EXTENDED ABSTRACT

Paper Title: Social Entrepreneurship in the United States: Founding Characteristics, Market Participation, and Financial Performance

Aim of the Paper

Despite the recent theoretical advancement and practical attention in social enterprises, the literature in entrepreneurship lacks a solid empirical basis to support the uniqueness of this important phenomenon. This study responds to this challenge by proposing an integrated empirical model to address social entrepreneurs' founding characteristics, product/service market offerings, and their outcomes that may be differentiated from those of commercial new ventures. Using the Data Enclave (DE) version of Kauffman Firm Survey (KFS) longitudinal dataset with 4,928 new ventures in the United States over the period of 2004-2010, it aims to answer the following questions on social entrepreneurship: (1) How do new social enterprises emerge? What are the unique characteristics of social entrepreneurs and social enterprises?; (2) What product/service markets do they choose to participate in? How does social entrepreneurship interact with commercial entrepreneurship within the economic system? Are there any specific industrial sectors/market segments that are dominated by social enterprises?; and (3) Do new social enterprises perform better than commercial new ventures? How sustainable is their performance over time in market competition?

Background Literature and Research Framework

Social enterprises are market-driven fiduciary companies that aim to satisfy societal needs. Traditionally, the production and sale of social products/services have been undertaken by

two competing forces, i.e., (1) the functioning of public sectors that are supported by central/local governments or government agencies and (2) the participation of private sectors in the public domain with non-profit motivations. Both forces have often been unsuccessful in satisfying the expectation of our society: the recent eruption of a public failure to address heterogeneous demand for social goods/services has accelerated the private response to the failure in the form of third-sector organizations (Weisbrod, 1977, 1988); however, private enterprises providing such mixed goods have not been free from the problem of asymmetric information between providers and consumers about the quality of their social products/services, which are sometimes offered to customers at unaffordable prices (Bacchiega & Borzaga, 2001). Interestingly, a few studies in the previous literature highlighted the role of prospective entrepreneurs in shaping the objectives (other than just profit maximization) of third-sector organizations during their entrepreneurial founding process (e.g. Young, 1983, 1997). However, the traditional entrepreneurship literature has been biased toward the successful creation and commercial performance of corporate and/or independent new ventures that are subject to initial resource constraints (Cooper & Folta, 2000) and double liabilities of smallness and newness (Mudambi & Zahra, 2007) from their inception.

Recognizing these limitations, recent approach to social entrepreneurship emphasizes the role of individual-level and organizational-level social capital and posits social entrepreneurship as a source of social capital with strong positive externalities (e.g., Estrin, Mickiewicz, & Stephan, 2013). Social capital is typically referred to as the ability to access resources through social relationships (e.g., Payne, Moore, Griffis, & Autry, 2011). Among different types of social capital, bridging/weak-tie social capital enables contact and collaboration among members of diverse and previously unconnected groups (Mair, Marti, & Ventresca, 2012). This form is

particularly applicable to social entrepreneurship since the presence of far-reaching ties lowers transaction costs in satisfying social needs by facilitating access to new and more valuable information, opportunities, and other resources (Kwon & Arenius, 2010). The actions of social entrepreneurs and the enterprises they that establish can also enhance mobility and mitigate social exclusion, build cooperative norms and collaborative relationships with various stakeholders, and provide positive signals about caring for others and examples of cooperation through working to support societal objectives and group needs (Stephan & Uhlaner, 2010).

Given the social capital aspects of social entrepreneurship, it is of theoretical and policy interest to identify new forms of social enterprises. One of the emerging organizational options is a new form of entrepreneurial organization which combines the social purpose traditionally associated with the non-profit sector, and the market-based approach traditionally associated with for-profit firms – which is called for-profit social enterprises or social businesses (Wilson & Post, 2013). In these market-based organizations, social value is not merely a byproduct of entrepreneurial activity, but an intended primary outcome. The challenges in creating and operating new social businesses stem from the inescapable economic forces in a market system without their own sanctuary. From inception, social businesses need to combine characteristics of both for-profit and non-profit activities within the same enterprises (Dees & Anderson, 2003) which are traditionally held as contradictory. Despite the emerging practice of social business, the phenomenon has been understudied in the academic literature, and the field of entrepreneurship and strategy, with its inherent profit-maximizing assumptions, does not have theories or empirical evidence which adequately help us understand emerging forms of social enterprise. Thus, we observe a gap in the knowledge of new organizational forms and social

needs addressed by new ventures, i.e., social entrepreneurship, and investigate the following research questions in this study based on the conceptual framework captured in FIGURE 1.

