreneurs as they actually share some key commonalities.

As a result, research concerning success factors is enlarged as well. So far, there are limited quantitative results regarding success factors of social entrepreneurship, since a general definition of success for social ventures does not exist. This paper addresses this research gap by drawing on literature of commercial entrepreneurship and by operationalizing the theoretical success framework of Sharir and Lerner (2006) in order to conduct a quantitative analysis.

Additionally, this study adds value to the literature on impact measurement and reporting as it is of high importance for the literature on social performance measurement to enlarge empirical research. Considering that most investors in the social entrepreneurial scene have a commercial managerial background, they often have only partial expertise of newly developed social performance measurement tools of social entrepreneurs. This finding and the fact that social entrepreneurs in general only have access to limited human resources lead to the need for more simplified and generic methods to measure impact and success of social ventures. One way to achieve this, is to derive industry specific KPIs, which would reflect the complexity induced by the difficult attribution of societal impacts to a specific action of a social venture and the interdependencies of different operations of social ventures (Bell-Rose, 2004; Kramer, 2005; Wei-Skillern et al., 2007). In addition, a higher degree of standardization of performance measurement methodologies would allow meaningful comparisons among social ventures, reduce the transparency gap and complexity between social entrepreneurs and their financial stakeholders (Kanter & Summers, 1987). Therefore, the mutual understanding would be supported, which may be seen as one key element in order to overcome the financial hurdles for social entrepreneurship addressed in the introduction.

Commercial as well as social entrepreneurs share similar patterns with regards to the process of seeking opportunities and in their attitudes towards risk. A comparison of the identified success factors for social entrepreneurship with the presented success factors of commercial entrepreneurship implies that certain success factors of

commercial entrepreneurship are also valid for social entrepreneurship. These findings make it reasonable to derive that more managerial approaches regarding impact measurement and reporting should be applied in social entrepreneurship. In this respect, the results show that social ventures should not only focus on the new development of social entrepreneurial tools and frameworks regarding impact measurement and reporting, but also use prevalent methods of commercial entrepreneurship.

Obviously, the results of this study provide several insights for practice, especially for social entrepreneurs. The results show that personal as well as organizational characteristics determine success of social entrepreneurship, as these are both important dimensions to achieve the social venture's targets. A full dedication of a social entrepreneur to the social venture, venture experience, performance-related income and team-size reveal positive effects on success of social ventures. Thus, these findings are highly relevant for the team composition of social ventures and its strategy in terms of financing. Furthermore, based on the theoretical implications discussed above, social entrepreneurs might seek to more widely employ similar processes as do commercial ventures to operate successfully. As a result of this study's findings, social entrepreneurs could successfully attempt to employ more methods common to commercial ventures in recognizing funding and managing resources (Meyskens et al., 2010). Moreover, this study is not only insightful for social entrepreneurs but also for associated stakeholders, namely investors of social ventures. The named findings show that there are only limited general recommendations concerning a venture's overall performance. It is rather important to gain information on the personal and organizational target weighting in order to assess the impact of certain success factors. However, stakeholders may use this framework, firstly in order to assess the personal and organizational target weighting and secondly in order to evaluate if the identified success factors were incorporated.

Appendix: Summary of Success Regression Models

This section summarizes the factors influencing the achievement of content targets and formal targets as a result of the four regression models.

Table 1: Summary of Success Regression Models

Dimension	Variable	Content targets	Formal targets
Social entrepreneur	Content target ¹	+	-
	Full time business	+	+
	Venture experience ²	+	(+)
Social venture	Team-size	+	+
	Performance income	(+)	+
	Impact reporting	-/+ ³	(+)

Note: +: positive effect; -: negative effect; (): p>0.05;

1: Aggregates the dimensions “success capabilities”, “outcome measures” & “target system”;

2: Comprises social and commercial venture experience;

3: Ambiguous results [Team-size: -, Social TA: (-), TA IVC: (+)].

On the personal level, the following results can be summarized: We estimate a significant positive effect of the aggregated variable content target on the achievement of content targets and a significant negative effect on formal targets. Furthermore, full-time employment has a positive and significant effect on the achievement of both target dimensions. Social as well as commercial venture experience has a significant and positive effect on the achievement of content targets and a positive effect on the achievement of formal targets. Regarding the organizational level, team-size has a significant positive effect on both target dimensions. Performance-oriented sources of income reveal a positive effect on content targets and a significant positive effect on formal targets. Impact reporting shows ambiguous results in the estimated regression models.