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LOSING SIGHT OF THE MISSION? SOCIAL ENTERPRISE DECISION TRADE-OFFS (SUMMARY)

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SUMMARY

LOSING SIGHT OF THE MISSION? SOCIAL ENTERPRISE DECISION TRADE-OFFS

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Principal Topic

Social enterprises create "models for efficiently catering to basic human needs that existing markets and institutions have failed to satisfy" (Seelos & Mair, 2004). A balance among social and financial goals determines the success of the social venture, since survival alone is insufficient to achieve social goals (Sharir & Lerner, 2006). By testing the impact of social vs. financial criteria on social enterprise decision-making, we shed light on the question of whether conflicting goals and shifting criteria may lead social enterprises to lose sight of their social mission.

Method

We examined decisions regarding 199 start-ups that received loans from a US-based economic development organization whose mission is to improve the socio-economic conditions of women. We analyze: 1) initial lending decisions and 2) subsequent foreclosure decisions. The social criteria are: level of female ownership and location in an economically depressed area (an enterprise or empowerment zone). The financial criteria are: client creditworthiness and repayment behavior. Data was collected from loan origination documents and the lender's client database.

Results and Implications

Because the social mission is salient during initial loan decisions, we expected the lender to take greater credit risks on firms with target ownerships (100% female owned) and/or in target locations (enterprise or empowerment zone) rather than firms at the mission periphery. Instead, we found no difference in the creditworthiness of core and peripheral clients.

We assumed that the organizational emphasis on its mission would decrease over time. Therefore, we expected foreclosure rates would be the same for core and non-core clients. This proved true for firms located in target locations, but not for firms with target ownership. We also found that nonperforming loans in target locations were foreclosed more quickly than the general population. On the other hand, firms with target ownership had a lower foreclosure rate due to better repayment histories. However, if a firm with target ownership was foreclosed, the loan loss ratio was higher. A potential interpretation of this finding is that the organization, due to its mission commitment, provided more support to target start-ups, but then acted more swiftly in target locations and took more losses in case of failure of firms with target ownership.

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