(1) What product/services markets do new social enterprises choose to participate in? Do new social enterprises offer unique products/services in the market that are systematically different from those provided by commercial new ventures? Which industrial sectors/market segments are best served by social enterprises? Are there any specific product/service markets where new social enterprises and commercial new ventures compete directly?

(2) Do founders of new social enterprises possess systematically different individual-level characteristics from those of commercial new ventures (e.g., academic and professional experiences)? Do new social enterprises exhibit systematically different firm-level characteristics from those of commercial new ventures (e.g., funding sources and wage differentials)? Do new social enterprises operate in the regions that are endowed with systematically different geographic characteristics from those where commercial new ventures do? How do these founding characteristics of new social enterprises affect their subsequent corporate governance and organizational process?

(3) What factors enable the social products/services provided by new social enterprises to be sustainable in the market? Under which conditions do new social enterprises achieve equal or better outcomes than commercial new ventures in terms of firm survival, revenue, growth, and other financial performance?

Methodology

Bacchiega and Borzaga (2001) suggest three criteria for identifying social enterprises differentiated from private/commercial enterprises: (1) broader and forceful representation of diverse interests resulting in collective governance; (2) provision of social services in such areas as health, culture, leisure, and/or welfare; and (3) contribution to local community in terms of promoting social responsibility. While conceptually relevant, these conditions are too restrictive in empirical applications and may exclude new market-based forms of social entrepreneurship such as social businesses. Instead, we follow the social capital approach to social entrepreneurship and identify new social enterprises from the U.S. new ventures surveyed by Kauffman Foundation in 2004-2010. The Kauffman Firm Survey (KFS) is the world's largest longitudinal study of new businesses ever embarked upon and provides a longitudinal dataset of 4,928 new ventures initially from a random sample of 32,469 businesses in the United States. The KFS longitudinal data is organized in major sections that provide information about business characteristics, strategy and innovation, organization and human resource, finances, work behavior, and ownership and demographics of up to ten active-owner-operators.

From the KFS sample, we identify 232 new social enterprises as satisfying the bridging/weak-tie condition that new ventures have received any business training, mentoring, and/or technical assistance sponsored by a non-profit organization for small businesses in the KFS data. With 4,696 commercial new venture and 232 new social enterprises, we investigate founding characteristics of new social enterprises (which may be different from those of commercial new ventures) resulting in the provision of unique product/service offerings to their customers in the market.

For this purpose, we first measure the characteristics of new social enterprises at three different levels: (1) individual characteristics such as owners' prior work experience and

educational level; (2) firm-level characteristics such as financial structure, number of employees, and employees' wage level; and (3) regional characteristics such as clustering versus non-clustering locations in terms of proximity to customers. Observed systematic differences between new social enterprises and commercial new ventures explained by these founding characteristics would suggest the antecedents of social enterprise and its practices concerning the research question of this study – i.e., how do new social enterprises emerge and what are the unique characteristics of social entrepreneurs and the enterprises they create? In the second stage estimation, we compare the sectoral distributions and product/service offerings of new social enterprises and commercial new ventures to investigate what markets new social enterprises choose to participate in. The empirical analysis in the second stage would determine if there are industrial sectors/market segments that are dominated by social enterprises and if there are any specific product/service markets where new social enterprises and commercial new ventures compete directly. In addition, we estimate the performance effects of the multi-level characteristics on the outcomes of new social enterprises' unique product/service offerings in the market, such as firm survival, revenue, growth, and other financial performance (e.g. RoS, RoA, RoE), compared to those of commercial new ventures, using sophisticated econometric techniques such as LRM/PRM, FGLS, SUR, and/or 2SLS/3SLS. These cross-sectional and longitudinal analyses would reveal whether new social enterprises perform equal to or better than commercial new ventures in the chosen markets, how sustainable their performance is over time, and what factors contribute to the performance and sustainability of social products/services provided by new social enterprises in the market.

Results and Implications

Preliminary analyses suggest that new social enterprises do exhibit sectoral representations differentiated from commercial new ventures in the United States. In addition, these social enterprises possess unique characteristics at multiple levels in terms of owners' educational level, funding sources for equity investment, degree of on-line transactions, and other firm characteristics, and their customer locations. We expect that these founding characteristics of new social enterprises will be translated into their various outcomes in the market in terms of their survival, revenue, growth, and financial performance. As a result, our study sheds light on how multi-level founding characteristics, governance choices (i.e., new social enterprises vs. commercial new ventures), product/service offerings and the performance of these social enterprises are inter-linked together in the market, and offers a deeper understanding of this important phenomenon.

Social entrepreneurship is a social as well as an economic phenomenon, enabling social relations and playing a critical role in a market system. Our main contribution is to add to social enterprise research by conceptualizing social entrepreneurship based on the social capital perspective and by validating an integrative empirical model with the largest longitudinal data on the U.S. new ventures. Our research would also call for a more careful consideration of social entrepreneurship in policy design that has mainly been focused on enhancing commercial new ventures. For entrepreneurship education, our research would suggest that understanding social entrepreneurship with various organizational forms and market offerings could be a route to enhance entrepreneurship for economic and societal value creation among university graduates.

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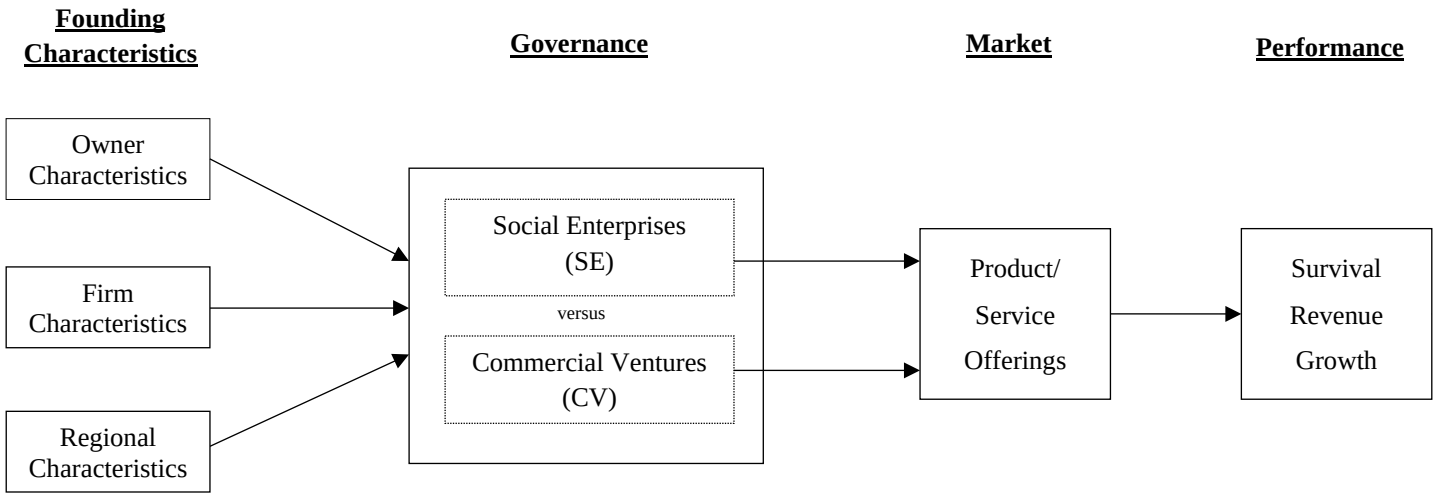
FIGURE 1: Conceptual Framework